TimesSquare Capital Management, LLC

Emerging Markets Small Cap Strategy

Representative Commentary — 3Q21

Performance

	3Q21	1YR	Annualized 3YR	Annualized Since Inception (1/1/2017)
Emerging Markets Small Cap Composite (Gross)	-8.75%	35.52%	17.73%	14.28%
Emerging Markets Small Cap Composite (Net)	-9.01%	34.08%	16.47%	13.04%
MSCI Emerging Small Cap (Net) Index	-2.16%	43.24%	13.09%	11.80%

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 markets struggled to find stable footing in the third quarter. While the worldwide interconnected supply chain rattled with continued difficulties, changes were afoot in many economic centers. After only one year in the role, Japan's Prime Minister Suga announced he would step down as his party's leader. While his successor appears to follow the existing political and economic policy, a broader election is planned for November. Germany had a much longer tenure with its leader—Chancellor Merkel was at the helm for 16 years—though she did not seek reelection. As of this writing, it was unclear which coalition of parties would form the new government after the late September election. In another shift, the U.S. Federal Reserve indicated that it might taper its $120 billion of monthly asset purchases as soon as its November meeting, potentially raising the federal funds rate in mid-2022.

Global emerging markets faltered in the quarter and underperformed their developed peers. Recent policy movements from China ranged from the crackdown of private tutoring companies to more regulations on technology makers and video game makers. In addition to these somewhat draconian policy changes, concerns mounted around the potential default of a large Chinese property developer and its possible spillover effects. Later in the quarter, abrupt power outages in China and their potential economic impact also spooked investors. Chinese equities struggled, which also dragged emerging markets equities down over the quarter. Meanwhile, India delivered strong performance on the back of economic recovery and an improving vaccination rate. Concerns over continued supply chain disruptions and rising inflation also created headwinds for some emerging countries.

The portfolio underperformed the MSCI Emerging Markets Small Cap Index for the quarter. Relative weakness in Asia, Latin America, and EMEA detracted from performance while Frontier showed relative strength.

Regional Performance: Asia

Within the region, our holdings in China, India, and Korea underperformed while holdings in Taiwan and Indonesia outperformed.

While uncertainty may seem high in China as a whole, we believe it also creates opportunities to add to quality businesses with attractive valuations. As a result, we took advantage of price dislocations to increase our positions in Yeahka and Shanghai Kindly Medical Instruments. An independent payment platform and merchant acquirer, **Yeahka** reported solid first half results with inline revenue and an earnings beat, and remains a beneficiary of the government's oversight and taxation initiatives on small businesses. Despite strong transaction volume growth and new technology services growth, its shares traded down -49%. **Shanghai Kindly Medical Instruments (SK)** is one of China's leading domestic manufacturers of cardiovascular interventional devices. Its shares fell -45% even though SK reported strong revenue growth in its core business. We believe SK will continue to benefit from the structural tailwinds of increased health care spending related to cardiovascular issues in China and the shift to prioritize domestic products over imports. **Beijing Thunisoft** is China's market leader in legal software and technology**.** The company reported strong second quarter earnings but also disclosed the brief detainment of its chairman and founder in March 2021 on suspicion of bribery. Although the company stated the charges against the chairman were unrelated to the company, we view the company's delayed disclosure of material information as inexcusable and liquidated our position immediately. Shares of Beijing Thunisoft lost -32% while held during the quarter. We initiated a position in **YesAsia**, an owner of several niche e-commerce platforms that offer affordable Asian fast fashion items, beauty and cosmetics, and entertainment products to customers across the world. Since being added to the portfolio, the company reported strong top line growth and growth in users; but that was offset by increased expenses related to warehouse facilities and labor. We believe its operating leverage and cash flows will improve and continued to build the position during the quarter. YesAsia retreated -57% since it was added to the portfolio.

Across the strait, Taiwan housed one of the portfolio's best performers. **Alchip Technologies** is a leading fabless integrated circuit design firm that develops chipsets for specialized applications such as language processing, autonomous driving, and virtual reality. In April, Alchip's largest client was added to the US Department of Commerce Entity list which results in trade restrictions. This news raised concerns that the impact may go beyond a single customer. However, the fear seemed contained, and Alchip continued to show resiliency and robust order momentum even without that customer due to strong demand from its non-China customers, its shares surged 54% and led us to book some profits.

Concerns over China's power issues on supply chains weighed on Korean equities. However, there were bright spots such as **Hansol Chemical,** a specialty technology materials supplier to manufacturers of semiconductors, displays, batteries, and other electronics, which ascended 34%. The company has executed well this year and reported record-high operating profit, underpinned by its electronic materials division. We trimmed our position on price strength. On the contrary, **KoreaCenter**, a global e-commerce and logistics service provider based in Korea, pulled back -19% with the rest of Korean equities and we added to our position.

