

## U.S. Concentrated Growth Strategy

### Representative Commentary — 1Q22

Performance	Annualized					
	1Q22	1YR	3YR	5YR	7YR	10YR
U.S. Concentrated Growth Composite (Gross)	-9.82%	17.22%	23.24%	21.74%	16.74%	17.11%
U.S. Concentrated Growth Composite (Net)	-10.00%	16.35%	22.34%	20.84%	15.88%	16.24%
Russell 3000® Growth Index	-9.25%	12.86%	22.66%	20.15%	16.71%	16.63%

*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.

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 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 Materials and Communication Services sectors were common laggards.

Amidst this environment, the portfolio slightly underperformed the Russell 3000® Growth Index for the first quarter. There was relative weakness from our holdings in Floor & Decor Holdings, Intuit Inc., and ICON Plc. That was offset by strength from CrowdStrike, Verisk Analytics, Inc, and Costco Wholesale Corp.

There were mixed results within the Consumer Discretionary sector, where **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 -38%. 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. We continued adding to our position, which we established last December.

Relative outperformance came from our names within Communication Services. **Alphabet, Inc.**, operates through the Google and Other Bets segments. Its legacy business includes Android, Chrome, YouTube, and Google Maps.

The company reported solid fourth quarter results that beat estimates, as strong revenues were driven by better-than-expected Search results. Cloud growth also beat consensus. Overall, management called out continued advertising momentum as both eCommerce/Retail and consumer demand remain strong, while Cloud continues to see large client wins and increased spend. Shares were down -4%, beating the index's average sector return of -17%. Social media operator, **Meta Platforms Inc.** reported mixed fourth quarter results where earnings came in below estimates. The company noted total monthly active users (MAUs) were lower than expected, reflecting pressure on user growth as reopening accelerated and increased competition from social media competitors like TikTok. Further, management expects continued impact from the implementation of Identifier for Advertisers (IDFA), where the accuracy of targeted ads and ad campaign effectiveness will decrease. As a result, we exited the position with a loss of -35% this quarter, making it our top detractor.

The Industrials sectors also contributed to relative performance this quarter. On the business service side of this sector, we initiated a position in **Verisk Analytics**. The risk information and analysis provider announced that it is committed to exiting its Energy segment and expects to generate significant cost efficiencies. Management noted there is room for meaningful margin expansion as they transition into an insurance-focused business by 2024. Shares are up 9% since we purchased the name. Less encouraging results came from **TransUnion**. Organizing and analyzing credit data on consumers and businesses worldwide, TransUnion's fiscal quarterly revenues were better than expected though earnings fell shy of the mark as did guidance for the next quarter. Some of the margin compression was caused by TransUnion's recent corporate acquisitions and divestments—those completed and those just announced. That created additional complexity, though nothing beyond what TransUnion has undergone before. However, the market's near-term response led to a -13% return, underperforming the index's average sector return of -4%.

Turning to the Consumer Staples sector, we initiated a position in **Costco Wholesale Corp.** The company operates membership warehouses offering its members low prices on a selection of nationally recognized brands as well as private-label products. Management has executed well over the years and have demonstrated strong pricing power during periods of high inflation. Shares are up 19% since we initiated the position, beating the index's average sector return of -3%.

Within Financials, we exited our position in **Signature Bank**, a commercial bank serving businesses and private clients, predominantly in the New York metropolitan area. After reporting fiscal quarterly results last month, in February Signature's management met with investors and reiterated its growth plans for increasing loans and deposits. However, we decided to sell our position and

deploy funds into higher conviction ideas. Shares were down -9% for the partial quarter when we sold.

Our names within the Health Care sector struggled during the quarter, where the index's average sector return was -9%. For example, outsourced research service provider, **ICON Plc**, saw its shares pull back this quarter. The negative sentiment on biotech funding and subsequent activity levels led to a -23% return for ICON this quarter before we sold our shares.

There were mixed results from the Information Technology sector, where the index's average sector return was -10%. **CrowdStrike Holdings** is 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. Shares were up 11%, making it our top contributor for the quarter. **Avalara Inc.** is an outsourced provider of end-to-end tax compliance services for small to mid-sized businesses. While the market narrative has been building that weak eCommerce sales would impact their fundamentals, the company reported better-than-expected fourth quarter revenues and raised 2022 calendar year guidance. However, its stock fell -24% during the quarter. Better results came from **SailPoint Technologies Holdings Inc.**, a supplier of enterprise identity governance solutions. The company reported a strong fourth quarter in which annualized recurring revenues and revenue growth exceeded projections due to strong demand for their products. Shares were up 9% since we initiated our position. **Intuit Inc.** offers business and financial management solutions. In early February, management confirmed IRS filing data that indicted a slow start to tax season. However, the company reiterated fiscal year guidance and gave encouraging metrics around their Small Business & Self Employed and Credit Karma segments. Moreover, the company reported fiscal second quarter results that were better than feared, driven by strength from QuickBooks online and TurboTax. Shares were down -25%, and we added throughout the quarter during periods of price weakness.

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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*Performance is measured against the Russell 3000® Growth – a market capitalization-weighted index that measures the performance of those Russell 3000® companies with higher price-to-book ratios and higher forecasted growth rates. All indexes, including the Russell 3000® 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 above \$2.0 billion at time of purchase. Portfolios will hold approximately 35 securities. The process is fundamental research driven. The investment style is growth. Historical turnover has averaged 99% per year. Composite inclusion threshold \$200,000. Fee basis is 75 basis points. Composite creation date is January 2, 2008.*

*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 highest management fee of 0.75% 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. 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 0.75% of average assets under management is charged per year, for each year of the ten-year period, the resulting annual net return would be 9.25%. The ending dollar value of the account would be \$48,444,497, as compared to \$51,874,849 if the advisory fees had not been deducted.*