

U.S. FOCUS Growth Strategy

Representative Commentary — 3Q21

Performance	Annualized					
	3Q21	1YR	3YR	5YR	7YR	10YR
FOCUS Growth Equity Composite (Gross)	3.27%	31.45%	22.10%	20.04%	15.20%	18.69%
FOCUS Growth Equity Composite (Net)	3.02%	30.17%	20.91%	18.86%	14.07%	17.53%
Russell Midcap® Growth Index	-0.76%	30.45%	19.12%	19.25%	15.37%	17.53%

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 policies, 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. Elsewhere in the credit markets, with possible reverberations across other asset classes and geographies, one of China's largest real estate developers—and one of the largest companies globally—teetered on the edge of failing to meet its debt obligations. Meanwhile, global economic activities downshifted their growth pace from midyear, though remained expanding at a faster rate than they had at the start of the year. Nearly universally, struggles with the supply chain—higher commodity prices, labor shortages, or shipment delays—blocked higher activity levels of manufacturing or services.

The collective effect left the developed markets with flat returns (-0.1% for the U.S. and -0.5% for non-U.S.), while emerging markets faltered (-8.1%). Within the U.S., weaker results came from further down the size spectrum.

While growth led value among large-to-mid capitalization stocks, the reverse was true for small/mid and small capitalizations. Among small-to-mid capitalization stocks, those with higher quality or lower risk emerged from the quarter with fewer bruises. Across the economic sectors, there were better returns from the more bond-like ones, such as Utilities, Real Estate, and Financials. Greater laggards included the Communication Services, Consumer Staples, and Materials sectors.

Amidst this environment, the portfolio outperformed the Russell Midcap Growth Index in the third quarter. Weakness in Zynga, Zendesk, Martin Marietta, Brunswick, and RenaissanceRe were offset from strength in Gartner, Catalent, HubSpot, O'Reilly Automotive, and Charles River.

The largest detractor for the strategy this quarter was **Zynga Inc.**, a social game developer for mobile devices. Its shares dropped by -28%. Although the company's fiscal quarterly results were as expected, they experienced unexpected levels of customer turnover in recent months with users having less time available for mobile games as businesses reopen. That and the challenges posed by Apple's new privacy framework led management to reduce full year's bookings guidance. We decided to trim the position.

Zendesk Inc. is a software development company that supplies a system for tracking, prioritizing, and solving customer support tickets. Its shares dropped -20% as second quarter results fell short of the consensus. As the

company moves up into the enterprise area, its bookings are increasingly becoming more back-end loaded for each quarter.

New to the portfolio this quarter is **Martin Marietta Materials Inc.**, a supplier of aggregates, cement, concrete, and asphalt to the construction industry. They recently announced the acquisition of Southern Crushed Concrete. This deal is consistent with their strategy of making value-enhancing acquisitions to expanding its footprint. The stock declined by -6% since it was added.

Brunswick Corp. manufactures recreation marine products. Their boat segment includes Sea Ray, Bayliner, and Boston Whaler and engines are under the Mercury brand. Second quarter results came in better than expected, with retail demand continuing to be strong. Supply chain challenges remain the biggest potential obstacle for further upside and that pulled the stock back by -8%.

RenaissanceRe Holdings Ltd. offers reinsurance and insurance services. Their second quarter earnings outpaced Street estimates on better-than-anticipated catastrophe losses and reserve releases. Its shares were down by -6% due to the potential insured losses associated with Hurricane Ida. RenRe's sophisticated modeling capabilities are a major competitive advantage and differentiator in underwriting catastrophe risk.

The portfolio's top contributor was **Gartner Inc.**, which offers independent and objective research and analysis on information technology, computer hardware, software, and communications. Its shares rose 25% as second quarter revenues and earnings beat Street projections due to improving average contract values and operational efficiencies.

Outsourced manufacturing organization **Catalent Inc.** delivered a nice upside to fiscal fourth quarter estimates, driven by higher revenues in its Biologics and Softgel

segments. Management noted an expansion of their cold storage facility in Singapore and plans to increase manufacturing capacity at their Italian plant. They also announced the acquisition of Bettera, a private CMO focused on gummy drug delivery for the OTC market. These developments served to boost the stock by 23%.

HubSpot Inc. offers a platform for cloud-based marketing, sales and client services. A strong beat and raise to forward guidance resulted in a 16% gain. There was noteworthy expansion of HubSpot's customer base during the quarter.

Aftermarket automotive parts retailer **O'Reilly Automotive Inc.** reported second quarter earnings that outpaced the consensus and were driven by higher-than-expected same store sales. Management also increased sales growth projections, which pushed the stock price higher by 8%.

Another boost came from the 12% rise associated with **Charles River Laboratories**, an early-stage contract research organization serving the biopharmaceutical industry. Second quarter results surpassed consensus estimates and management increased forward guidance.

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-typical 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.

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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 \$1.5 and \$30.0 billion at time of purchase. The process is fundamental research driven. The investment style is growth. Portfolios will hold approximately 15 stocks. Historical turnover has averaged 38% per year. Composite inclusion threshold \$500,000. From January 1, 2007 to April 30, 2010 the applied standard fee was 150 basis points. From May 1, 2010 through present the applied standard fee is 100 basis points. The composite creation date is September 1, 2005.

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.

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. The applied standard fee [basis] was 100 basis points from inception to December 31, 2006. From January 1, 2007 to April 30, 2010 the applied standard fee was 150 basis points. From May 1, 2010 through present the applied standard fee is 100 basis points. 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. TimesSquare's fee schedule is available upon request and may also be found in Part 2A of our Form ADV.