TimesSquare Capital Management, LLC

U.S. Mid Cap Growth Strategy

Representative Commentary — 2Q22

Performance

			Annualized			
	2Q22	**1YR**	**3YR**	**5YR**	**7YR**	**10YR**
U.S. Mid Cap Growth Composite (Gross)	-16.98%	-19.78%	8.96%	11.99%	10.71%	13.30%
U.S. Mid Cap Growth Composite (Net)	-17.13%	-20.41%	8.11%	11.12%	9.84%	12.41%
Russell Midcap® Growth Index	-21.07%	-29.57%	4.25%	8.88%	8.34%	11.50%

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.

In the second quarter, the "I"s had it: Interest rates and Inflation commanded the attention of the global markets. Central banks accelerated the pace of their quantitative tightening measures, though inflation stubbornly refused to slacken. Heighted levels of interest rates and inflation punished the equity markets with double-digit negative returns for the quarter, with the U.S. hit the hardest at -17%, developed non-U.S. at -15%, and emerging markets "only" down -11%. The U.S. Federal Reserve increased rates twice during the quarter, including the largest single increase (75 basis points) since 1994. The subsequent statement indicated that the current range of 1.50% to 1.75% may be double that by the year's end. While commodity and energy prices eased late in the quarter, they remained at elevated levels compared with earlier in the year. Global supply chains remained stretched, demand was subdued, and business optimism waned so that were it not for a rebound in China after recent COVID lockdowns were eased, growth in global business activities would have slowed for a third straight month.

Specific to the U.S., the mixture of high inflation, rising interest rates, and a tight labor market fueled concerns for a coming recession. In addition to weighing on business optimism, that combination—though especially inflation—pushed consumer sentiment down to its lowest level since the measure began in 1952. One result was the continued relative outperformance of value stocks over growth and relatively better returns when moving up the size continuum from microcaps to megacaps. Within U.S. small and mid cap growth stocks, the safer havens were in the Consumer Staples, Utilities, Energy, and Materials sectors whereas the Information Technology, Communication Services, and Consumer Discretionary areas were shunned. Stocks with higher quality and lower risk were favored, while those with high valuations or lacking earnings were especially punished.

Amidst this environment, the portfolio outperformed the Russell Midcap® Growth Index in the second quarter. There was relative weakness in the Consumer Staples sector with mixed results from Information Technology and Financials. That was more than offset by strength from our positions in the Consumer Discretionary, Health Care, and Industrials sectors.

The Consumer Staples sector was a source of weakness this quarter. That primarily came from our slight underweight in this sector, where the benchmark sector average return was -3% vs. -21% for the overall benchmark. In addition, there was the -10% return from **Olaplex Holdings**, which produces a line of patent-protected hair care products sold at professional hair salons, retailers, and directly to consumers. That was despite Olaplex reporting revenues and earnings that outpaced expectations. In addition to sales growth in the U.S. and Europe across all channels, margins also improved. We continued building our position in Olaplex, which began with its IPO late last year. New to the strategy was **Casey's General Stores**, which operates over 2,000 gas stations and convenience stores across the Midwestern U.S. The company has expanded by acquiring small groups

of convenience stores in small markets, often where it was the only fuel-and-food option in that area.

Results were mixed in the Information Technology sector. That included the -39% decline from **Marvell Technology,** a leading provider of high-speed communications semiconductors for data storage, networking, and connectivity. At the start of the quarter, Marvell's shares seemed to retreat with the rest of the semiconductor industry on fears of cyclical weakness. Shares recovered somewhat when Marvell reported revenues and earnings that edged ahead of expectations when many investors feared the disruptions from China's lockdowns might have done greater damage. However, market concerns regarding supply constraints and semiconductor cyclicality arose again later in the quarter. We believe that Marvell should benefit from its secular growth opportunities, such as cloud-based data centers and 5G base stations, so we regularly added to our position during the quarter despite it being the strategy's greatest detractor. Better relative strength came from **NICE Ltd**., whose -12% return exceeded the -25% benchmark sector average return this quarter. A cloud-based contact center software and compliance systems provider, NICE reported revenues and earnings that were above expectations. Though its cloud-based revenues were as expected, NICE benefited from increased sales of its products for financial crimes and compliance. That division recently closed several large client deals from fintech firms, and led NICE to raise its guidance for the balance of the fiscal year. Also benefiting the strategy was **Synopsys, Inc**., which provides electronic design automation software for advanced semiconductor development. The company's revenues, earnings, and forward guidance were higher than expected; benefiting from growth in billings and operating margins. That provided Synopsys with a better-than-average return of -9%. Less appealing was **Unity Software, Inc**., a leading platform for creating and managing interactive, real-time 2D and 3D content. Unity's growth appeared to have been slowing, so we trimmed our position ahead of its quarterly results. However, we did not anticipate that its revenues would fall short of expectations, nor that its forward guidance would be reduced. Given that Unity seemed to be several steps shy of a revenue recovery, we opted to exit the name that was down -62% for the quarter while we owned it. In other trading this quarter, we switched games. Earlier in the year, the game developer for mobile devices **Zynga Inc**., agreed to be acquired. Although we subsequently trimmed the position, we opted to allow some of our shares to convert into the acquirer, **Take-Two Interactive Software**, when the deal closed**.** A game developer for multiple platforms, Take-Two has a slate of new or updated titles for the next several years that have shown no signs of slowing growth among gamers.

