

## U.S. All Cap Growth Strategy

### Representative Commentary — 4Q21

Performance	Annualized					
	4Q21	1YR	3YR	5YR	7YR	10YR
U.S. All-Cap Growth Composite (Gross)	10.85%	24.53%	36.38%	26.69%	19.60%	20.15%
U.S. All-Cap Growth Composite (Net)	10.65%	23.62%	35.39%	25.77%	18.72%	19.27%
Russell 3000® Growth Index	10.89%	25.85%	33.18%	24.55%	19.01%	19.37%

*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.*

2021 began with the expectation that vaccinations would reduce COVID-19's grip on the economy and our collective psyche. For a time, we progressed along that course and looked forward to a return to normal by the summer. However, varying levels of vaccinations, changing mandates, and the late-year emergence of new COVID variants, created a sense of "déjà vu all over again" by the close of the year. More consistent in 2021 was the steady increase of global inflation for consumers and producers, typically coupled with ongoing supply chain woes. Despite that, global equity markets posted double-digit gains for the year, led by the U.S. with 26% followed by developed non-U.S. at 11%, though emerging markets dipped by -3% (however, small cap emerging markets *increased* by 19%).

In the final quarter of 2021, the focus was on COVID-19's Omicron variant that was identified in November. The equity markets briefly retreated that month, though gains in October and December more than offset that in most geographies. As with the year, in the fourth quarter U.S. equities led with a 9% return compared to a 3% rise for developed non-U.S. and a -1% slip for emerging markets (though again, small cap emerging markets showed gains). Market volatilities briefly spiked in late November, though soon ebbed to levels near their 12-month lows. Similarly, commodity prices momentarily fell mid-quarter, before reapproaching their highs.

In the U.S., the pace of economic activity slackened though remained well in the expansionary range. Meanwhile, monetary policy tightened—the Federal Reserve announced plans to taper its \$120 billion monthly purchases of bonds and later increased the pace of those

reductions, which could end completely as soon as March 2022. In the quarter, there were better returns for larger stocks than smaller capitalizations and value outperformed growth, except for the megacap dominance with the usual FANG+<sup>1</sup> suspects (the same was true for the full year).

Amidst this environment, the portfolio matched the Russell 3000® Growth Index return of 11% for the fourth quarter. Relative weakness within Information Technology and Communication Services was offset by strong stock selection from Consumer Discretionary, Financials, and Health Care.

The Consumer Discretionary sector was the home to the portfolio's top contributor for the quarter. **Rivian Automotive, Inc.** focuses on the designs and manufacturing of electric vehicles across consumer and commercial markets. We participated in the company's Initial Public Offering (IPO), as they are well-positioned to capture a large addressable market that is up for grabs as the auto industry goes electric. Despite our enthusiasm for the company, we exited the position with a 30% gain, as its stock hit up against our price target. The shares of online retailer and cloud-based service provider, **Amazon.com**, edged forward 2% for the quarter. The company delivered lighter-than-expected third-quarter results, where revenues and operating income fell below analyst estimates. Management noted that softer quarterly numbers were attributed to higher consumer mobility, which impacted eCommerce demand. Moreover, weaker-than-expected

<sup>1</sup> Commonly consisting of Facebook (Meta), Apple, Netflix, Google (Alphabet), along with Amazon and Microsoft. All except Google are considered 100% growth by FTSE Russell.

operating income was due to an uptick in labor and raw material costs. Dipping by -7% was **Lululemon Athletica Inc.**, a designer, distributor, and retailer of athletic apparel and accessories. Their offerings also include Mirror, an at-home fitness platform featuring live and on-demand classes. While third-quarter sales were in-line with expectations, earnings were solidly ahead due to gross margin expansion. Store traffic and profitability are now above 2019 levels. However, the stock slid due to a reduction in Mirror revenue guidance in recognition of a challenging at-home fitness market, along with management's decision to pull back on its marketing spend. Offsetting this weakness was **Global-e Online Ltd.**, a cross-border e-commerce platform. The company reported a solid third quarter, where both gross merchandise value (GMV) and revenues came in well above analyst estimates. Their gross profits grew faster-than-expected driven by increasing economies of scale and cost efficiencies. Its shares were up 14% when we sold the position.

