U.S. Small Cap Growth Strategy

Representative Commentary — 4Q21

Performance

			Annualized			
	4Q21	**1YR**	**3YR**	**5YR**	**7YR**	**10YR**
U.S. Small Cap Growth Composite (Gross)	2.57%	7.32%	23.97%	17.68%	14.13%	15.66%
U.S. Small Cap Growth Composite (Net)	2.32%	6.26%	22.77%	16.52%	13.01%	14.53%
Russell 2000® Growth Index	0.01%	2.83%	21.14%	14.52%	11.65%	14.12%

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+[1] 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 2000® Growth Index in the fourth quarter, adding to its outperformance of the benchmark for the full year. There was relative weakness in the Consumer Discretionary and Financials sectors that was more than offset by strength from our positions in the Information Technology, Industrials, and Health Care sectors.

In the Consumer Discretionary sector, we thought the market showed some shortsightedness. One example was the -16% decline for **National Vision**. Revenues and earnings were higher than anticipated for this value-oriented optical retail chain providing eye exams,

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

eyeglasses, and contact lenses. However, guidance for the balance of the fiscal year was increased by a smaller margin because of higher costs expected in the first half of 2022. To us, that appeared to be a timing issue, as management was constructive regarding expectations for the full year of 2022, so we added to our position. We also had a different perspective than the market with **PowerSchool Holdings**, a cloud-based platform and collaboration software for K-12 educational settings. The company bested expectations for revenues and earnings as it continued to broaden its suite of offerings. However, later in the quarter, there was a pessimistic sellside research report that pressured the share price. In our view, the combination of a recently public company—PowerSchool had its IPO last July—and a newly assigned sellside analyst led to fundamental misunderstandings of PowerSchool. Thus, we added to our position on its -33% price weakness. Kicking in some portfolio alpha was **Boot Barn** with its 38% gain. The leader in a highly fragmented retail segment focused on western and work footwear, apparel, and accessories, Boot Barn surpassed expectations for revenues and earnings. The company was optimistic regarding holiday sales and expanding its footprint with more stores in the Northeast and Mid-Atlantic states.

Within the Financial Services sector, the market continued to ignore all but the newest entrants to the business-to-business (B2B) payment segment. That was evident with **BTRS Holdings**, which provides a cloud-based integrated payments platform, known as Billtrust, to streamline B2B commerce. The company's revenues and earnings exceeded expectations, and guidance was increased for the subsequent quarter. Though despite rising levels of revenue growth, BTRS's shares slipped by -26%. We felt differently about **LendingTree, Inc**., which we sold. Shares had been weak in the prior quarter for this online marketplace for third-party consumer financial products, such as loans, credit cards, and insurance. Consumer loan growth had a slower-than-expected recovery, with some investors waiting for a return to pre-pandemic levels while we observed that its consumer business was recovering. That was the case this quarter, however, LendingTree's automotive insurance revenues weakened. As a result, management reduced its forward guidance and we exited our position, which was down -20% while we held it during the quarter. Countering that impact was the 23% return from **Hamilton Lane**. Providing private markets investment services, Hamilton Lane reported revenues and earnings that were notably higher than anticipated. Fee income—both management and performance-related—was better than expected and fundraising generated significant inflows for new and next-vintage funds. As its price climbed, we trimmed the position.

There also was strength from the Information Technology sector. That included this quarter's greatest contributor, **Synaptics Incorporated.** A developer of human interface technologies for a variety of devices, Synaptics bested expectations for revenues and earnings. There was growth across all segments: mobile devices, computers, and internet of things (IoT) connectivity. Forward guidance was also pleasing, with revenue growth expected to be led by high demand for IoT—a segment with positive long-term secular trends. In the near term, Synaptics shares climbed by 61% and we trimmed the position. One blemish in this sector was the -34% partial quarter return from **EngageSmart, Inc**., a cloud-based customer engagement and payment platform for various end markets. In its first fiscal quarter as a public company, EngageSmart's revenues and earnings were better than expected, which led the company to lift its guidance for the balance of the year. However, some investors may have expected a faster growth in margins as management indicated that price increases may not take place until late 2022, with better profitability following that. So for the near term, we opted to exit the position. Returning to the positive, there was a 53% gain from **New Relic**, which develops Application Performance Monitoring systems that optimize software across different platforms and environments. With the short-term disruptive effects of its transition to simpler pricing tiers now in the past, New Relic surpassed expectations for its revenues and earnings. Its results showed meaningful gains of new customers, lower amounts of contract churn, and higher productivity among its global sales teams. There was a notable addition to the strategy with the purchase of **MACOM Technology**. MACOM designs radio frequency, millimeter wave, microwave and photonic analog semiconductor chips for the aerospace/defense, communication network, and datacenter markets. Its portfolio of specialized and custom circuits and related components focus on stable growth end markets. That was the result of a multiyear turnaround, which places MACOM in a position to enjoy faster growth and improving cash flows.

