TimesSquare Global Health Care Fund

To our Investors,

Through the end of September 30, 2021, the Global Health Care Fund's net performance was +1.27% for the third quarter +0.88% YTD and +17.51% cumulative since inception (April 1, 2020).

The Health Care sector continues to recover from the underperformance seen in 2020 and the first quarter of this year. The sector outperformed the broader market during Q3 with a return for the MSCI World Health Care Index of +1.01% vs (-0.01%) for the broader MSCI World Index. The performance of health care was tied to the strength in pharmaceutical stocks, following more COVID-19 vaccine mandates and booster shot approvals. If we isolate the performance of small cap health care, where we tend to focus our attention, health care underperformed with the MSCI World Health Care Small Cap index returning (-4.58%) vs the MSCI World Small Cap Index of (-1.43%). These deviations in performance were probably the most pronounced within biopharma, as evidenced by the negative performance of both the SPDR S&P Biotech ETF (XBI) and NASDAQ Biotechnology Index (NBI) with (-7.24%) and (-1.08%) for the quarter.

As a Fund, we remain focused on identifying innovative and disruptive themes within health care, and the companies best positioned to capitalize on those trends. We believe the greatest long-term alpha will be achieved by identifying these disruptive companies at an early stage, which generated a positive return for the fund this past quarter.

3Q 2021 Commentary

We believe there are several overhangs still weighing on the performance of small cap health care, causing the sector to lag the broader small cap market. As we attempt to explain the weak performance, we observe the uncertainty within the FDA along with the need to fund offsets for the proposed budget reconciliation bill, expected to be between $1.5T - $3.5T.

The FDA has been without a permanent chief since Biden took office, creating ambiguity in the market as to whether the biopharma industry will be facing a more challenging drug approval environment. The White House is in the process of vetting former FDA Commissioner, Dr. Robert Califf. Dr. Califf has emerged as a clear front runner over prior contenders including acting commissioner and longtime drug regulator, Janet Woodcock and Michelle McMurry-Heath, CEO of the Biotechnology Innovation Organization, and a past FDA director. Given prior ties to the drug development industry, we believe Dr. Califf would be viewed favorably by investors and bring stability to the agency officially nominated and ultimately confirmed.

The other main obstacle to the sector's performance is the expectation that healthcare will be used as a "pay-for" to fund the proposed budget reconciliation process. While the expected price tag of reconciliation has fallen from $3.5T to closer to $2T, the market remains concerned about drug pricing reform and potential Medicare Advantage funding cuts. At a minimum, we expect Congress will find healthcare savings to offset the expansion of the ACA subsidies, Medicaid expansion and inclusion of hearing, vision and dental coverage within the Medicare program. The ultimate cost of these Democratic priorities will depend on the duration of the program expansions but the CBO score for the House's proposal pegged the healthcare portions at ~$553B.

While we expect the final price tag for healthcare to be less than $500B, due to budgetary gimmicks like sunsetting provisions, Congress could achieve a full offset with the buckets of potential savings being discussed. Drug pricing reforms could result in $200B-$300B of savings over the 10-year range, which would be lower than the rumored deal the industry and former President Trump allegedly struck in 2017. Congress will almost certainly repeal the drug rebate rule, which despite never being implemented would score as $130B of savings. The delay of the rebate rule was used to garner $49B of savings in the bipartisan infrastructure bill. The last two major areas of speculated savings are Medicare Advantage cuts, estimated at $50B-$100B, and provider cuts for $50B-$100B.

We continue to see exciting innovative opportunities in health care, whether in drugs, medical devices, or care delivery models, and we remain nimble with our positions. During the quarter, we made a few adjustments to our net exposure and added to Life Sciences Tools & Services. Our alpha short positions are concentrated on early winners from the pandemic and companies we think are the most susceptible to suffering adverse impacts from corporate tax reform.

