TimesSquare Capital Management, LLC

Global Small Cap Strategy

Representative Commentary — 1Q22

Performance

	1Q22	1YR	Annualized 3YR	Annualized Since Inception (1/1/2018)
Global Small Cap Composite (Gross)	-12.48%	-4.68%	9.34%	6.09%
Global Small Cap Composite (Net)	-12.68%	-5.53%	8.37%	5.15%
MSCI World Small Cap (Net) Index	-6.50%	-1.09%	11.66%	7.58%

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 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, the Bank of Japan remained staunchly in the dovish camp. Stimulus measures were also announced during China's National People's Congress, supporting a rebound in Chinese equities towards the end of March. 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.

Within the global developed small cap universe, Value significantly outperformed Growth, Energy surged, Materials and Utilities held up, while all other sectors lagged.

Amid this environment, the portfolio underperformed the MSCI World Small Cap Index for the quarter. Relative weakness in the developed markets was partially offset by relative strength in emerging markets.

Regional Performance: Europe

Throughout the quarter, global markets faced headwinds on the prospects for quantitative tightening, rising commodity prices, and continuing supply chain shortages. Moreover, Europe bore the brunt of the contagion effect from the war in the Ukraine. Our selection and relative overweight to Europe detracted from performance.

Multiple compression in a rising rate environment hurt UK-based **Future plc**, a specialty content publisher transitioning from print to digital platform. Its share price retreated from its strong 2021 performance with a -34% correction. The group continues to perform well, benefitting from ongoing momentum in digital advertising and its share price performance contradicts the group's upgraded full year outlook. Recent discussions with management were reassuring for 2022, and the CEO also purchased stock. In light of the rising rate environment and its implication on long duration companies, we pared our exposure.

There were stock specific challenges this quarter. For example, UK-based **RWS,** a language and intellectual-property (IP) support services provider, dropped by -44%. Shares in RWS slumped after the company said it expected 2022 results to be at the lower end of expectations. Despite short-term growth headwinds from the Russia/Ukraine crisis and slower IP filing activity, the company's growth outlook remains solid on significant investments to expand into the fast-growing artificial intelligence data annotation market. Neighboring France housed the portfolio's largest detractor. Plunging 55% was **Orpea**, the leading European operator of retirement homes. In February, a book was published in France which contained allegations against the private nursing home industry, and particularly targeting Orpea. Faced with such reputational risk and creating unknowns around the business model attributes, we exited the name. Delivering better share price performance on positive news was **Topdanmark,** Denmark's second largest non-life insurance company. Shares climbed 10% on back of the company's solid execution. They continue to invest heavily in technology thus generating better than expected returns. In March 2022, Nordea announced that it would buy Topdanmark's life and pension business for 270 million euros which also boosted sentiment.

While we have limited exposure to Ukraine and Russia, the war further exacerbated supply chain woes and soaring raw material prices. The portfolio's largest detractor, Germany-based leading warehouse forklift manufacturer **KION** tumbled -39%. The company reported mixed results with strong order intake, good sales but weaker-than-expected profit mainly due to headwinds from raw material price increase and supply chain issues. We added to our position on price weakness as KION's outlook for 2022 remains solid.

On the other hand, rising energy costs benefitted some of our holdings. New to the portfolio this quarter, France-based **GTT** develops membrane containment systems for LNG (liquefied natural gas) vessels. 2022 is shaping up to be a record-breaking year in order intake for GTT as there is a global supply/demand imbalance between transport vessels and LNG demand. Shares jumped 19% since they were added to the portfolio this quarter. Germany-based **Friedrich Vorwerk** provides turnkey solutions for energy infrastructure. Management published solid guidance for fiscal year 2022 and expects to accelerate growth with further strategic acquisitions. As a result, shares moved ahead by 30%.

