TIMESSQUARE
CAPITAL MANAGEMENT, LLC

U.S. Mid Cap Growth Strategy

Representative Commentary — 2Q21

Performance

			Annualized			
	2Q21	**1YR**	**3YR**	**5YR**	**7YR**	**10YR**
U.S. Mid Cap Growth Composite (Gross)	9.74%	42.03%	23.00%	20.78%	15.54%	15.96%
U.S. Mid Cap Growth Composite (Net)	9.53%	40.94%	22.04%	19.83%	14.64%	15.05%
Russell Midcap® Growth Index	11.07%	43.77%	22.37%	20.51%	15.38%	15.12%

Please see the important performance and other related disclosures at the end of this Commentary, which are an integral part of this quarterly Commentary Newsletter.

The global equity markets continued to treat the pandemic's initial economic toll as a passing blip. In the second quarter, there were meaningful gains with many indexes approaching—or well into—double-digit gains for the first half of 2021 (not to mention annualized double-digit gains since the pre-pandemic highs of February 2020). For the quarter, U.S. equities led with gains of 8% compared with 5% for both non-U.S. developed and emerging markets equities. There was a shift in market preferences, with greater rewards accruing to the growth and large capitalization indices in the second quarter, compared with the dominance shown by value and small capitalizations earlier in the year.

Global economic activities continued unabated in the quarter, with the only hindrance from depleted inventories or higher labor costs. Although the rates of growth slowed slightly in June, measures of economic expansion for manufacturing and services worldwide reached peaks mid-quarter that had not been seen in 15 years. The unflagging demand pushed commodity prices to their highest levels since 2014, which included significant price gains for oil and natural gas. Among small-to-mid capitalization growth stocks, it was unsurprising that Energy remained the dominant economic sector. The market also preferred riskier stocks and growth at any price.

Amidst this environment, the portfolio underperformed the Russell Midcap Growth Index in the second quarter. Weakness from within the Communication Services, Financials, and Health Care sectors was partly offset by strength in our holdings from the Information Technology, Consumer Discretionary, and Industrials sectors.

There was relative weakness within the Communication Services sector, where our holdings lagged the benchmark's average return in the sector of 13%. One example was the mere 9% gain from **IAC/InterActiveCorp**., which operates a broad portfolio of wholly- or majority-owned, consumer-focused websites including Angie's List, HomeAdvisor, Vimeo, Care.com, and Dotdash. Earlier in the quarter, monthly sales trends were strong across all key businesses—especially for Angie's List, which began 2021 slowly and now had 30% year-over-year revenue growth. Later, IAC reported revenues and earnings that were better than expected and completed its spinoff of **Vimeo, Inc**. (we kept those shares and added to our position in this online video creation and distribution platform for businesses). Elsewhere there was a 4% return from mobile devices game developer **Zynga Inc.** The company's revenues and earnings bested expectations, with guidance for future bookings increased as well. To us, it seemed that Zynga's gains were tempered by the market's view that mobile game usage would decline as the world reopened. However, Zynga has several growth initiatives—including a new slate of games—that should continue to drive future revenue growth.

There were some greater challenges in the Financials sector this quarter. That included the strategy's greatest detractor, the reinsurance provider **RenaissanceRe Holdings**. In the company's most recent report, RenRe noted an increase in the total value of premiums written, which came from new

business and higher pricing for existing lines. However, RenRe tends to conservatively reserve a portion of that premium—typically released later in the year—which delays recognizing the profits in the short-term. That caused its shares to drift down by -7% and we trimmed our position. Countering that was the 25% gain from **Discover Financial Services**. A consumer finance lender focused on credit cards, Discover reported revenues and earnings that were higher than expected, and repurchased $120 million of its shares. Loss provisions were far less than planned, so some reserves were released. Subsequently, Discover reported monthly credit data that showed ongoing improvements fueled by customers reducing their outstanding balances, and thus lowering the net charge offs for unrecoverable debt.

