TimesSquare Capital Management, LLC

U.S. Small/Mid Cap Growth Strategy

Representative Commentary — 2Q22

Performance

			Annualized			
	2Q22	**1YR**	**3YR**	**5YR**	**7YR**	**10YR**
U.S. SMID Cap Growth Composite (Gross)	-20.66%	-28.98%	2.88%	7.05%	6.24%	10.23%
U.S. SMID Cap Growth Composite (Net)	-20.87%	-29.71%	1.87%	6.00%	5.19%	9.14%
Russell 2500™ Growth Index	-19.55%	-31.81%	3.67%	7.52%	7.05%	10.87%

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. Heightened 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% for the Russell 3000 Index of U.S. stocks, -15% for the developed non-U.S. MSCI EAFE Index, and "only" down -11% for the MSCI Emerging Markets Index. 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. The European Central Bank noted it will raise rates from 0% by 25 basis points at its July meeting and again in September—its first increase since 2011. The Bank of England raised its rates for the fifth consecutive time, albeit at a slower pace of 25 basis points, though indicated that its tempo may increase. Many other banks followed suit including even the Swiss National Bank, though its first increase since 2007 lifted rates from -0.75% to -0.25%. Japan was the lone holdout among the major money centers to maintain its accommodative monetary policies. While commodity and energy prices eased late in the quarter, they remained at elevated level 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 strategy underperformed the Russell 2500™ Growth Index for the quarter. There was relative weakness across the Energy, Health Care, Industrials, and Information Technology sectors. That served to offset strength in Consumer Discretionary, Financials, and Materials.

The main source of weakness for the Energy sector was our underweight against the benchmark. **Matador Resources Company** is an exploration and production company with operations in New Mexico and Texas. Production levels were ahead of guidance, while Matador was able to counteract service cost inflation with operating efficiencies. Management is sticking to their plan of using excess free cash flow to reduce debt. It shares slid -12% over the quarter and we added to the position on weakness. New to the sector this quarter was **Cactus Inc.**, a provider of U.S. onshore pressure control equipment. In addition to selling wellheads and production trees, they also rent out frac equipment that is used during well completions. Cactus continues to take share from competitors given its differentiated product offering.

In Health Care, we believe the stock price declines associated with several medical device companies were more extreme than fundamentals warranted. **Outset Medical Inc.** supplies dialysis solutions to patients and healthcare providers. Sales for the latest quarter were ahead of the consensus. On the hospital side, they had new sales agreements and an expansion of sales with existing customers. During the quarter, Medtronic and DaVita announced plans to launch a kidney care company whose portfolio will include future home-based products. It does appear this news was the cause of its -67% decline. We do not view this offering as a competitive threat to Outset Medical's Tablo. We reduced our Outset Medical position on news the FDA temporarily halted shipments and requested more human factors studies on the Tablo device after the company made minor modifications. **Tandem Diabetes Care Inc.**, a medical device company that designs and develops products for people with insulin-dependent diabetes, was driven down by -49%. Strong first quarter results stemmed from higher U.S. sales. Management increased full-year sales guidance. Profits were below expectations as the company spent aggressively on new product development. The company expects to file for approval of its Mobi pump during the third quarter. **AtriCure Inc.** develops and manufactures devices designed for the surgical ablation of cardiac tissue. A mixed first quarter resulted in a -38% fall. That included beats to revenue and profit estimates while earnings fell short. Management cited building momentum among physicians for their products, particularly minimally invasive and pain management. The company is still in the early stages of various product launches and continues to make investments across sales and training teams. Better performance was found in **argenx SE**, a biotechnology company focused on developing therapies to treat autoimmune diseases. 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%. **PTC Therapeutics Inc.**, a biopharmaceutical company focused on the discovery and development of medicines for patients with rare disorders, rose 7%. First quarter revenues were ahead of the Street, highlighted by its Duchenne Muscular Dystrophy therapeutics. Clinical stage biotechnology company **Legend Biotech Corp.** is engaged in the discovery and development of novel cell therapies for oncology and other indications. Their Carvykti cellular therapy was approved in both the U.S. and Europe for treating late-line multiple myeloma. While there will be a gradual sales ramp due to manufacturing limitations, this therapy will undergo tests for earlier stages. They also have a diverse pipeline of drugs that target hematologic malignancies, solid tumors, and infectious diseases. These factors lifted the stock by 51%.

Within Industrials, **GFL Environmental Inc.** offers solid waste management, infrastructure, solid remediation, and liquid disposal services. Despite outpacing first quarter estimates, its shares fell -21% due to the combination of a spike in fuel costs and an elevated level of acquisition activity that resulted in a near-term impact on profit margins. **First Advantage Corp.** provides technology screening, verification, safety, and compliance solutions for human capital departments worldwide. The company reported strong results and raised forward guidance. They noted across the board strength in customer demand. Recession fears and the potential for a hiring slowdown caused the stock to retreat by -37%. We decided to trim back the position. **The AZEK Company Inc.** designs and manufactures wood alternative building products. They continue to deliver very strong revenues, with both its residential and commercial businesses posting impressive growth rates. Despite these positives, the stock traded down by -33% on housing market fears and commodity price inflationary pressures. **Booz Allen Hamilton Holding Corp.** is a provider of management and technology consulting services. Its shares rose 4% after reporting 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. New to the portfolio this quarter is **Chart Industries Inc.**, a manufacturer of engineered equipment for the energy and industrial gas industries. They are experiencing accelerated equipment demand across its customer base, which includes liquefied natural gas, traditional energy, hydrogen, and other specialty markets.

