TIMESSQUARE
CAPITAL MANAGEMENT, LLC

U.S. Mid Cap Growth Strategy

Representative Commentary — 4Q21

Performance

			Annualized			
	4Q21	**1YR**	**3YR**	**5YR**	**7YR**	**10YR**
U.S. Mid Cap Growth Composite (Gross)	5.26%	17.25%	29.71%	21.14%	16.30%	17.65%
U.S. Mid Cap Growth Composite (Net)	5.05%	16.33%	28.71%	20.19%	15.39%	16.72%
Russell Midcap® Growth Index	2.85%	12.73%	27.43%	19.82%	14.90%	16.61%

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 high].

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+ suspects (the same was true for the full year). Among small-to-mid capitalization growth stocks, those preferences were evident with the superior performance from the Utilities, Real Estate, and Industrials sectors; higher quality stocks; those with lower valuations; or moderate growth expectations. Notable laggards included stocks with negative earnings or those in the Health Care or Communication Services sectors.

Amidst this environment, the portfolio outperformed the Russell Midcap Growth Index in the fourth quarter, adding to its outperformance of the benchmark for the full year. Strength across Consumer Discretionary, Financials, Health Care, Industrials, and Materials offset relative weakness in the Communication Services and Information Technology sectors.

In Consumer Discretionary, **Pool Corp.** is engaged in the wholesale distribution of swimming pool supplies, equipment, and leisure products. Its shares jumped 30% after reporting third quarter earnings that surpassed Street forecasts, driven by strong demand and operating margin improvement. Another important consideration was their ability to leverage their global supplier network to meet customer demand amid supply chain constraints. During the quarter, Pool Corp. announced the acquisition of

Porpoise Pool and Patio. In so doing, they have expanded their capabilities with a world-class chemical packaging operation. **O'Reilly Automotive Inc.**, a specialty retailer of aftermarket automotive parts and accessories, surged ahead by 16%. The company reported a healthy beat to third quarter earnings estimates, driven by higher same store sales. Management increased forward guidance. **Lululemon Athletica Inc.** is a designer, distributor, and retailer of athletic apparel and accessories. Their offerings also includes 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. The stock slid -3% due to a reduction in Mirror revenue guidance in recognition of a challenging at-home fitness market plus management's decision to pull back on its marketing spend.

Within Financials, **RenaissanceRe Holdings Ltd.** offers reinsurance and insurance services. The stock bounced back 22% on news of five senior executives making sizable stock purchases. Commercial banking services provider **Signature Bank** reported an upside to third quarter estimates due to impressive deposit and loan growth. That served to lift its shares by 19% and we added to the position during the quarter. **Discover Financial Services** supplies direct banking and payment services. The company reported a decent quarter with beats to revenues and earnings as well as loan growth returning to positive territory. However, management made cautious comments on the competitive environment, rising marketing costs, and broader investor concern on potential credit deterioration in the consumer finance space. We decided to liquidate the position and redeploy the proceeds into other growth opportunities. The stock declined -9% for the time it was held during the quarter.

In the Health Care sector, **argenx SE** is a clinical-stage biotechnology company focused on the development of antibody-based therapies for treating autoimmune diseases and cancer. FDA approval of Efgartigimod for treating myasthenia gravis served to boost the stock by 16%. **Chemed Corp.**, a provider of healthcare and maintenance services, rose 14%. Its VITAS segment offers hospice and palliative care services while Roto-Rooter includes plumbing, drain cleaning, and water restoration. Overall third quarter results were strong as steadiness in its Roto-Rooter business served to counteract shortcomings in the VITAS segment. **ICON Plc**, a clinical research organization offering outsourced services to the biopharmaceutical industry, improved by 18%. 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. Pharmaceutical products distributor **AmerisourceBergen Corp.** rallied 12% after reporting fiscal fourth quarter revenues that surpassed the consensus on higher specialty sales and COVID-19 treatments. **Ascendis Pharma**, a developer of therapeutics for unmet medical needs, lost -15%. The company continues to focus on driving adoption for Skytrofa to treat pediatric growth hormone deficiency. A number of insurance plans have indicated initial coverage through medical exception processes. Ascendis is in active discussions with the hope of broadening coverage in 2022. **Encompass Health Corp.** provides post-acute healthcare services including inpatient rehabilitation, home health, and hospice care. Its shares fell -13% as revenues and earnings each fell shy of projections. Light admissions in the home health and hospice segment were the main source of weakness. Their workforce was constrained by quarantined employees, fewer new hires, and intense competition for contract labor. Encompass 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. **Catalent Inc.** supplies delivery technologies, development, and manufacturing solutions for drugs, biologics, cell & gene therapies. Fiscal first quarter revenues and earnings were ahead of expectations. Although the Biologics segment contributed to the upside, its organic growth continues to trend down from the initial COVID-19 vaccine ramp up and that caused its shares to pull back by -4%.

