TIMESSQUARE CAPITAL MANAGEMENT, LLC

International Micro Cap Strategy

Representative Commentary — 3Q21

Performance	3Q21	Since Inception (1/1/2021)
International Micro Cap Composite (Gross)	-2.88%	10.39%
International Micro Cap Composite (Net)	-3.16%	9.45%
MSCI AC World Ex USA Small Cap (Net) Index	-0.64%	11.45%

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 relatively flat returns (-0.1% for the U.S. and -0.5% for non-U.S.), while emerging markets faltered (-8.1%). Within developed markets, Japan was the top performer with hopes of further stimulus and economic reopening. Within emerging markets, Chinese equities struggled, which also dragged emerging markets equities down. Throughout this quarter, small cap stocks outperformed their large cap peers with a 1% increase for the MSCI AC World ex USA Small Cap Index. Across the economic sectors, there were better returns from Financials and Energy. Greater laggards included Health Care and Consumer Discretionary.

Portfolio Performance Attribution

Amidst this environment, the International Micro Cap Portfolio underperformed the MSCI AC World ex USA Small Cap benchmark. We benefitted from our positions in Japan, Americas (Canada), and Europe, while our holdings within the Emerging Markets and Asia/Pacific Ex Japan regions detracted from performance. Holdings in the Middle East performed in-line.

Regional Performance: Europe

Our holdings in Europe delivered strong results against regional benchmarks; stocks in the United Kingdom, Sweden, and France contributed to performance, while Germany, Spain, and Italy detracted. Within the U.K., **Gateley (Holdings) plc** is a leading national commercial law firm that provides a high quality, comprehensive service across its core operating segments: Banking and Finance, Corporate, Business Services, Employment & Benefits and Property. In July, the group acquired Tozer Gallagher LLP, a leading practice of chartered quantity surveyors and construction consultants. This bolt-on acquisition is the first deal completion since March 2020, and its tenth since its IPO, signaling Gateley's return to M&A activity. We continue to believe the group can drive growth through the development of sector-focused platforms across legal and non-legal services. Shares were up 16% during the quarter.

Helping the portfolio in nearby Sweden was **Troax Group AB**, a leading global supplier of area protection for indoor metal-based mesh panels with machine guarding, warehouse partitioning and property protection. The company reported solid second quarter results, where earnings beat consensus. Management noted that orders from customers with automated warehouses and machine guarding continue to trend higher. Shares were up 18% where we added to our position. Those gains were partially offset by **Sdiptech AB**, a provider of infrastructure services focusing on water, power and energy, air transportation, and building technical services. They are involved in construction and renovation in growing metropolitan areas. While the company reported second quarter earnings below estimates, revenues and operating profits came in better than expected. Later in the quarter, the company updated their 2021 annual acquisition target, which caused some selling pressure. Sdiptech's business model is to create value growth by acquiring and developing profitable niche companies, which are carefully calibrated to drive profit growth towards a manageable financial risk from time to time, based on the development phase in which the company is in. As a result, shares were down -4% during the period.

Our names in Germany faced some challenges during the quarter. **Fabasoft AG** is a leading software company with an emphasis on the digital control of documents and electronic document management. Their main growth driver, Mindbreeze, is a leading provider in the enterprise search and knowledge management space. The company reported weaker than expected fiscal first quarter results, where sales saw a year-over-year (YoY) decline due to unusually high license revenues from the year prior. Moreover, Mindbreeze demand was rather soft due to pandemic-related caution and longer sales cycles, making it difficult to convert the attractive pipeline into new business. As a result, shares were dropped -13% during the quarter. Better results came from **Basler AG**, a leading manufacturer of high-quality digital cameras and accessories for applications within industrial automation, medical and life sciences, traffic and safety, and logistics. The company reported solid second quarter results, where revenues and earnings came in better than expected. Additionally, order intake growth had reaccelerated, driven by surging demand from the semiconductor and electronics industry in response to the current chip shortage. Shares were up 36%.

In France, multinational market research and consulting firm, **Ipsos SA,** finished up 11% during the quarter. Unlike its larger peers, the company derives a significant portion of their revenue through custom research, a more value-add service. The group has organized itself more towards a client centric sales approach, helping to cross-sell based on client needs. The company reported better than expected second quarter results, where organic growth was solid across all regions. The surge in sales and prudent control of staff costs resulted in strong earnings for the quarter and first half of fiscal 2021. Over in Italy, less encouraging results came from **Datalogic SpA**, as shares were down -14% during the quarter. The company is a global leader in the automatic data capture and process automation markets, specializing in the design and production of bar code readers, mobile computers, sensors for detection, measurement and safety, and laser making systems. The company reported second quarter results that were roughly in-line with consensus, where sales were up slightly higher than estimates. While higher cost inflation caused gross margin pressure, efficiencies and operating leverage were more supportive. On the second quarter conference call, management gave conservative guidance for the second half of fiscal 2021, due on-going inflationary dynamics and component shortages.

