TIMESSQUARE
CAPITAL MANAGEMENT, LLC

International Small Cap Strategy

Representative Commentary — 4Q21

Performance

			Annualized			
	4Q21	1YR	3YR	5YR	7YR	Since Inception (03/31/2012)
International Small Cap Composite (Gross)	-1.91%	2.22%	15.08%	10.40%	9.76%	10.80%
International Small Cap Composite (Net)	-2.16%	1.21%	13.95%	9.33%	8.69%	9.72%
MSCI EAFE® Small Cap (Net) Index	0.07%	10.10%	15.61%	11.03%	9.52%	9.51%

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%.

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. 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.

Europe was supported by continued economic growth, though that was tempered by supply disruptions and pockets of pauses in the reopening progress. In Japan, the market faltered on Prime Minister Suga's exit and the newly formed Kishida government's failure to lift the market's expectations of economic reforms. In the Emerging Markets, concerns related to China's regulatory actions dragged its growth across several economic sectors. Contrary to the tightening of monetary policy by many central banks around the world, the People's Bank of China (PBOC) announced more supportive measures amid a slowing economy.

Throughout this quarter, large cap stocks outperformed their small cap peers. Value outpaced growth in the small cap spectrum through the reverse was true in large caps. Within the small cap stocks, there were better returns from Materials, Real Estate, and Utilities sectors. Greater laggards included Consumer Staples, Energy, and Health Care.

Portfolio Performance Attribution

Amidst this environment, the International Small Cap Portfolio underperformed the MSCI EAFE Small Cap benchmark, driven by stock selection. Our holdings in Europe performed in line with the benchmark while we experienced relative weakness in Japan, Asia-Pacific Ex Japan, and the emerging markets. There was weakness in the Information Technology and Real Estate sectors. That was somewhat offset by strength in the Financials and Consumer Discretionary sectors.

Regional Performance: Europe

Our holdings in Europe performed in line with the benchmark; stocks in the United Kingdom and Denmark contributed to performance while Norway and France detracted. The Nordic region offered mixed results. In Denmark, **ALK-abello** is a manufacturer of oral allergy treatments. Shares climbed 25% as they reported robust quarterly results with margins ahead of expectations. Management guided that its strategy to drive sustainable

10% revenue growth and margins of 25% by 2025 is on track. In addition, clinical trials for a peanut allergy tablet will start in the first half of 2022 following successful completion of feasibility studies; this could be a significant opportunity. We trimmed the name on share price strength. In neighboring Finland, **Valmet** is a process technology provider supplying entire production lines to the pulp and paper industry. Its order book remains strong. Further, the pricing environment is healthy with the company able to pass on most costs. Of note, supply chain and transport issues are also easing. In addition, the Finnish Financial Supervisory Authority's final approval of Valmet's merger with Neles Corporation, a global valve company with strong exposure to the pulp and paper industry, boosted shares by 18%. Those gains were partially offset by Norway based **Pexip Holding**, an online meeting platform that offers video conferencing and digital infrastructure with a focus on large enterprise customers. During the quarter, shares were negatively impacted by lower-than-expected third quarter results and the market's concerns on whether Pexip could reach their 2024 target. New sales representatives, hired over a year ago, have also been slower than expected to ramp up. In light of the hiccups in their path to profitability, we exited the name, which declined -52% for the portion of the quarter that it was held.

Moving over to Spain, **CIE Automotive** is a producer of automotive components. Shares rose 23% as they reported upbeat results and maintained guidance amidst a challenging backdrop. CIE has consistently outperformed its peers, driven by higher operating leverage from the integration of strategic acquisitions, market share gains, and efficiency improvements. Less positive was France-based nursing home operator **Orpea** with its –14% decline. The market turned more cautious on this segment given the resurgence of the pandemic in recent weeks. There are also worries of the impact of rising interest rates on the company's real estate assets and balance sheet. Though there is short term uncertainty, they have navigated the pandemic environment well and fundamentals remain supportive.

