

U.S. FOCUS Growth Strategy

Representative Commentary — 1Q22

Performance	Annualized					
	1Q22	1YR	3YR	5YR	7YR	10YR
FOCUS Growth Equity Composite (Gross)	-7.32%	15.07%	22.00%	18.73%	13.45%	15.45%
FOCUS Growth Equity Composite (Net)	-7.56%	13.95%	20.81%	17.56%	12.34%	14.31%
Russell Midcap® Growth Index	-12.58%	-0.89%	14.79%	15.09%	11.88%	13.51%

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.

Russia's invasion of the Ukraine at the end of the first quarter shook the world. In addition to the grave human toll, the ongoing assault sent oil prices surging toward 15-year highs, with similar spikes in other commodities. That led to cascading inflationary pressures in a global environment that remained beset by supply chain frailties. The current watchword was "tightening," whether referring to the belts on consumers with their spending, corporate balance sheets, or central bank quantitative monetary policies. On the last point, the Federal Reserve embarked on its well-telegraphed plan to increase the federal funds rate—though only by 25 basis points in March—and reducing the \$9 trillion asset portfolio it amassed—soon at the steady rate of -\$95 billion per month. That paralleled similar actions by the Bank of England, which increased rates for the third consecutive time, and the European Central Bank, who announced plans to end its bond buying sooner than expected. Among the major economies, only the Bank of Japan remained staunchly in the dovish camp. Nonetheless, global inflation continued to rise.

Economic activity began to climb in February, though the war in Eastern Europe quickly reversed that for manufacturing and service activities. However, while equity markets stumbled badly in January with one of the worst calendar year starts in some time, they began clawing their way up by March. For the quarter, U.S. equities fell -5%, somewhat better than developed non-U.S. markets at -6% and emerging markets at -7%. Generally, the regional small capitalization indexes fared worse, except for emerging markets where small caps bested large caps.

Across U.S. equities in the first quarter, there were pronounced preferences for larger size and value. Returns steadily increased moving up the market capitalization range, from -8% for microcaps to -5% for megacaps. In each size segment, value bested growth by nearly 10 percentage points or more. That was also evident among small-to-mid growth stocks, where lower valuations were better rewarded (and stocks without earnings or near-term growth prospects were especially punished). Also notable was the preference for lower risk. Among economic sectors, Energy and Consumer Staples had better performance—with Energy being the only sector with positive returns, while the Consumer Discretionary and Health Care sectors were common laggards.

Amidst this environment, the portfolio outperformed the Russell Midcap® Growth Index in the first quarter. There was relative weakness from our holdings in Copart, Charles River, and HubSpot. That was more than offset by strength from Waste Connections, AmerisourceBergen, RenaissanceRe, O'Reilly, Palo Alto, and CrowdStrike.

The impact of higher costs was felt among many Industrial holdings, such as **Copart, Inc.**, which provides a range of auction, salvage, and remarketing services to process and sell vehicles. While its revenues and earnings were higher than expected, Copart's margins were pinched by higher costs for towing and that led its shares down by -17%. Other positions were better equipped to pass along those increases, such as **Waste Connections**. That company has been somewhat inflation resistant because it should be able

to pass on increased costs without pressure margins for its collection, transfer, recycling, and disposal of waste for municipalities and businesses in the U.S. and Canada. This quarter, Waste Connections evidenced that by reporting earnings and revenues that bested expectations, with its pricing levels more than keeping pace with rising costs. In addition, Waste Connections acquired several other waste service firms, which should increase its scale and negotiating power. Later, the company's management was quite confident that the inflation-linked pricing in many of its contracts should protect its profit margins. All of that led its shares up by 3%.

Across our Health Care positions, one detractor was the -23% showing from **Charles River Laboratories**, a leading provider of outsourced services for drug discovery and preclinical research. Results edged ahead of expectations, and Charles River reaffirmed its guidance for 2022. However, the pace of growth expected for the next quarter was less than expected, which led to concerns that activity levels among the company's customers—especially the smaller biotechs—were slowing. We believe strong demand remains, though will watch those levels cautiously. Offsetting that was the 17% return from **AmerisourceBergen Corporation**, which distributes pharmaceutical and medical products to pharmacies, hospitals, and other health care providers. At an industry conference early in the quarter, AmerisourceBergen's management was particularly upbeat on the new high-margin business from Alliance Healthcare, which it acquired from Walgreens last June. Later, it reported results that were as expected, though AmerisourceBergen nudged up its earnings guidance for the balance of its fiscal year. The company expects to benefit from distributing the newly available COVID-19 therapies, though we trimmed our position during its rise.

With the index falling by -13% this quarter, several holdings contributed by not declining as far. Resisting some of the receding market tide was reinsurance provider **RenaissanceRe Holdings**. In its report, RenRe's levels of net premiums written and earnings bested expectations. The company's share repurchase program continued apace, after buying back over \$1 billion of its shares in 2021. At the same time RenRe raised a significant level of third-party capital. Combined, all of that held RenRe's shares above the market with a -6% decline. Also holding

up better was **O'Reilly Automotive's** -3% dip. The auto parts supplier's revenues and earnings exceeded expectations, as did guidance for 2022. Management continued to see steady demand in both its customer segments: do-it-yourself and professionals. O'Reilly gained market share from independent auto suppliers, while all indications were that the national suppliers refrained from any price battles.

Lastly, our Information Technology positions boosted performance. That included the 11% gain from **CrowdStrike Holdings**, a cloud-based network security service that supports a range of devices and endpoints. Initially, its shares were lifted by increased cyberattack concerns after Russia's physical attack on the Ukraine. Then CrowdStrike's revenues and earnings were higher than expected, as was its initial guidance for the next fiscal year. There was a significant increase in annual recurring revenue growth with CrowdStrike releasing several new security modules. Detracting somewhat was **HubSpot Inc.** There were concerns about HubSpot's ability to continue the growth trajectory of its cloud-based marketing, sales, and client service platform for businesses. That led its shares down in January and we exited the position. While we owned HubSpot this quarter, its shares declined by -21%. Returning to the positive was **Palo Alto Networks** and its 12% return. A global provider of network and cloud-based cybersecurity systems, Palo Alto also reported revenues and earnings that were higher than anticipated. The company saw significant increases in order backlogs across its security platforms.

As events in Eastern Europe unfold, they create new risks with new global responses. At the same time, central banks launched a period of monetary tightening that may be anything but transitory. As long-time bottom-up investors, we understand the importance of having a steady hand on the tiller when navigating such waters, though recognize how the investment terrain constantly evolves. By combining those experiences and evaluations, we seek investments that may capitalize on new opportunities, may have become more attractive at lower valuations, or a blend of both. 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 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 \$1.5 and \$30.0 billion at time of purchase. The process is fundamental research driven. The investment style is growth. Portfolios will hold approximately 15 stocks. Historical turnover has averaged 38% per year. Composite inclusion threshold \$500,000. From January 1, 2007 to April 30, 2010 the applied standard fee was 150 basis points. From May 1, 2010 through present the applied standard fee is 100 basis points. The composite creation date is September 1, 2005.

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 standard fee schedule listed for this strategy during the period presented. The applied standard fee [basis] was 100 basis points from inception to December 31, 2006. From January 1, 2007 to April 30, 2010 the applied standard fee was 150 basis points. From May 1, 2010 through present the applied standard fee is 100 basis points. 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. TimesSquare's fee schedule is available upon request and may also be found in Part 2A of our Form ADV.