

U.S. Small/Mid Cap Growth Strategy

Representative Commentary — 1Q22

Performance	Annualized					
	1Q22	1YR	3YR	5YR	7YR	10YR
U.S. SMID Cap Growth Composite (Gross)	-11.34%	-6.14%	13.77%	13.30%	9.93%	12.55%
U.S. SMID Cap Growth Composite (Net)	-11.57%	-7.08%	12.65%	12.19%	8.85%	11.44%
Russell 2500™ Growth Index	-12.30%	-10.12%	12.98%	13.21%	10.52%	12.695

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 strategy outperformed the Russell 2500™ Growth Index for the quarter. There was strength across Consumer Staples, Health Care, and Industrials. That served to offset relative weakness in Energy, Financials, and Information Technology.

In Consumer Staples, food products distributor **Performance Food Group Co.** jumped 11% and we trimmed the position on this strength. It operates through two segments: Foodservice and Vistar. Foodservices delivers food-related products to restaurants. Vistar serves the vending, theater, retail, and other channels. There was volume growth for Foodservice during the second fiscal quarter, plus a recovery in Vistar.

Within Health Care, **LHC Group Inc.** provides post-acute health care services to patients through its home nursing agencies, hospice facilities, and long-term acute care hospitals. In the late stages of the quarter, UnitedHealth announced their intentions to acquire LHC in an all-cash deal. That served to boost the stock by 24%. We began unwinding the position on this news. **Encompass Health Corp.** is one of the largest providers of post-acute services including rehabilitation, home health, and hospice. In January, management announced their intention to spin off the home health and hospice segment. They subsequently reported fourth quarter results that slightly beat consensus estimates on revenues but missed on profits. Labor availability remained an issue with the Omicron variant causing quarantines for home health and hospice staff. The net of these developments was a 9% improvement in its stock price. **Intra-Cellular Therapies Inc.**, a biopharmaceutical company focused on developing small molecule drugs for neurological disorders, climbed by 19%. Fourth quarter earnings included inline Caplyta sales as the launch targeting bipolar depression progresses. There are also label expansion opportunities for this therapy. **Blueprint Medicines Corp.** is a precision therapy company focused on developing medicines to improve the lives of patients with genomically defined cancers and rare diseases. Fourth quarter results were in line with projections. However, management's outlook disappointed investors sending the stock down -42%. Their Ayyakit drug therapy is used to treat advanced systemic mastocytosis, a rare disorder which causes too many mast cells to build up in one's body and that can impair organ function. As such, the market opportunity for Ayyakit is smaller than we originally forecasted. Blueprint Medicines also made a less than compelling acquisition of a private oncology biopharmaceutical business. That gave further impetus in our decision to start exiting the position. Pediatric home care services provider **Aveanna Healthcare Holdings Inc.** declined by -54%. The results for the fourth quarter were slightly below Street projections as Omicron weighed on patient volumes. Forward guidance also came in lower than expected and we began to exit the position.

In the Industrials sector, **Hexcel Corp.** develops and manufactures lightweight structural materials used in the aerospace and industrial applications. The company reported inline fourth quarter sales while earnings exceeded sell-side expectations. They are seeing growth in all three commercial aircraft verticals (business jet, wide, and narrow body). Hexcel's shares were lifted 15% and we trimmed back the position on this strength. **First Advantage Corp.** offers technology solutions to Human Resources departments for screening, verification, safety, and compliance. Their stock price gained 6% as results for the latest quarter were well ahead of expectations. Growth was broad-based across all verticals and geographies. **AZEK Company Inc.** designs and manufactures wood-alternative building products for residential,

commercial, and industrial markets. Despite reporting in line fiscal first quarter results, its shares were punished by -46% as profit margin guidance was lower than expected due to the inclusion of its StruXure acquisition, a manufacturer of aluminum pergolas and cabanas. In this environment, businesses that possess any blemishes are getting punished. **GFL Environmental Inc.** is a solid waste company with services including hauling, landfill, and transfer. Fourth quarter results topped sell-side projections, driven by strong volume growth and higher-than-anticipated solid waste pricing. Management announced they will be spinning off its solid remediation and infrastructure business and will retain a 45% stake. The company has also formed a landfill gas joint venture. The spin-off adds near-term complexity to the stock and it dropped by -11%.

An underweight to the Energy sector detracted from relative performance in this sector. During the quarter, we added **Matador Resources Co.** to the portfolio. It is an exploration and production company with operations in New Mexico and Texas. Their stock price surged ahead by 22% on higher production levels, profits and free cash flow in the latest quarter. Forward guidance offered upside to sell-side estimates for capital expenditures and production.

Within Financials, **Hamilton Lane Inc.** is an alternative investment firm specializing in direct and fund of fund investments. Mixed fiscal third quarter results caused its shares to selloff by -25%. While earnings surpassed sell-side estimates and revenues represented solid growth in management fees, incentive fees fell short and expenses were higher than anticipated. **Focus Financial Partners Inc.** provides wealth management services to ultra-high and high net worth individuals, families, and business entities. The latest quarter included revenues above the consensus and aided by an unusual level of performance fees. That appears to have been the focus of investors as the stock traded down by -23%. The pace of acquisitions was the strongest on record and management expects a robust pipeline in 2022. We continued building the position on weakness, which we established at the end of 2021.

In the Information Technology sector, **NICE Ltd.**, a corporate security and compliance systems provider, fell -28%. Though fiscal quarterly results were better than expected, NICE's guidance for 2022 was not as high as some investors expected and its sales growth for its cloud-based offerings decelerated slightly. **New Relic Inc.** offers software solutions designed to help organizations collect, store, and analyze massive amounts of data. Fiscal third quarter results were highlighted by acceleration in revenues, billings, total customers, and net revenue retention. Despite these positive elements, some investors appear to have been dismayed by management's revenue growth projections and that caused a -39% pullback. **Smartsheet Inc.** provides a cloud-based enterprise platform to plan, capture, manage, automate, and report on

projects for teams and organizations. Despite reporting solid fourth quarter results, management's guidance conservatively assumes billings from new customers will decline. That appears to have been the focus of investor disappointment and caused its shares to retreat by -29%.

Synaptics Inc. develops human interface semiconductor solutions for mobile computing, communications, entertainment, and other electronic devices. Sales and earnings outpaced estimates for the second fiscal quarter as growth of the Internet of Things (IoT) components offset declines in personal computers and mobile handsets. Supply chain constraints continue to hamper growth and that caused its shares to decline by -31%. More positive was the 6% advance by **SailPoint Technologies Holdings Inc.**, a supplier of enterprise identity governance solutions. They reported a strong fourth quarter in which annualized recurring revenues and revenue growth exceeded projections due to strong demand for their products. **Jack Henry & Associates Inc.** is engaged in the provision of technology solutions and payment processing services for

financial services organizations. Fiscal second quarter results were well ahead of Street expectations and that led to an 18% rally in Jack Henry's stock price. Management also raised the fiscal year revenue outlook. We trimmed the position on this strength.

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 2500™ Growth – a market capitalization-weighted index that measures the performance of those Russell 2500™ companies with higher price-to-book ratios and higher forecasted growth rates. All indexes, including the Russell 2500™ 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 \$300 million and \$8.5 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 57% per year. Composite inclusion threshold \$5mm. Fee basis is 100 basis points. The composite creation date is November 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/mid cap market as represented by the Russell 2500™ 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.

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.