Within the Industrials sector, uniform rental and facility services company **Cintas Corp.** climbed 17%. Higher-than-anticipated revenues enabled them to beat earnings forecasts in their latest quarter. Customer trends have remained steady with new business wins and high retention levels. **Waste Connections Inc.** gained 8% as solid waste volumes and pricing resulted in an upside to Street estimates. Their services include collection, transfer, treatment, and recycling. **Carlisle Companies**, a manufacturer and distributor of engineered products, ascended 25%. Third quarter results exceeded forecasts, benefiting from volume growth in the construction business. Management raised revenue guidance on signs of a backlog improvement. **Generac Holdings Inc.** designs and manufacturers power generation equipment. Despite continued organic growth and an expanding business backlog, gross margins declined on inflationary pressures from commodities, labor, and logistics. Generac's stock priced dropped by -14%. **CoStar Group Inc.** supplies information, analytics, and an online marketplace for the commercial real estate industry. While third quarter results were stronger-than-expected, management lowered guidance for the balance of the year and that caused its shares to slide by -8%. This stemmed from less demand for multifamily advertising due to lower vacancy rates. New to the portfolio this quarter is **PACCAR Inc.**, a designer and manufacturer of light, medium, and heavy-duty trucks. They are under the Kenworth and Peterbilt brands in the U.S. and Canada. Trucks in Europe are under the DAF brand. PACCAR has a solid reputation for high quality vehicles. Their investment in zero-emission vehicles across its range of industry-leading transport solutions is set to open new doors of opportunities.

In Materials, **Martin Marietta Materials Inc.** is a supplier of aggregates, cement, concrete, asphalt, and other material to the construction industry. The company reported decent third quarter results and reiterated longer-term trends. Passage of the federal infrastructure measure has the potential for accelerating revenue growth for several years. These developments caused its shares to leap by 29% and we trimmed the position on this strength. Agricultural sciences company **FMC Corp.** gained 21%. They offer solutions in areas of crop protection, plant health, professional pest, and turf management. Demand has remained robust, with higher volumes enabling the company to beat consensus estimates for revenues and earnings. Management reiterated revenue and profit guidance for the balance of 2021.

Within Communication Services, **Zynga Inc.** develops, markets, and operates social games as live services on mobile platforms. Their gaming portfolio includes *CSR Racing, Empires & Puzzles, FarmVille, Merge Dragons!, Words With Friends, Mafia Wars, Zynga Poker, and Treasure Isle*. Despite the impact from Apple's privacy changes on the mobile gaming and digital advertising industry, Zynga managed to report solid third quarter results. Advertising bookings and profits were ahead of the consensus. Its 2022 guidance was unchanged and will hinge on a number of new game launches. Despite these positive points, Zynga traded down by -15% (though as of this writing, Zynga announced plans to be acquired by Take-Two Software). Image-based social media company **Pinterest Inc.** declined -29%. 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 deceleration in monthly active users and that led its shares lower.

During the quarter, heightened concerns over rising interest rates and inflation led to turbulence in the market. Higher multiple stocks absorbed the brunt of this unease. A number of these were in the Information Technology sector. **CrowdStrike Holdings Inc.** provides cloud-delivered solutions for next-generation endpoint protection. Despite reporting a strong third quarter and raising forward guidance, its shares sold off by -17%. The quarter also represented a period during which any sign of weakness was punished. There were a number of examples in the portfolio. **Avalara Inc.** supplies tax compliance solutions. Despite reporting a beat to revenue estimates, investors appear to have focused on a deceleration in organic billings growth as the stock dropped -26%. **Coupa Software Inc.** provides business spend management solutions. While total revenues grew nicely in the third quarter, its organic billings growth decelerated and that caused its stock price to tumble -28%. Open-source and analytics engine services company **Elastic NV** retreated -17%. While the company reported a good fiscal second quarter with results ahead of Street projections, its cloud revenues decelerated. There were also headwinds caused by some customers shifting to a monthly subscription model from the current transaction-based one. Turning to positives, **Marvell Technology Inc.** develops and produces semiconductors for computing, networking, and storage. Its shares rallied 45% after beating expectations for third quarter revenues and earnings, with strength across all end markets. **Amphenol Corp.** designs and produces fiber optic connectors, antenna, sensors, and high-speed specialty cables. The stock gained 20% on a solid third quarter with revenues coming in at the high end of guidance. **Keysight Technologies Inc.** supplies design and test solutions for the communications, networking, and electronics industries. Strong fiscal fourth quarter results lifted their shares by 26%. Growth was particularly noteworthy in the electronic industrial solutions group while the communications solutions group was impacted by a tight supply. We trimmed the position on strength. **Synopsys Inc.** offers software products and consulting services for the electronic design and automation industry. They reported a solid fiscal fourth quarter and their shares were up 23%. **Gartner Inc.** provides independent technology-related research and advisory services. Results were ahead of Street estimates in the latest quarter and the stock gained 10%. We trimmed the position on this strength. New to the portfolio this quarter was **Samsara Inc.**, which offers a cloud-based platform that enables the capture, aggregation, and analysis of data emitted from various sources.

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.

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.

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Composite & Performance Disclosure:

Performance is measured against the Russell Midcap® Growth – a market capitalization-weighted index that measures the performance of those Russell Midcap® companies with higher price-to-book ratios and higher forecasted growth rates. All indexes, including the Russell Midcap® 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 $2.2 and $22 billion at time of purchase. The process is fundamental research driven. The investment style is growth. Portfolios will hold approximately 70-80 stocks. Historical turnover has averaged 45% per year. The minimum account size for inclusion into the mid cap composite is $5 million. Fee basis is 80 basis points. Composite creation date is October 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 mid cap market as represented by the Russell Midcap® 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. Previously, in August 2007, TimesSquare had modified its purchase capitalization range to match the mid cap market as represented by the Russell Midcap® Growth Index at that time, with a change from $1.5 billion to $10 billion at time of purchase to $2.5 billion to $15 billion.

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 0.80% 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 and sustains 10% annual gross return for each year during this period. If an advisory fee of 0.80% of average assets under management is charged per year, for each year of the ten-year period, the resulting annual net return would be 9.2%. The ending dollar value of the account would be $48,223,239, as compared to $51,874,849 if the advisory fees had not been deducted.

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