Fund Performance

With the market volatility observed in the first part of the year and the underperformance of the broader healthcare and small cap markets during Q3, we made some adjustments to our biopharma exposure and added to our Life Sciences & Tools sector exposure. Positive contributions from Health Care Technology, Biotech, and Health Care Equipment & Supplies benefitted the Fund, while our positions in Health Care Providers & Services, Life Sciences & Tools, and Pharmaceuticals detracted.

During the quarter, we initiated a position in ICON Plc (ICLR), a clinical research organization that engages in the provision of outsourced development services to pharmaceutical, biotechnology, and medical device industries. It specializes in strategic development, management and analysis of programs that support clinical development. The company had strong 2Q21 results and completed its acquisition of PRA Health Sciences in July, which we believe will drive significant benefits from scale, improved product offerings, and meaningful cost out opportunities that should create meaningful synergies over the next several years.

Blueprint Medicines (BPMC), our largest and top performing biotechnology holding rebounded during the quarter. BPMC is a precision medicine company focused on genetically defined cancers and rare diseases. We remain confident in Blueprint's targeted therapy for RET altered non-small cell lung cancer, as BPMC's partner Roche has significant experience launching targeted oncology products. With the recent FDA approval for Blueprint's AYVAKIT to treat advanced systemic mastocytosis, a dangerous increase in certain white blood cells coupled with its current use for gastrointestinal stromal tumors, the latest rates of prescriptions were promising through the quarter.

The biggest detractor from performance was Aveanna Healthcare Holdings, Inc. (AVAH), AVAH is a leading, diversified care provider to medically complex, high-cost patient populations through its pediatric home health, adult home health and hospice, and medical solutions businesses. Currently the largest pediatric home nursing care provider, AVAH has begun expanding into senior home health through acquisitions. During the quarter, AVAH disclosed a purchase agreement to acquire assets of Comfort Care Home Health Services, Comfort Care Hospice, and Premier Medical Housecall. If finalized, this would be a sizeable acquisition for AVAH, which we believe sets the stage for strong growth potential. We view this company as a beneficiary of the secular trend of care transitioning from hospitals to lower cost sites of care. We will also be watching to see if the final reconciliation plan includes Medicaid funding for Home and Community Based Services. President Biden proposed $400B for the program but the House version reduced the amount to $190B.

The fund had another good quarter from our pharmaceutical's holdings. One of our top positions, Catalent Inc. (CTLT) a global provider of advanced delivery technologies and development solutions for drugs, biologics, and consumer health products 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 plan to meet the current out-sized demand for large molecule manufacturing services. However, as more supply continues to come online the market imbalance will likely begin to equalize. Moreover, if we see evidence the number/proportion of biologics in the development pipeline continues to grow, this will increase investor confidence these tailwinds will remain in place longer.

Conclusion

Heading into the fourth quarter of 2021, we are concerned that current valuations indicate that the market appears complacent about the risk of a resurgence in COVID-19. With vaccination rates appearing to plateau, we believe the steady recovery in health care utilization could falter. While a setback in procedure growth would ripple throughout the sector, we believe health care facility stocks are at the greatest risk of contraction, given their valuations. While early data from the U.K. suggests that the vaccines work well against the Delta variant, we believe the more virulent nature of this variant is likely to cause some disruptions this fall.

We are also closely monitoring the IPO market, as we believe public market's appetite to fund early-stage companies is waning. We have seen the quality deteriorate for health care companies coming public. More specifically, there has been a significant increase in the risk profile of recent biopharma IPOs as a greater number of these IPOs are more speculative, pre-clinical entities. These sentiments have been echoed by the performance or recent IPOs and SPACs. As more infant stage companies make it to the market, we will look for alpha short opportunities.

Our objective as a fund is to deliver consistent positive returns in any market and we remain focused on achieving that goal through identifying innovations and parsing the bottom-up information that reflects the abilities and opportunities for our positions.

As always, we are available for any questions you might have as we endeavor to protect and grow the assets you have entrusted with us. Meanwhile, we hope that you, your family, and your colleagues remain in good health.

Best Regards,

David Ferreiro, Ph.D. Lead Portfolio Manager

Bret D. Jones, CFA Co-Portfolio Manager

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