Another sore spot was the Health Care sector. One symptom was the -10% showing from **Blueprint Medicines**, a biotechnology developer of genetic inhibitor treatments that target specific cancers. Recent sales rates from partnerships with larger pharmaceutical companies for Gavreto—Blueprint's treatment for non-small cell lung cancer—were slower than expected. That dragged down recent revenues and earnings. However, management was confident in Gavreto's ultimate market potential—as are we—and the company reported strong clinical results for its Ayvakit medicine. That treatment was currently approved for gastrointestinal stromal tumors and may soon be applied to advanced systemic mastocytosis (an abnormal accumulation of mast cells in bone marrow). Dipping by -6% was **Royalty Pharma**, which funds biopharma development by purchasing future royalties for a variety of treatments. Although the company's results met expectations as royalty payments held steady, there were some concerns in the market regarding the future trajectory of payments from a cystic fibrosis treatment. In our view, Royalty's agreement with Vertex Pharmaceuticals should leave those cash flows unchanged. Another cut to our results was the -19% showing from **Guardant Health**, a diagnostic company developing liquid biopsy tests for genetic profiling of potential cancers. While its results bested expectations for revenues and earnings, guidance for the balance of the year was left unchanged, which appears to have disappointed investors. We believe that Guardant's management was being overly conservative, though we did trim our position slightly. Following its notable gains in the first quarter, **AmerisourceBergen** slipped back by -3% in the second quarter. Reported earnings were in line with expectations although revenues were slightly below for this distributor of pharmaceutical and medical products to pharmacies, hospitals, and other health care providers. Price deflation across generic drugs caused investor concerns for all distributors, although AmerisourceBergen's margins improved over the quarter, which indicated that was not a particular issue for the company.

Shifting to areas of strength, there were benefits from the Information Technology sector this quarter. That included a 38% gain from the strategy's greatest contributor, **CrowdStrike Holdings.** A cloud-based network security service that supports a range of devices and endpoints, CrowdStrike's shares steadily climbed following a retreat earlier in the year. At an analyst briefing in April, CrowdStrike's management discussed its multiyear plans to drive significant increases in annual recurring revenues, supported by new technologies and a further expansion of its security platform. Preliminary channel checks indicated the company notably added to its client base during the quarter. Then in June, CrowdStrike reported results that were in line with heightened expectations. In particular, the company continued to see strong momentum as the escalating pace of cyberattacks forces the Biden administration to treat ransomware attacks as a national security threat, though we trimmed our position on its gains. Retreating by -5% was **FleetCor Technologies**, which provides payment processing and information services to the commercial and government vehicle fleets. FleetCor reported revenues that were less than anticipated, earnings that were better, and forward guidance that was in line. Many areas of the business saw improvements, benefiting from higher fuel prices and increased volumes of corporate payments. Some investors preferred to wait for a broader economic recovery that should accelerate FleetCor's improving fundamentals, though we added to our position on its weakness. Far better was **Gartner, Inc**., which offers independent and objective research and analysis on information technology, computer hardware, software, and communications. Gartner reported revenues and earnings that surpassed expectations, with notable accelerations in contract values and a revival of its events operations. That led management to increase its guidance and expand its share repurchase program, which contributed to a 33% rise in Gartner's shares. Gaining 28% was **HubSpot, Inc.**, which provides a cloud-based marketing, sales and client service platform for businesses. Early in the quarter, the company launched a new module, Operations Hub, for operations professionals in the sales process. That joins HubSpot's other four hubs—Marketing, Sales, Service, and Content Management—and should provide opportunities for increased pricing and cross selling. Later HubSpot reported revenues and earnings that were higher than expected, leading to an increase in guidance for the balance of the year. There was significant growth in billings and revenues from subscriptions, though this quarter the topper was nearly 10,000 of net new customers added—well more than double its pre-pandemic average increase.

