TIMESSQUARE CAPITAL MANAGEMENT, LLC

U.S. Small/Mid Cap Growth Strategy

Representative Commentary — 3Q21

Performance

			Annualized			
	3Q21	**1YR**	**3YR**	**5YR**	**7YR**	**10YR**
U.S. SMID Cap Growth Composite (Gross)	-0.79%	28.12%	16.61%	17.40%	13.32%	17.09%
U.S. SMID Cap Growth Composite (Net)	-1.04%	26.88%	15.46%	16.24%	12.20%	15.94%
Russell 2500™ Growth Index	-3.53%	31.98%	15.99%	18.20%	14.92%	17.19%

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 2500™ Growth Index for the quarter. There was weakness in the Financials sector, which was more than offset by strength in Information Technology, Industrials, and Health Care sectors.

There were several challenges in the Financials sector this quarter. That included **LendingTree, Inc**., the online marketplace for third-party consumer financial products, such as loans, credit cards, and insurance. With consumers having increasing worries regarding the future, and household balance sheets generally in better shape from prior reductions in spending, there was a market view that consumer loan growth would have a slower-than-expected recovery. That led LendingTree's shares to retreat by -34%. Some other investors in LendingTree appeared to be waiting for a return to pre-pandemic activity levels, though we observed that its consumer business was recovering. Offsetting that was the 11% gain for **PJT Partners**. This independent investment bank reported better-than-expected revenues and earnings from its activities with M&A, security placements, and restructurings. PJT's outlook was positive, and the company also declared a special dividend of $3 per share.

Our Information Technology sector holdings contributed to our results. That included the strategy's greatest contributor: **Paylocity Holding**, a provider of cloud-based payroll and human capital management software for medium-sized organizations. Its shares surged ahead by 47% as results were strong while client retention remained above 92%. Positive momentum returned for new customer sales, and existing clients rehired employees. Looking forward to the next fiscal year, Paylocity's management provided its best initial annual guidance in several years. Later in the quarter the company announced the acquisition of an international payroll company, which will further extend Paylocity's global reach. We trimmed our position opportunistically during the quarter's gains. One detractor in this sector was **Q2 Holdings** and its -22% return. A cloud-based software solutions developer for small and medium sized banks, Q2 reported revenues and earnings that edged ahead of expectations. Unfortunately, the company's backlog declined and gross margins slipped, which may limit future results in the near term. Brighter was **Monolithic Power Systems**, which designs, develops, and markets high-performance power management semiconductors. Revenues and earnings were higher than anticipated, and management increased its guidance for next quarter's revenues. Sales were strong across all major areas—automotive, industrial, and consumer. Monolithic was also gaining market share and winning placements in future designs, which should serve the company well even if the semiconductor industry sees a pullback in 2022. In the near term, the company's shares appreciated by 30% this quarter and we trimmed our position on its strength. Another winner was the 56% gain from **Rush Street Interactive**. The online operator of casino and sports gaming reported better-than-expected revenues and earnings. The company also announced it was one of the few official sports wagering operations to partner with the state of Connecticut. Later the stock received another lift when other gaming companies began merger talks. That spurred market speculation of further industry consolidation, so we trimmed our position on those gains. Leaving the strategy after several years was **Gartner, Inc**., which offers independent and objective research and analysis on information technology, computer hardware, software, and communications. Recent revenues and earnings exceeded expectations with improving average contract values and operational efficiencies. Unfortunately, the subsequent share price gains—up 26% while we owned it in the quarter—lifted Gartner's market capitalization beyond the range for this strategy. New to the strategy—and at a quarter of Gartner's market capitalization—was **Workiva Inc**., a leading cloud-based compliance and regulatory reporting platform. Purchased early in the quarter, the company has nearly 4,000 clients including 75% of the Fortune 500, with a dominant market share for SEC reporting. Growth within the company's client base expanded in Europe as well as from the ever-increasing required regulatory reporting worldwide. That, along with Workiva's new ESG reporting services, should provide significant future growth opportunities.

