TimesSquare Capital Management, LLC

International Small Cap Strategy

Representative Commentary — 3Q21

Performance

			Annualized			
	3Q21	1YR	3YR	5YR	7YR	Since Inception (03/31/2012)
International Small Cap Composite (Gross)	-0.75%	23.66%	7.65%	9.46%	10.13%	11.33%
International Small Cap Composite (Net)	-1.00%	22.46%	6.60%	8.39%	9.06%	10.24%
MSCI EAFE® Small Cap (Net) Index	0.90%	29.02%	9.04%	10.38%	9.15%	9.77%

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 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 EAFE Small Cap Index. Across the economic sectors, there were better returns from Financials and Energy. Greater laggards included Materials and Consumer Discretionary.

Portfolio Performance Attribution

Amidst this environment, the International Small Cap Portfolio underperformed the MSCI EAFE Small Cap benchmark, driven by stock selection. We benefitted from our positions in Japan and Asia/Pacific Ex Japan while holdings in the European, Americas (Canada), and the Emerging Markets regions detracted from performance.

Regional Performance: Europe

Our holdings in Europe lagged the regional benchmarks; stocks in the United Kingdom and Sweden contributed to performance while Spain, France, and Finland detracted. Leading the gains was Sweden-based **Nordic Entertainment (NENT)**, the region's leading entertainment provider. Shares climbed 23% as its Viaplay streaming business grew by 30% over the trailing 12 months. In July, NENT announced that they won the Premier League rights in the Netherlands, Poland, Estonia, Latvia, and Lithuania. As they have secured all the core sports rights for their markets until 2028, this meaningfully de-risks its operations and solidifies its outlook. Those gains were partially offset by sector peer **Stillfront Group**, a developer of digital games that is focused on the Free-to-Play (FTP) video games space and mobile platforms. Recent structural changes in the market will affect Stillfront's business for longer than we originally anticipated. As Apple implemented restrictions on access to user data, this reduced data availability may impact Stillfront's new game development and launches. Considering these developments, we exited the name and its shares declined -43% for the period it was held during the quarter.

Continued COVID-19 and supply chain disruptions weighed on the share prices for some of our holdings. Finland-based **Valmet** is a process technology provider supplying entire production lines to the pulp and paper industry. Valmet's portfolio of solutions includes renewable energy driven power plants to help customers reduce carbon emissions and energy/raw material consumption. Its shares consolidated by -17% for the quarter. Global supply chain and logistical challenges have caused some hiccups and cost inflation. The market had rising concerns that service demand would be held back by travel restrictions and postponed maintenance breaks. We believe the concerns are overdone and were encouraged by announcements of large order wins; we added to the name on weakness. Moving in a similar direction was Spain-based **CIE Automotive**. CIE produces automotive components for both vehicle manufacturers and Tier 1 suppliers. The worsening semiconductor shortage in the automotive space pushed back shipments and resulted in its -14% decline. That said, CIE's locally focused supply chain will not be materially impacted by global logistic disruptions. The company stands to benefit and gain share from financially weaker competitors. Another detractor was France-based **Rubis** which provides bulk storage and distribution of petroleum and liquefied petroleum gas. Despite delivering resilient profitability, the continued business disruptions from COVID-19 have yielded lower than expected visibility in its 2021 volume growth. We exited the name on those mid-term headwinds and shares decreased -22% for the period it was held during the quarter.

Holdings in the U.K. offered some bright spots. More positive with its 15% rise was **Future plc**, a specialty content publisher transitioning from print to a multichannel online platform. They own 220 brands/titles and create niche interest, high-quality, branded, and expert-led content. The company reported solid results driven by ecommerce and digital ads. During the quarter, they also announced the acquisition of Dennis, a consumer subscription business focused on wealth, knowledge and B2B tech which provides Future with the opportunity to scale up within the wealth vertical. Also strong was **Genuit** which provides engineering solutions for construction projects. Shares moved forward by 12% as the company reported a solid first half, benefitting from strong demand in its end markets, particularly the residential sector. The group's recent acquisitions are all performing well. The group is managing cost inflation well with price increases, demonstrating the group's strong brand and market positions.

Regional Performance: Japan

Support for the portfolio arose from our positions in Japan. Climbing by 37%, **Kadokawa** is a comprehensive entertainment company. Profit growth is driven by e-book market expansion, structural reform of the paper book market, and domestic digital transformation of the rising overseas demand for Japanese anime. With a treasure trove of content rights, we believe the company deserves attention as an emerging content play. Home-renovation management and real estate holding company **KATITAS** specializes in the procurement, renovation, and sale of vacant homes in regional areas. As demand for refurbished detached homes has gotten stronger during the pandemic given limited new housing supply, KATITAS' homes have strong appeal. The company announced strong quarterly results and shares moved forward by 27%. 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.

Our largest Japanese holding is discount supermarket **Kobe Bussan**, which gained 4% as its underlying business momentum improved and year-on-year hurdles for comparisons improved from June. Their shares started out of the gates strong but took a break towards the end of the quarter on concerns of a weaker yen and rising shipping costs. We trimmed one-third of our position near the highs when it approached our target price. We expect new stores opening, market share gains, its vertically integrated supply chain, and price hikes to continue to be beneficial. The thorn amongst the roses was **Pola Orbis**, one of Japan's leading cosmetics makers with a unique home-visit and mail-order business model. The stock declined by -13% as results came in below street expectations due to a slow sales recovery in Japan. We expect the resumption of inbound tourist travel will reignite earnings in 2022 and continue to like valuations which trade at large discount to global peers.

Regional Performance: Asia Pacific Ex-Japan and Americas

Within Canada, **Real Matters** operates a proprietary online network for optimizing the home appraisal process for its bank customers. The company missed its quarterly numbers as title revenues fell. Management discussed re-allocating resources to focus on larger clients at the expense of smaller clients. Their actions caused us to reevaluate its place in the portfolio and we exited the position with its shares dropping by -42% for the period that it was held.

Our holdings in Asia Pacific Ex-Japan also delivered stronger relative returns. **IPH** is 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 15% as a result.

Regional Performance: Emerging Markets

Global emerging markets faltered in the quarter and underperformed their developed peers. One of the portfolio's largest detractors was Turkey's leading e-commerce marketplace, **D-Market Elektronik Hizmetler ve Ticaret** which tumbled -44% The company reported lower-than-expected revenue growth, as compared to the prior year's high base, as well as elevated expenses related to continued investment in its business. That said, we believe those investments will be important in strengthening the company's moat.

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 inline 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. Separately, concerns mounted around the potential default of a large Chinese property developer and its impact on China's overall property sector and other adjacent sectors. Given the spillover in sentiment, shares of property management company **A-Living Smart City Services** traded down -28%. We de-risked our exposure to China on the rising geopolitical risks and sold A-Living. That said, while uncertainty may seem high in China as a whole, it created some opportunities to add to quality businesses with attractive valuations. New to the portfolio was **Yihai International Holding**, a premier Chinese condiments and packaged food brand. A long-time name on our watchlist, we purchased that company when its market capitalization dropped below US$5bn and within our strategy's guidelines.

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-typical inflation, tighter monetary policies, and a slowly recovering global supply chain. Countering that is a high degree of stifled producer and consumer demands. 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 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.