Some of our Consumer Discretionary sector holdings were consistent with their ups or downs. Posting a gain of 33% for the quarter was **Pool Corporation**, which distributes swimming pool supplies and backyard products. Supported by strong demand, Pool's revenues and earnings surpassed expectations. A large backlog of pool installations in the

market also led Pool to increase its guidance for the balance of the year. Later in the quarter, more investors appeared to appreciate Pool's strong distribution operations, and its price continued its upward path. Reversing that trend was **CarMax, Inc.**, the largest used car retailer in the U.S. CarMax began the quarter reporting results that were generally in line with expectations, although February's adverse weather and a spike in COVID-19 cases led to lower-than-forecasted unit volumes. However, CarMax showed market share gains nationally and in key markets such as Atlanta. At an analyst day mid-quarter, the company made the case for increased market share over the next several years. However, some investors had hoped for more specific guidance on future earnings. Shares of CarMax drifted down, though recovered at the end of the quarter when it reported better-than-expected volumes and sales, but still ended with a -3% decline. Late in the quarter we began a position in **Floor & Decor Holdings,** which operates retail and online stores for tile, wood, laminate and natural stone flooring. Already owned in our smaller capitalization strategies, our recent meetings with company management and others in the flooring industry shaped our view that the outlook was very positive for Floor & Decor. Carpets continually were losing ground to luxury vinyl tile, which also were easier to install and thus less affected by labor shortages. Floor & Decor also had one of the most resilient supply chains compared with competitors, which gave it an advantage for both product selection and inventory.

A final boost to the portfolio came from the Industrials sector. Here there was a 27% gain from **Generac Holdings**, which designs and manufactures power generator products for residential, commercial, and industrial markets. The company's most recent revenues and earnings outdid expectations and led management to increase meaningfully its guidance for the balance of the year. The extreme cold and subsequent power outages in Texas earlier in the year accelerated demand in that state, which added to already-elevated backlog levels. When the initial price reaction was muted, we added to our position though trimmed later in the quarter at higher levels. Lagging the benchmark's average return in the sector of 2%, was a 1% move from **CoStar Group.** A commercial real estate data and analytics provider, the company reported better-than-expected earnings but issued a modest guidance increase for the full year, which seemed to disappoint the market. Picking up a 22% gain was **TransUnion**, which organizes and analyzes credit data on consumers and businesses worldwide. TransUnion reported revenues and earnings that outpaced expectations, and increased its guidance for the year. There was improving consumer activity from mortgages, lending and other credit activities that boosted overall volumes for the company, and we added to our position. In other trading activities, we exited our position in **L3Harris Technologies**, which provides communication electronics and other technologies, primarily to the U.S. department of defense. We had been trimming this position over the last few quarters as it approached our price target. This quarter, L3Harris surpassed our internal valuation for the stock. When we evaluated its most recent results, we believed the as-expected showing might indicate a near-term plateau for its fundamentals, so we sold our remaining shares in L3Harris. New to the strategy was **Hubbell Incorporated**, a leading supplier of electrical components used in residential and nonresidential construction, as well as industrial and utility applications. Over the last few years, through internal growth and acquisitions, Hubbell shifted its focus from predominantly nonresidential construction to serving the utility infrastructure, which now represents roughly half of its revenues. With much of the U.S. utility infrastructure older than 50 years, and decades of underinvestment putting the electrical grid in dire straits, we see significant growth ahead for Hubbell.

One of our strategy's purchase rules is based on the range of market capitalizations in the Russell Midcap Growth Index following its annual reconstitution. After the reconstitution at quarter end, the largest stock in the index had a market capitalization of $60.8 billion. While the strategy's guideline limits new positions outside the benchmark at the time of initial purchase to less than 75% of the largest name in the benchmark—or $45.6 billion based on the new benchmark—we will move our limit only to $30 billion from the current level of $25 billion. The lower end of the purchase range moves from a market capitalization of $1.6 billion to $2.5 billion, which represents the small end of the benchmark's range.

Though TimesSquare continues to operate remotely outside of our NYC office, we expect to have a gradual return in the fall. In the meanwhile, we are very pleased to announce that Reuben Scherzer joined TimesSquare in June as a Research Analyst. Reuben is responsible for coverage of Europe and other non-U.S. regions within the Developed, Emerging, and Frontier Markets.