Regional Performance: The Americas

Our holdings in the Americas had mixed performance, housing some of the top contributors and largest detractors. In the current environment, stocks that have even the slightest blemishes are getting punished. Case in point is **AZEK**, a manufacturer of wood-alternative residential and commercial building products. Despite reporting inline first quarter results and reaffirming fiscal year guidance, second quarter margin guidance fell short of the consensus due to the short-term impact from its StruXure acquisition. AZEK's share price tumbled -46% as a result. Within health care, **Blueprint Medicines** is a biotechnology developer of genetic inhibitor treatments that target specific cancers. In January, Blueprint preannounced revenues that were below expectations for Ayvakit's label expansion for advanced systemic mastocytosis. That led us to reevaluate the position and speak with more physicians, and our conclusion was the new opportunity was smaller than expected. The company also recently purchased a private oncology biopharma company, which while not a bad acquisition, did not seem to be a necessary capital allocation given Blueprint's current pipeline of treatments. Combined with recent management changes at the C-level, we exited the position with a -43% loss for the quarter. **Floor & Decor Holdings** seemed beset by increased costs. Though its fiscal quarterly results were in line with expectations, and management increased guidance for the rest of the year, the market saw underlying concerns. While sales growth increased, gross margins dipped because of higher transportation costs, which sent Floor & Decor's shares down by -12%. We believe Floor & Decor can maintain its pricing power, will see margins improve, and we were encouraged by the company's plans to accelerate its pace of opening new stores for tile, wood, laminate, and natural stone flooring.

On the positive side, a game developer for mobile devices, **Zynga** agreed to be acquired by Take-Two Software. That scored a 44% gain for Zynga's shares. New to the portfolio this quarter, **Silvergate Capital** jumped 24% since it was added. A leading bank for innovative businesses in fintech and cryptocurrency, Silvergate laid out their vision to monetize the payment network it acquired from Diem and reassumed their commitment to launching their stablecoin in 2022. Of note, the Diem acquisition brought 76 institutional digital currency customers to the existing Silvergate Exchange Network along with a substantial pipeline of prospects. **First Advantage** provides technology solutions for screening, verifications, safety, and compliance--all related to the hiring process. The company reported strong quarterly results and laid out very robust organic growth for full year 2022, and its share price edged forward 6%. First Advantage has been growing faster than its industry with a stable customer base of large corporations.

Regional Performance: Japan

Japan was an area of weakness. After a strong rally late last year, shares of leading systems developer and business consultant **Simplex** sold off -35%. The company reported a mixed fiscal third quarter with slowing order intake. The winding down of large-scale integration projects and an increase in consultant turnover also contributed to the softness. We remain optimistic in the company as the digital transformation secular trend remains intact in Japan. After significantly trimming the position on strength last quarter, we added back to the position on the price weakness. Faring better was **Kadokawa**, a comprehensive entertainment publisher that monetizes its significant anime library across an increasing array of e-books, mobile games, and movie titles. Earlier in the quarter, the company reported weaker-than-expected profit driven by lower printed book sales and a one-time write-off. Its share price plunged as a result, and we opportunistically added to our position on this price weakness. Later in the quarter, shares rebounded on back of its highly successful Elden Ring Video game launch and the stock closed out the quarter with a 3% gain.

Regional Performance: Middle East and Emerging Markets

Israeli corporate security and compliance systems provider **NICE Ltd** reported a better-than-expected quarter but its 2022 was not as high as some investors expected and its sales growth for its cloud-based offerings decelerated slightly. This blemish dragged shares of NICE down by -28%.

Within the emerging markets, rallying 49% was **TOTVS**, the largest SaaS provider in Brazil. Despite macro headwinds, the company reported a significant beat in its fourth quarter results and continues to show impressive operating trends, highlighted by strong growth in its management software business. We trimmed our position on price strength.

Conclusion

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 MSCI World Small Cap (Net) Index. MSCI World Small Cap (Net) Index is a trade or service mark of MSCI Inc. The MSCI World Small Cap (Net) Index is an unmanaged, market-weighted index of small companies in developed markets,. 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 World Small Cap (Net) Index, are based on gross-of-fee returns, including net reinvested dividends.

Benchmark returns are not covered by the report of independent verifiers.

This composite generally invests in MSCI World stocks with market capitalizations below $7.5 billion at time of purchase. Portfolios will hold approximately 110 securities. The process is fundamental research driven. Composite inclusion threshold $500,000. Fee basis is 90 points. The composite creation date is January 1, 2018.