There were mixed signals within Communication Services as the portfolio fought to keep pace with the index's average sector return of 3% for the quarter. For example, the shares of image-based social media company **Pinterest Inc.** weighed on performance. Early in the quarter, PayPal announced they were not pursuing an acquisition of Pinterest after market speculation. The company later reported in-line third-quarter results, however, they experienced

It was a volatile and difficult quarter to outperform within the Information Technology sector which returned 15%. Some of the largest and best-known companies in the world performed well while smaller, higher growth, higher multiple companies struggled. Although many of our holdings reported strong results, there was a disconnect between fundamentals and stock price performance as valuation multiples contracted. In our portfolio, **CrowdStrike Holdings Inc.** provides cloud-delivered solutions for next-generation endpoint protection. Despite reporting strong third quarter revenue growth of 63% and raising forward guidance, its shares fell by -16%. We added to the position as cybersecurity remains a top priority for IT spending at corporations due to a heightened cyber threat environment. There were other examples, such as **Avalara Inc.**, an outsourced provider of end-to-end tax compliance services for small to mid-sized businesses which reported better-than-expected revenues and billings of 29% yet experienced a -26% decline in its stock. We view Avalara as a long-term stable growth business, though this quarter the market had no patience for any imperfections. Another notable detractor was digital payment platform, **PayPal Holdings**. The company delivered lackluster third quarter results that came in below expectations across the board. While their earnings miss was attributed to weak eBay volumes and softer-than-expected travel/back-to-school spending, shares fell after management provided a below-consensus fourth quarter outlook. Specifically, management expects a slowdown in growth due to supply chain disruptions impacting merchants, decreasing consumer confidence, and labor shortages heading into 2022. We trimmed our

position as shares were down -27%, making it our worst detractor for the quarter. Better results came from mobile and personal computer manufacturer **Apple Inc.**, as shares climbed 25%. While the company reported a rare revenue miss due to supply constraints causing lower iPhone sales, their computer, tablet, and services segments came in better-than-expected. Moreover, the company indicated that demand remains strong and views the industry-wide chip shortages as transient. Another strong contributor was **Microsoft Corp.**, a global technology company, with its shares up 20% during the quarter. They produced solid fiscal first quarter results across all three operating segments, beating consensus estimates on both the top and bottom lines. Notably, growth for their cloud computing segment, Azure, accelerated during the quarter and continues to grow faster than Alphabet's Google Cloud Platform, despite being twice their size. The company's sustainable growth profile remains intact as it continues to benefit from the shift of on-premises workloads to the cloud and as a consolidator of corporate IT spending. Surging 42% was **NVIDIA Corporation**, which designs and manufactures computer graphics processors, chipsets, and related multimedia software. The company delivered impressive third quarter results, beating analyst estimates across the board. While strength was seen in all segments, datacenter growth was once again a standout with record-setting revenues, as hyperscale and enterprise drove an acceleration in year-over-year growth. Gaming was also exceptionally strong, beating estimates due to increased demand for their RTX graphics cards for higher-end desktops and laptops. Further, management reiterated their confidence in the longer-term trajectory and visibility of data center growth. We trimmed our position into strength.

The Industrials sectors also contributed to relative performance this quarter. At the lead was a 26% return from **AZEK Company**, a manufacturer of wood-alternative decking, railing, trim, and moulding. The company reported revenues and earnings above expectations, noting that its end markets were robust with support from repairs and remodeling activities. Countering this strength was **Generac Holdings Inc.**, a leader in backup power generators and power storage. It delivered weaker-than-expected third quarter results, as gross profits were impacted by supply chain disruptions, logistical issues, and rising input costs. While gross profit margins appear to have bottomed, the subsequent price/cost mismatch in the company's large backlog remains a challenge over the near term. As a result, we exited the position and deployed capital into more favorable risk-adjusted ideas, as we wait for Generac's logistical headwinds to pass. Shares were down -25% while we held the name.