Heading into the second half of 2021, market returns continue to anticipate economic growth as their focus turns to 2022 and the pain of 2020 fades. However, the amount of growth already reflected in current valuations is debatable. Higher vaccination rates bolster the outlook, though the appearance of COVID-19's Delta variant generates anxiety. The pace of inflation means the transitory period may last longer than some expect, though the Federal Reserve seemed less concerned about inflation as much as beginning internal discussions on tapering its monetary easing stance. All told, we see the typical mixture of opportunities and risk that we as active investors seek to balance in our bottom-up assessments. As always, we are available for any questions you might have as we endeavor to protect the assets you have entrusted with us.

General Disclosure:

The holdings discussed represent a particular point in time. It should not be assumed that the securities continue to be held, and/or continue to be held in the same percentage, and/or were held continuously throughout the period. In addition, the holdings of a particular client account may differ from the information provided. Securities discussed do not represent the entire portfolio and, in aggregate, may represent only a small percentage of a portfolio's holdings. Information is subject to change without notice. It should not be assumed that any of the securities discussed were or will prove to be profitable. Past performance does not guarantee future results.

The opinions and information expressed and provided are for general information only and are not intended to provide specific advice or recommendations but rather, a basis from which strategies can be built, taking into account the specific objectives of each portfolio, in terms of return, time horizon, and risk constraints, as well as diverging investment perspectives and assumptions. All material has been obtained from sources believed to be reliable, but its accuracy and completeness are not guaranteed.

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Composite & Performance Disclosure:

Performance is measured against the Russell Midcap® Growth – a market capitalization-weighted index that measures the performance of those Russell Midcap® companies with higher price-to-book ratios and higher forecasted growth rates. All indexes, including the Russell Midcap® Growth Index, are based on gross-of-fee returns. Russell Investment Group is the source and owner of the Russell Index data contained or reflected in this material and all trademarks and copyrights related thereto.

This composite invests in stocks with market capitalizations generally between $2.2 and $22 billion at time of purchase. The process is fundamental research driven. The investment style is growth. Portfolios will hold approximately 70-80 stocks. Historical turnover has averaged 45% per year. The minimum account size for inclusion into the mid cap composite is $5 million. Fee basis is 80 basis points. Composite creation date is October 1, 2000.

Effective 04/01/2015, TimesSquare removes accounts from this composite when significant cash flows occur. A significant cash flow is defined as an external flow that exceeds 10% of the composite's market value on the day of the cash flow. Effective 01/01/2017, the significant cash flow policy has been removed.

In July 2014, TimesSquare modified its purchase capitalization range to match the changes in the mid cap market as represented by the Russell Midcap® Growth Index. The purchase range was amended to reflect a range bounded by the approximate value of the smallest security in the index (in most cases) and the approximate value of 75% of the largest security's capitalization. These targets will be maintained for the subsequent 12 months, and may be adjusted based on the above rules each July following the reconstitution. In that manner, the targets would be responsive to higher or lower capitalization profiles of the indexes over time. Previously, in August 2007, TimesSquare had modified its purchase capitalization range to match the mid cap market as represented by the Russell Midcap® Growth Index at that time, with a change from $1.5 billion to $10 billion at time of purchase to $2.5 billion to $15 billion.

The performance figures shown are calculated in U.S. dollars on a size-weighted basis and reflect the reinvestment of dividends and other earnings, and the deduction of brokerage commissions and other transaction costs. Performance is provided on a gross basis (before the deduction of management fees) as well as net of the highest management fee of 0.80% charged by TimesSquare to separately managed institutional accounts in this composite. Investment advisory fees generally charged by TimesSquare are described in Part 2A of its Form ADV. This composite may contain some accounts that have used performance based fees. To illustrate performance net of fees, assume $20,000,000 is placed under management for ten years and sustains 10% annual gross return for each year during this period. If an advisory fee of 0.80% of average assets under management is charged per year, for each year of the ten-year period, the resulting annual net return would be 9.2%. The ending dollar value of the account would be $48,223,239, as compared to $51,874,849 if the advisory fees had not been deducted.

7 Times Square, 42nd Floor New York, NY 10036
www.TSCMLLC.com