Regional Performance: Japan

Japan was another area of relative strength for the portfolio. Shares of **Toyo Gosei** rose 21% for the quarter. The company is a major producer of raw materials used to make photoresist, a light-sensitive chemical used to form circuits in semiconductors, LCDs, and OLEDs. In the recent results, the company reported a solid print in revenues and margin growth. After investing aggressively on capacity expansion in the past two years, Gosei is reaping the fruits of its labor. **Tri Chemical Laboratories** is a specialty producer of precursors for semiconductor production. The company has been steadily adding capacity at their Yamanashi factory and benefiting from an improving product mix as it develops leading advanced coatings for Hynix and TSMC. Shares were up 3% and we added to the position. **Toyo Tanso Co, LTD.** is a maker of specialty carbon with a leading position in isotropic graphite for nanocrystal silicon wafers. The company reported better than expected second quarter results and raised full year 2021 guidance, stemming from strong demand for power semiconductors. YoY orders from electronics and compound materials rose 63% and 70%, respectively. These represent long-term growth drivers for the company, as the shift towards renewable energy is spurring continued expansion of power semiconductor device end-markets. Shares were up 5%, where we added to the position. Turning to our top contributor for the quarter is **Zuken Inc**., a provider of high-end computer-aided design (CAD) software for designing printed circuit boards (PCBs), multi-chip modules, wire harnesses for the automobile and electronic industry. Sales increased 18% YoY, where sales of IT solutions increased due to strong demand of their data management system “DS-2” series. The company continues to expand sales in Europe and US with customized designed solutions for enterprise customers. Shares were up 31% during the period.

Regional Performance: Emerging Markets

Our holdings in the Emerging Markets were a drag on performance this quarter. Recent policy movements from China ranged from the crackdown of private tutoring companies to more regulations on technology makers and video game makers. Independent payment platform and merchant acquirer, **Yeahka** reported solid first half results with in-line revenues and an earnings beat. Despite strong transaction volume and new technology services growth, its shares traded down -49%. Longer-term, we believe the company offers compelling payments and value-added technology services to smaller merchants and remains a beneficiary of the government’s support of small businesses. 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 -56% since it was added to the portfolio.

Concerns over China's power issues on supply chains weighed on Korean equities. **Takai Carbon Korea** (TCK) is a producer of purified graphite products used in semiconductor equipment, and silicon single crystal puller parts. The company reported second quarter results that were in-line with estimates, where revenues were mostly driven by silicon carbide (SiC) rings, which helped improve operating margins. Later in the quarter, the company unexpectedly lost a patent litigation case against DC Techno. This case was around TCK's patents for SiC ring performance in terms of peak-power ratio. While there are more verdicts to come from the remaining cases over the next 12 months, we decided to exit the position and avoid such legal risk, along with the potential erosion of TCK's moat and franchise in the SiC ring market. Shares were down -42% while the name was held, making it our largest overall detractor for the quarter.

Turning to South Africa is **KAP Industrial Holdings,** 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 16%.

Flying over to Brazil, **Lojas Quero-Quero (LQQ)** is the country'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**. While the company reported in-line second quarter results driven by its undergraduate and digital businesses, their continuing education faced tough comps.

Regional Performance: Asia/Pacific Ex-Japan and Americas

Relative strength was found in Canada, where shares of **Magnet Forensics** shot up 63% during the quarter. The company is a developer of forensic software to help police departments and investigators assemble a digital footprint to create easy-to-understand evidence that is used in a Court of Law. The company reported their first official earnings report since their IPO, where second quarter results were solid across the board. Quarterly revenues beat analyst expectations, which saw 42% growth, driven primarily by growth in term licenses and maintenance revenue. Management also raised its 2021 guidance, where they noted encouraging growth in new customer wins in law enforcement agencies and enterprise customers for its flagship offerings.

There were mixed results from our names in Asia Pacific Ex-Japan during the quarter. Down -17% was **Delfi Limited,** a holding company who manufactures and distributes many of Indonesia's favorite chocolate confectionery products, with additional presence in the Philippines and Malaysia. The company reported soft operating results for the first half of 2021, where a number of regional markets were negatively impacted by rising cases of Covid-19/Delta-variant. While gross margins were under pressure due to higher input costs and inventory write-off, the company generated higher than expected free cash flow, which was used to significantly reduce total borrowings. Offsetting this weakness is **IPH Ltd.** Australia's largest intellectual property management services provider. The company's outlook continued to improve with stabilization of revenues in New Zealand, a return to growth in Asia, and strong cost base management which resulted in margin expansion. Management remained confident on a return to organic revenue growth and shares rose 16% as a result, where we added to the position.

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.

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Benchmark returns are not covered by the report of independent verifiers.

This composite generally invests in MSCI World stocks with market capitalizations below $7.5 billion at time of purchase. Portfolios will hold approximately 110 securities. The process is fundamental research driven. Composite inclusion threshold $500,000. Fee basis is 90 points. The composite creation date is January 1, 2018.

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