In India, leading cable and wire manufacturer **KEI Industries** gained 34%. The company serves institutional and retail clients, with products ranging from highly complex Extra High Voltage cables used in underground transmission projects to simple electrical housing wires. Management guided healthy revenue growth driven by India's infrastructure spending and its retail expansion. Leading outsourced engineering services and technology solutions provider, **Cyient** reported better-than-expected quarterly results as well as encouraging order intake despite the impact from COVID-19, and its shares leaped 23%. We trimmed our position on this price strength. Less positive was **Aegis Logistics**, a supply chain management provider to oil, gas, and chemical industries. First quarter results were impacted by cyclones plus the second wave of COVID-19, causing its shares to go down by -34%.

Our small but overweight position in Indonesia was beneficial. Surging 42% was **PT AKR Corporindo**, which engages in the trading and distribution of chemical and petroleum products. The company reported strong profit growth and management expects petroleum sales to pick up with accelerating demand from mining and plantation customers. In July, AKR's jointly held Java Integrated Industrial Ports and Estate (JIIPE) zone was designated as a Special Economic Zone by the Indonesian government. This designation should boost the value of this holding for AKR.

Regional Performance: Latin America

Our holdings in Latin America underperformed the benchmark partly due to our overweight position in Brazil. Companies in Brazil faced wide-spread weakness as inflation continued to rise and the central bank responded with further interest rate hikes.

Lojas Quero-Quero (LQQ) is Brazil's leading home improvement chain. It is a "unique species" in the Brazilian retail environment, with a store model that caters to small cities in the country, where professional home improvement competitors have limited presence. LQQ posted strong results, maintaining its streak of high growth and profitability but shares traded down -35%, and we added to our position. Losing -33% was Brazil's largest medical education company, **Afya Limited**. The company reported inline second quarter results driven by its undergraduate and digital businesses, while continuing education faced tough comps. Credit bureau **Boa Vista Servicos** reported better-than-feared results and its stock advanced 7%. We trimmed on the relative outperformance.

Regional Performance: EMEA and Frontier Markets

EMEA was another area of weakness, though our holdings in South Africa showed resiliency. South Africa based **KAP Industrial Holdings** is a diversified industrial group with leading positions in the wood-based panel, automotive components, bedding, polymers, logistics and passenger transport sectors. The company was optimistic about its outlook amid robust demand for home improvement. Global shipping disruptions also drove customers to increasingly look towards local manufacturers. Shares of KAP improved by 15%. One of the portfolio's largest detractors was leading e-commerce marketplace in Turkey, **D-Market Elektronik Hizmetler ve Ticaret**. The company reported lower-than-expected revenue growth, as compared to the prior year's high base, as well as elevated expenses incurred from investments to address increased competition. Its stock tumbled -49%.

Notable on the positive side was **Masan Group**, a consumer-oriented holding company with a long and successful track record in Vietnam. Masan announced strong second quarter results, beating estimates on both top and bottom lines, and its shares climbed 31%.

Conclusion

Turning toward the end of the year, despite this quarter's setback, global equities in most areas have posted meaningful gains thus far in 2021. Yet all the usual suspects lie in wait: new COVID variants, higher-than-usual inflation, tighter monetary policies, and a slowly recovering global supply chain. Countering that is a high degree of stifled producer and consumer demands, along with improving consumer outlooks. Each effect can create or amplify both risks and opportunities for companies, which we continue to review and assess for your investments. As always, we are available for any questions you might have as we endeavor to enhance 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 MSCI EAFE Small Cap (Net) Index. MSCI EAFE Small Cap (Net) Index is a trade or service mark of MSCI Inc. The MSCI EAFE Small Cap (Net) Index is an unmanaged, market-weighted index of small companies in developed markets, excluding the U.S. and Canada. Its returns include net reinvested dividends but, unlike the Composite returns shown, do not reflect the payment of sales commissions or other expenses incurred in the purchase or sale of the securities included in the Index. All indexes, including the MSCI EAFE Small Cap (Net) Index, are based on gross-of-fee returns, including net reinvested dividends.

This composite generally invests in MSCI EAFE stocks with market capitalizations below $5.0 billion at time of purchase. Portfolios will hold approximately 70-75 securities. The process is fundamental research driven. Historical turnover has averaged 41% per year. Composite inclusion threshold $500,000. Fee basis is 100 points. The composite creation date is April 1, 2012.

This composite had a significant cash flow policy from April 1, 2015 to December 31, 2016. 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.

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 standard fee schedule listed for this strategy during the period presented. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. TimesSquare's fee schedule is available upon request and may also be found in Part 2A of our Form ADV. Investment advisory fees generally charged by TimesSquare are described in Part 2A of its Form ADV. To illustrate performance net of fees, assume $20,000,000 is placed under management for ten years sustaining 10% compound gross total return. If an advisory fee of 1.00% of average assets under management is charged per year, for each year of the ten-year period, the resulting compound annual return would be reduced to 9.0%. The ending dollar value of the account would be $47,347,274 compared with the unreduced account value of $51,874,849.