TimesSquare Capital Management, LLC

U.S. Mid Cap Growth Strategy

Representative Commentary — 1Q22

Performance

			Annualized			
	1Q22	**1YR**	**3YR**	**5YR**	**7YR**	**10YR**
U.S. Mid Cap Growth Composite (Gross)	-9.41%	6.04%	19.15%	17.22%	13.60%	14.86%
U.S. Mid Cap Growth Composite (Net)	-9.60%	5.20%	18.22%	16.30%	12.70%	13.95%
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 in the Consumer Staples sector, with mixed results from Information Technology and Consumer Discretionary. That was more than offset by strength from our positions in the Industrials, Health Care, and Financials sectors.

While a small portion of the portfolio and benchmark, the Consumer Staples sector was challenging this quarter. Chiefly there was a -47% return from **Olaplex Holdings**, which produces a line of patent-protected hair care products sold at professional hair salons, retailers, and directly to consumers. Its shares pulled back amid intensifying competition, supply chain pressures, and macroeconomic uncertainty. That was despite Olaplex's results besting expectations accompanied by guidance for 2022 that was higher than anticipated. Management also directly addressed an unfounded controversy related to an ingredient in one product and noted they have minimal exposure to Eastern Europe. We concluded the outlook for Olaplex remained strong and added to the position on its price weakness. Offsetting that somewhat was the 8% gain from **US Foods**, a nationwide foodservice distributor for independent restaurants, health care & hospitality settings, and national chains. In this case, that gain was belied by a quarter where revenues, earnings, and forward guidance all fell shy of expectations and lagged its foodservice peers. An activist investor announced plans to target US Foods' annual meeting in May, and we began our exit from this position.

There were mixed results from the Information Technology sector in the first quarter. On one side there was a -28% return from **HubSpot, Inc**. The market may have been concerned 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, though they rebounded somewhat in February when HubSpot reported revenues and earnings that bested expectations with notable growth in billings. Turning to the positive, there was an 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 recuring revenue growth with CrowdStrike releasing several new security modules.

There were also highs and lows from the Consumer Discretionary sector. That included the strategy's greatest detractor this month, **Floor & Decor Holdings** and its -38% showing. Though the company's results were in line with expectations, and management's guidance for the rest of the year was increased, the market saw underlying concerns. While sales growth increased, gross margins dipped because of higher transportation costs. We believe Floor & Decor can maintain its pricing power, will see margins improve, and were heartened by the company's plans to accelerate its pace of opening new stores for tile, wood, laminate, and natural stone flooring. Holding up better than the benchmark sector average return of -16% 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.

Shifting to stronger areas of the strategy, the Industrials sector was a notable contributor. One example was the 3% gain from **Waste Connections**. As a stable growth business, Waste Connections is 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. That was evidenced by its reported 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. Higher costs were felt elsewhere, such as with **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%.

The Health Care sector also bolstered performance this quarter. That included 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. Detracting from the strategy was decline from **Blueprint Medicines**, 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—a dangerous increase in certain white blood cells—in addition to its current use for gastrointestinal stromal tumors. 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 began to exit the position, which had slipped by -29% while we owned it this quarter. Back on the plus side was a 9% gain from **Encompass Health Corporation,** one of the largest U.S. providers of post-acute services, such as rehabilitation, home health and hospice services. Despite battling higher costs and a lower supply of nurses, which led to Encompass's weaker-than-expected revenues and earnings, its business operations were closer to normal than most of its peers. The company also announced plans to spin off its home health and hospice services into a separate public company, which allows Encompass to focus on its faster growing inpatient rehabilitation facilities. Elsewhere in the sector we refreshed our dental holdings. In March, we sold **DENTSPLY Sirona**, the world's largest manufacturer of professional dental products and technologies. DENSTPLY had sequential quarters of poor results that undercut our faith in its management. In addition, the company recently bought a dental liner business where it expected to see significant growth, though realized half of what was anticipated. We also preferred its peer, **Envista Holdings**. Spun off from Danaher in September 2019, Envista is one of the largest dental manufacturers globally, with a focus on orthodontics and implants. More recently, its business showed signs of recovering, so we added Envista to the strategy.

Lastly, there were relative benefits from the Financials sector. While the benchmark sector average return was -10%, 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. Pulling back further with a -17% return was **Interactive Brokers Group**, which offers automated, low-cost securities brokerage services for global retail investors. While its revenues and earnings were as anticipated, after the market weakness at the start of the year Interactive's monthly rate of daily average revenue trades declined. However, we were encouraged by its continued growth in the number of net new accounts. During the market sell-off at the start of the year, **Voya Financial** held up far better than peers, this sector, and the overall market. We believed its relative valuation peaked as a result, and we exited this provider of retirement, investment management, and employee benefit services. While we owned it during the quarter, Voya's shares were up by 8%. Conversely, **Nasdaq, Inc.'s** shares were especially weak during the market's drop. In the past we have owned this global exchange group that delivers trading, clearing, exchange technology, regulatory, securities listing, and public company services worldwide. Over the last several years, Nasdaq shifted its focus from the cyclical transaction-based operations to the more secular—and stable—growth areas of technology and analytical solutions. When its valuation became more attractive mid-quarter, we began to build a position.

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.

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.

This document, which is being provided on a confidential basis, shall not constitute an offer to sell or the solicitation of any offer to buy which may only be made at the time a qualified offeree receives a confidential private offering memorandum ("CPOM"), which contains important information (including investment objective, policies, risk factors, fees, tax implications and relevant qualifications), and only in those jurisdictions where permitted by law. In the case of any inconsistency between the descriptions or terms in this document and the CPOM, the CPOM shall control. These securities shall not be offered or sold in any jurisdiction in which such offer, solicitation or sale would be unlawful until the requirements of the laws of such jurisdiction have been satisfied. This document is not intended for public use or distribution. While all the information prepared in this document is believed to be accurate, TimesSquare Capital Management, LLC, makes no express warranty as to the completeness or accuracy, nor can it accept responsibility for errors, appearing in the document.

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.