More performance power developed from the Industrials sector this quarter. That included **Rexnord Corporation**, which specialized in water management (WM) and process and motion control (PMC) products for end markets including industrial, energy, food and beverage, aerospace, and construction. Rexnord's revenues and earnings exceeded expectations. More importantly, the WM operations drove that strength while the PMC business was as expected. Earlier in the year, the company announced it would divest the PMC operations to Regal Beloit, which would narrow Rexnord's focus on the higher growth WM segment. This led to a 29% gain for its shares. Shortly after quarter end the transaction occurred, and the WM business of Rexnord was renamed **Zurn Water Solutions** while the PMC business became the newly christened Regal Rexnord. Detracting from results was the -27% return from **Proto Labs**, which produces rapid prototypes and low-volume parts for industrial companies using traditional mold injection and machining manufacturing techniques. While revenues were in line with expectations, earnings fell shy of them. A recent acquisition—an online platform for custom part manufacturing, providing access to a global network of manufacturing services—had lower margins than other areas of Proto Labs and weighed on the overall gross margins. That business shift led us to reduce our holdings in the stock. Better was the 17% showing from **GFL Environmental**, which did not disappoint on either revenues or earnings this quarter. GFL's volumes increased, and it was able to raise prices for disposing non-hazardous waste, remediating soil, and providing other environmental services. The company also made several small acquisitions during the past quarter. As its price climbed, we trimmed the position. Our sales were more aggressive with **Builders FirstSource**, which manufactures and supplies a range of residential building materials. Early in the quarter, the company preannounced quarterly sales that were well above current estimates. High volumes for construction plus falling lumber prices improved profit margins significantly. The subsequent report showed that was the case, and guidance was increased for the balance of the year. We steadily trimmed our position during its climb this quarter, though as it ascended beyond our target valuation and we grew concerned that margins may have reached peak levels, we completed our exit. While we held it during the quarter, Builders' shares gained 27%.

A final booster to performance came from the Health Care sector. One supplement to returns was the 23% gain from **Catalent Inc**., the provider of delivery technologies and development solutions for a variety of medical health products. Early in the quarter, Catalent announced the expansion of its cold-chain facility in Singapore—

necessary for the handling and distribution of temperature sensitive drugs such as gene therapies across the Asia-Pacific region—and planned to increase capacity at its Italian manufacturing plan to meet growing European demand. Later the company's reported revenues and earnings were well ahead of expectations due to better revenues from its Biologics and Softgel segments. Catalent also announced the acquisition of Bettera, which provides entry to the gummy and soft-chew portions of the nutritional supplement market. The combination of these developments served to lift the stock and as a result we sharply trimmed our position. Less auspicious were this quarter's results for **InnovAge Holding**, which coordinates care for the elderly living at home, as the largest provider of the Program of All-inclusive Care for the Elderly (PACE) services. Although recent results were in line with expectations, management's guidance for the next fiscal year—its first full year as a public company—were off the mark. In our follow-up discussion with InnovAge's management, it seemed that beneath their overly conservative guidance was a need for management to improve its communications with the analyst community regarding the natural progression of profit margins at its clinics. In addition, one of its newly opened clinics was cited for a lack of services, though that appeared to have been caused by COVID-related shutdowns in that clinic's northern California location. As a relatively new holding in the strategy with a -69% return this quarter, we are reevaluating the appropriate position size for InnovAge. Lastly was the 37% gain from **Acceleron Pharma**, a biotechnology developer of treatments that promote red blood cell production and thus can be used for anemia and related diseases. At the end of the quarter, Merck announced an agreement to acquire Acceleron. While the deal price was below our long-term price target for the company, Merck will assume all risks from the current clinical trials, so we began selling our shares.

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.

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.

This document, which is being provided on a confidential basis, shall not constitute an offer to sell or the solicitation of any offer to buy which may only be made at the time a qualified offeree receives a confidential private offering memorandum ("CPOM"), which contains important information (including investment objective, policies, risk factors, fees, tax implications and relevant qualifications), and only in those jurisdictions where permitted by law. In the case of any inconsistency between the descriptions or terms in this document and the CPOM, the CPOM shall control. These securities shall not be offered or sold in any jurisdiction in which such offer, solicitation or sale would be unlawful until the requirements of the laws of such jurisdiction have been satisfied. This document is not intended for public use or distribution. While all the information prepared in this document is believed to be accurate, TimesSquare Capital Management, LLC, makes no express warranty as to the completeness or accuracy, nor can it accept responsibility for errors, appearing in the document.

Composite & Performance Disclosure:

Performance is measured against the Russell 2500™ Growth – a market capitalization-weighted index that measures the performance of those Russell 2500™ companies with higher price-to-book ratios and higher forecasted growth rates. All indexes, including the Russell 2500™ 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 $300 million and $8.5 billion at time of purchase. The process is fundamental research driven. The investment style is growth. Portfolios will hold approximately 90-120 stocks. Historical turnover has averaged 57% per year. Composite inclusion threshold $5mm. Fee basis is 100 basis points. The composite creation date is November 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 small/mid cap market as represented by the Russell 2500™ 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.

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 1.00% 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 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.