Another area nearly balanced with pluses and minuses was the Financials sector. In the latter camp was the -39% return from **Signature Bank,** a commercial bank serving businesses and private clients, predominantly in the New York metropolitan area. A small part of Signature's operations relates to cryptocurrencies, though the bank has no direct exposure. Some of its U.S. dollar deposits are for institutional investors trading crypto and it made one small loan—less than 0.1% of its total credit portfolio—as a test case with the borrower using crypto as collateral. However, as investors soured on cryptocurrencies this quarter, that affected market sentiment on any company tangential to that, such as Signature. We thought that was unwarranted and added to our position on its weakness. Posting a -1% return (compared with the benchmark sector average return of -17%) was the reinsurance provider **RenaissanceRe Holdings.** RenRe's earnings were lower than anticipated, caused by higher losses tied to the Ukraine war and storm claims from Europe and Australia. However, the market credited RenRe with its progressively better investment income in the current rising interest rate environment. We trimmed our position on its relative strength.

One contributing area was the Consumer Discretionary sector. After weakness at the start of the quarter, when a slowdown in do-it-yourself activities led to results that were shy of expectations, **O'Reilly Automotive's** shares rebounded. Other auto parts retailers and related companies noted mid-quarter that demand remained strong, especially from the professional segment. The result was a -7% return compared with -24% for the benchmark sector average return. We trimmed our position late in the quarter because while O'Reilly may be more recession resistant than others, it is not completely immune. A lower-than-average sector return of -25% was posted by **Burlington Stores**, a discount retailer of branded apparel, home, and baby products in the U.S. The company reported revenues and earnings that were less than expected, and forward guidance was reduced. Burlington's management noted that inventories were too low and imbalanced during February and March. Though corrective actions were taken—and trends were better in April—the damage in the quarter was done. On the positive side, the major retailers over-ordered and now were flush with unnecessary inventory, which should provide an opportunistic buying environment for Burlington this summer. Floating above the benchmark sector average was the -17% showing from **Pool Corporation.** Distributing swimming pool supplies and backyard products, Pool reported revenues and earnings that exceeded expectations. Management saw a sizable backlog for residential pool installations or upgrades, so it also increased its guidance for 2022. Later in the quarter, Pool's management also increased its share repurchase program.

The Health Care sector was an area of strength this quarter. That include the strategy's greatest contributor, **argenx SE**, a biotechnology developer of antibody treatments. The company's first commercial launch targeting autoimmune diseases, Vyvgart, demonstrated solid early launch data in its treatment for generalized myasthenia gravis following its December 2021 FDA approval. Subsequent monthly updates confirmed Vyvgart's sales momentum, and argenx's shares climbed 20%. Another positive was the 8% gain from **Royalty Pharma.** Funding biopharma

development by purchasing future royalties for a variety of treatments, early in the quarter Royalty appeared able to benefit from lower biopharma valuations for its business development. As other financing avenues become more expensive, that also makes Royalty a more attractive option. Late in the quarter, at its first investor day, Royalty announced an increase in the amount of capital it expects to deploy over the next five years, highlighting the opportunities it sees across the life sciences landscape. One blemish in this sector—which we removed—was the -37% showing from **Guardant Health**, a diagnostic company developing liquid biopsy tests for genetic profiling of potential cancers. Guardant reported better-than-expected revenues and earnings, but also announced that results from a new large-scale study will be in the fall instead of midyear as previously expected. Our view was it might take even longer for Guardant's price to recover, so we opted to exit the position. New to the strategy this quarter was **Veeva Systems**, a provider of cloud-based systems for the life sciences industries, from R&D to commercialization. Digitalization of life science R&D was in its nascent stage, and Veeva's solutions help biopharma or medical device companies speed development, reduce testing costs, and remain compliant with regulations.

A final performance stalwart was the Industrials sector. Here **Booz Allen Hamilton** posted a 4% gain. An outsourced information technology consulting and services provider to U.S. government departments and agencies, Booz Allen reported revenues and earnings that were better than expected. All its segments saw revenue growth as well as increased backlogs, leading to an attractively high ratio of bookings to billings. Slipping by -34% was **Robert Half International**, a specialized staffing company focused on accounting, legal, and technology professionals. The company's fundamentals benefited from the tight labor market with reported revenues in line with expectations, earnings beyond them, and forward guidance was raised. However, Robert Half's shares were pulled down as recession fears were stoked in the market. We have been trimming our position in anticipation of the job market softening as recession fears mount. Relatively better was the -3% return from building materials manufacturer **Carlisle Companies**, which reported revenues and earnings that outstripped expectations. Carlisle was able to pass along increased costs with higher pricing for the construction materials for building exteriors. In addition, Carlisle's management sees ongoing pent-up demand with low inventories to serve that.

One of our strategy's purchase rules is based on the range of market capitalizations in the Russell Midcap Growth Index following its annual reconstitution. After that occurred at quarter end, the largest stock in the index had a market capitalization of $46.5 billion. While the strategy's guideline limits new positions outside the benchmark at the time of initial purchase to less than 75% of the largest name in the benchmark—or $35 billion based on the new benchmark—we will leave our limit at the current level of $30 billion. The lower end of the purchase range moves from a market capitalization of $2.5 billion to $2.0 billion, which matches the smallest stock in the benchmark.

Looking into the summer and beyond, it remains to be seen if policy makers can engineer the proverbial "soft landing" that combats the global inflationary environment without triggering a recession. That may be possible, though its runway has been narrowing. Companies have been very tempered with their projections, though there have been few corresponding reductions to their consensus earnings estimates. So, while we see pockets of opportunities with lower prices, we recognize that further dips are possible. These concerns form some of the backdrop for our discussions with company management teams. That factors into our bottom-up evaluations as we seek a balance of positions that can weather oncoming waves along with those poised to gain when the winds change. 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.