Holdings in the U.K. helped relative performance. Leading was the portfolio's top contributor, **Auto Trader**, an online marketplace for passenger vehicles in the U.K. The buoyant used car market was a tailwind for short term growth and shares gained 26%. In addition, Auto Trader has the potential for stronger growth from new products and plans for a new inventory tracking API (Application Programming Interface). Rounding out the winners with a 12% gain was wealth manager **St. James's Place.** They reported another strong set of results, boding well for coming quarters. More of its assets are starting to generate fee earnings. We took some profits into the share price strength, though the stock remains a core position.

Regional Performance: Japan

Our Japanese holdings corrected along with the regional benchmark's -8% retreat. Japan housed the portfolio's top detractor **giftee, Inc.** with its -49% decline. The company is a frontrunner in the e-gift market in Japan, which are electronic coupons that can be redeemed for goods & services at restaurants and retail stores. Its shares fell after the company reported a weak quarter and lowered their fiscal year profit guidance. Management noted this downward revision was attributed to higher-than-expected system development costs and hiring expenses. Later in the quarter, the company issued convertible-bonds for the purpose of potential M&A, debt repayments, and higher cash reserves. We believed this was a poor capital allocation decision by management, with whom we lost faith in their ability to improve giftee's business, and we decided to exit the position.

Within the Information Technology sector, **Systena Corporation** is a high-quality portfolio of IT system businesses and a leading embedded software platform. COVID's impact and upfront hiring costs weighed on margins earlier in the year. In addition, sales of hardware products were impacted by component shortages. As a result, its shared corrected by -26%. We remain bullish on the company as they have continued to invest in their mobility, 5G, and digital transformation initiatives. Within the technology supply chain, **FUJI CORPORATION** is a leading supplier of surface-mount technology equipment used to mount electrical components on printed circuit boards. Though component shortages have impacted product shipping, normalization of supply chains will be a catalyst for stronger earnings. FUJI is taking market share in high-end chip-mounters and growing nicely in its wire-bonders business. In our view, the share price's -13% correction is largely reflective of broader macro or cyclical concerns, and not business fundamentals.

Fears of a resurgent pandemic further delayed re-opening plans in Japan. Leading cosmetics supplier **Pola Orbis** was hit along with other reopening plays. Omicron presented delays in back-to-work resumption and inbound tourist flow. Given lower visibility on the timing of an earnings recovery, we exited our position with shares declining -24% for the portion of the quarter that it was held. Cautious sentiment also weighed on contact lens maker **Menicon Co**. After a strong start in the earlier part of the year, the shares ceded ground on the back of profit taking and general multiple compression in growth stocks. In light of the potential near-term headwinds, we are reviewing this name's position in the portfolio. Offering better returns and gaining 19% was discount supermarket **Kobe Bussan**. The market was encouraged by strong same-store sales growth and recovery of its profitability on back of price hikes. We maintain our conviction in its new store roll out plans.

Regional Performance: Asia Pacific Ex-Japan and Middle East

Our underweight to Asia Pacific Ex-Japan and Middle East detracted from performance. **Pushpay Holdings** is a software firm providing online payments and engagement solutions for churches, predominantly in the U.S. The company revised down its full-year guidance sending the stock down -29%. Management indicated cross-sell with its newly acquired RESI platform has been softer and expansion to Catholic Church customers has been slower than expected.

Regional Performance: Emerging Markets

Global emerging markets underperformed their developed peers in the quarter. One of the portfolio's detractors was Turkey's leading e-commerce marketplace, **D-Market** which tumbled -49%. Last quarter, the company reported lower-than-expected revenue growth due to continued investment in its business. In subsequent conversations with management, they remained optimistic but then delivered another set of disappointing results. Having lost faith and with rising geopolitical concerns, we made our exit in November 2021. More positive and new to the portfolio was **K Car Co., Ltd.**, a platform service for used car sales in Korea. A key part of K Car's business operation is its K Car Data Driven Management System, which not only powers its online car buying system, but also allows the company to make better purchasing, pricing, and market decisions. Since its September IPO, doubts from institutional investors about its growth potential have abated. The online used car market in Korea is growing rapidly, and K Car should continue to increase its market share and narrow that market cap gap with global peers. Shares climbed 38% since it was added to the portfolio.

Conclusion

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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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.