Turning to the Consumer Staples sector, our sole holding is **Sysco Corporation**. They distribute food products to over 650,000 locations, including restaurants, healthcare, and educational facilities, lodging establishments, and other foodservice customers. Fiscal first quarter results were in-line with analyst expectations, where higher sequential revenues were driven by accelerating reopening efforts domestically, along with strengthening international operations. While management reiterated fiscal 2022

guidance, they also indicated some elevated transportation and labor costs which could provide headwinds to meeting expectations. We sold the position at a -6% loss, underperforming the index's average sector return of 15%.

Our names within the Health Care sector boosted relative portfolio performance, where the index's average sector return was up 3%. **ICON Plc**, a clinical research organization offering outsourced services to the biopharmaceutical industry, advanced 19%. The company reported strong revenues in its first quarter after integrating the acquisition of PRA Health Sciences. Looking ahead, ICON possesses enhanced capabilities with an opportunity to realize cost synergies. Countering this strength was **Encompass Health Corporation**, one of the largest U.S. providers of post-acute services, such as rehabilitation, home health, and hospice services. Revenues and earnings each fell shy of projections, despite the company telegraphing the impact of labor pressures on its margins. Encompass also announced that its year-long strategic review will result in the partial or full separation of its home health and hospice business into an independent public company via a carve-out or a spin-off. We exited the position at a loss of -5%.

Turning to our only name in the Real Estate sector, the shares of **SBA Communications** were up 12%, though underperforming the index's average sector return of 14%. This wireless communications infrastructure company reported a solid quarter highlighted by accelerating organic revenue growth. The increased level of U.S. wireless carrier spending from the prior period was sustained into

the third quarter with leasing activity and services backlogs at multiyear highs.

Relative strength was found within Financials, where the index's average sector return was 6%. Up 22% was **Signature Bank**, a commercial bank serving businesses and private clients, predominantly in the New York metropolitan area. The pace of the bank's loan and deposit growth was impressive with a quarterly record of \$4 billion of new loans and total assets now over \$100 billion. At the end of the quarter, Signature's stock received another lift with the announcement it would be added to the S&P 500.

Looking forward in 2022, this year brings another set of opportunities and risks. Globally, the current wave of COVID-19 cases should ebb though the possibility of future variants may change its status from pandemic to endemic. In addition, the world will grapple with higher inflation—both from materials and labor costs—and a fragile global supply chain may also become an enduring feature of the economic landscape. Expectations for further monetary tightening may create headwinds for the equity markets, especially if new fiscal stimulus measures fail to take shape. However, the investment terrain always shifts, which is why ongoing reevaluations of bottom-up opportunities is critical and where we focus our energies. As always, we are available for any questions you might have as we endeavor to protect 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 3000® Growth – a market capitalization-weighted index that measures the performance of those Russell 3000® companies with higher price-to-book ratios and higher forecasted growth rates. All indexes, including the Russell 3000® 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 above \$2.0 billion at time of purchase. Portfolios will hold approximately 35 securities. The process is fundamental research driven. The investment style is growth. Historical turnover has averaged 99% per year. Composite inclusion threshold \$200,000. Fee basis is 75 basis points. Composite creation date is January 2, 2008.*

*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 highest management fee of 0.75% 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. To illustrate performance net of fees, assume \$20,000,000 is placed under management for ten years and sustains 10% annual gross return for each year during this period. If an advisory fee of 0.75% of average assets under management is charged per year, for each year of the ten-year period, the resulting annual net return would be 9.25%. The ending dollar value of the account would be \$48,444,497, as compared to \$51,874,849 if the advisory fees had not been deducted.*