In the Information Technology sector, high growth and high multiple stocks came under pressure. **Cognex Corp.** supplies machine vision products that capture and analyze data to automate manufacturing and distribution tasks. This company reported strong first quarter results, with revenues exceeding consensus estimates and earnings in line. Management's second quarter guidance, however, appears to have disappointed investors as Cognex sold off by -45%. **Smartsheet Inc.**, a provider of a cloud-based platform for work management, declined by -43%. They delivered a solid beat to first quarter projections, highlighted by new business activity. Their guidance conservatively factors in macroeconomic and geopolitical concerns stemming from inflation and the war in Ukraine, even though they have not been affected thus far. A record number of new employee additions will have a short-term impact on operating income. **Workiva Inc.**, a cloud-based compliance and regulatory reporting solutions provider, dropped -44%. While its first quarter had a slight beat to Street estimates, second quarter guidance was below. Weakness in its Capital Markets and SEC reporting business was offset by strength in Global Risk & Compliance. **Synaptics Inc**., a developer of human interface semiconductor solutions for electronic devices, retrenched by -41%. Fiscal third quarter results were ahead of the consensus as Internet of Things overcame weakness in smartphones and personal computers. **SailPoint Technologies Holdings Inc.** provides enterprise identity security solutions. In April, private equity group Thoma Bravo announced they were buying SailPoint. We liquidated the position as it approached the take-out price and booked the 22% gain. **EVO Payments Inc.**, a supplier of payments technology and services, edged forward by 2%. The company reported a solid quarter with metrics above expectations. They saw a jump in revenues from Poland, with an influx of refugees from Ukraine.

The portfolios worst performer was found in the Consumer Discretionary sector. **National Vision Holdings Inc.** is a specialty retailer of optical products operating under the America's Best and Eyeglass World brands. Its shares fell -37% after the company reported mixed first quarter results as earnings outpaced estimates while revenues fell short. A lack of available optometrists constrained vision exam capacity and forward guidance was cut due to recent trends. National Vision raised the price of its signature offering by 15% for an eye exam and two pairs of glasses, given the broader inflationary environment. **Leslie's Inc.**, the world's largest omnichannel retailer of swimming pool products and services, sank -22%. Fiscal second quarter sales were above the consensus, however, higher operating expenses caused profits to only be in line. Management left second half guidance unchanged. With approximately 80% of sales tied to maintenance, Leslie's sales have been resilient through multiple housing and rising interest rate periods. Chemical prices are forecasted to remain elevated, given the shortage of chlorine. We added to the position on weakness. **Driven Brands Holdings Inc.**, a provider of automotive services to retail and commercial customers, gained 5%. First quarter results were solid, and the company reiterated full year guidance. Driven increased its market share across all segments on both higher car counts and rising average ticket. The company has not detected any material impact on consumer demand from rising gasoline prices. We added to our position during the quarter. **Asbury Automotive Group Inc.** operates as a franchised automotive retailer operating through Dealerships and Total Care Auto segments. Its shares surged ahead 6% after reporting inline first quarter revenue while earnings exceeded. Auto dealers continue to post strong gross profit per unit levels as vehicle supply remains well below retail demand. Its parts and service business also reported solid results. New to the portfolio this quarter was **Visteon Corp.**, an automotive electronics supplier. They are well positioned to benefit from an accelerating trend to digital dashboards.

Within Financials, **PJT Partners Inc.** offers investment advisory solutions. It shares rose 12% as revenues and earnings were well above sell-side expectations for the first quarter, driven by Advisory and Placement fee strength. Management's outlook was constructive despite the challenging macroeconomic environment. **RenaissanceRe Holdings Ltd.**, a provider of reinsurance and insurance services, pulled back by -1%; though that represented outperformance against the index sector average return of -17%. We trimmed our RenaissanceRe position during the quarter. **Signature Bank** is engaged in commercial banking services, 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, market sentiment soured on cryptocurrencies this quarter and on any company tangential to that, with Signature's shares plummeting -39%.

In the Materials sector, **RPM International Inc.** produces coatings, sealants, and building materials. Their results were solidly above Street estimates despite supply chain challenges. Management expects all of its businesses to benefit from a better-than-expected pricing environment. While the stock slipped by -3%, that represented outperformance versus the benchmark sector average return of -15%. Agricultural sciences company **FMC Corp.** fell by -18%. They supply products for crop protection, plant health, professional pest, and turf management. Strong earnings for the latest quarter were driven by robust demand for crop protection. Broad-based volume growth was led by North America. Logistics challenges and supply chain disruptions continued, particularly in China due to COVID-related restrictions. Management noted a pull-forward of demand, owing to uncertainty around product availability and elevated crop prices. FMC suspended their Russian operations.

One of our strategy's purchase rules is based on the range of market capitalizations in the Russell 2500 Growth Index following its annual reconstitution. After that occurred at quarter end, the largest stock in the index had a market capitalization of $18.0 billion (after excluding an outlier well above that). 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 $13.5 billion based on the new benchmark— we will leave our limit at the current level of $12.0 billion. The lower end of the purchase range remains at a market capitalization of $300 million.

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.

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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.