The Industrials sectors also contributed to relative performance this quarter. At the lead was a 27% 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. Performance assistance also came from **WillScot Mobile Mini**, which provides modular and portable buildings for temporary onsite offices and storage. Revenues and earnings each bested expectations, and WillScot's management doubled its share repurchase program to $1 billion of its shares. Volumes for delivering and installing units increased across all segments and WillScot subsequently outlined its stable growth outlook for the next three to five years. That lifted its shares this quarter by 29%, which we trimmed on strength. Conversely, **Hexcel Corporation's** shares retreated by -13% this quarter and we added to our position. A manufacturer of composite materials for aerospace, commercial and industrial uses worldwide, Hexcel reported sequentially improving revenues as customers restarted ordering as their inventories depleted. However, as the latest variant of COVID-19 led to weakness across the aerospace industry, Hexcel's shares faltered—temporarily in our view. Similar concerns weighed on **Sun Country Airlines**, the ultra low-cost airline for leisure travelers, with cargo and charter operations. Mid-quarter, Sun Country reported revenues and earnings that were in line with expectations, which benefited from the recent cargo partnership with Amazon. Still, late in the quarter it was caught in the aerospace downdraft and Sun Country's shares fell -19%. There were better returns on *terra firma* with **Saia, Inc**., an LTL (less-than-truckload) transportation company. Prior expectations for revenues and earnings were left in the dust as Saia raised pricing successfully while its shipping tonnage increased. As its shares gained 41%, we trimmed our position. New to the strategy was **First Advantage Corp**., which provides technology solutions for screening, verifications, safety, and compliance--all related to the hiring process. The company performed very well during the pandemic, with only the initial COVID-19 quarter having negative growth. First Advantage has been growing faster than its industry with a stable customer base of large corporations. When its share price declined after a recent secondary offering and the latest variant weighing on employment-related businesses, we initiated a position.

A final bastion of strength this quarter was the Health Care sector. That included the 40% gain from **Intra-Cellular Therapies**, a biopharma developer of small molecule treatments for neurological disorders. Intra-Cellular reported healthy volumes of prescriptions for its Caplyta treatment for schizophrenia. In addition, the FDA approved Caplyta's supplemental new drug application for bipolar depression later in the quarter and we trimmed the position on the subsequent gains. This sector also was home to the strategy's greatest detractor—**Phreesia, Inc**. Providing a cloud-based platform for practice management and electronic health records, Phreesia reported revenues that were ahead of expectations, though earnings fell shy. The additional investments the company made for future growth weighed on its near-term margins, which in the current environment punished Phreesia's shares by -33%. A better reception was provided to the medical device developer of insulin pumps for diabetes patients, **Tandem Diabetes Care**. Sales growth reaccelerated, which allowed Tandem to exceed expectations for revenues and earnings, as well as increase its forward guidance by a larger measure. That lifted its shares by 26%.

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 2000® Growth – a market capitalization-weighted index that measures the performance of those Russell 2000® companies with higher price-to-book ratios and higher forecasted growth rates. All indexes, including the Russell 2000® 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 $91 million and $3.5 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 53% per year. Composite inclusion threshold $5mm. Fee basis is 100 basis points. The 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 small cap market as represented by the Russell 2000® 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 June 2012, TimesSquare had modified its purchase capitalization range to match the changes in the small cap market as represented by the Russell 2000® Growth Index at that time, with a change from $50 million to $1.5 billion at time of purchase to $50 million to $2 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 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.