TIMESSQUARE
CAPITAL MANAGEMENT, LLC

TimesSquare Global Health Care Fund

To our Investors,

Through the end of June 30, 2022, the Fund's net performance was +2.49% for June, -0.65% QTD, -4.55% YTD and +20.87% cumulative since inception (April 1, 2020).

In 2Q22, higher interest rates continued to pressure the market, as fears the Fed will be unable to navigate a soft landing for the economy became consensus. The Fed raised rates twice in the quarter, including a 75bps hike in June, which is the largest increase since 1994. The yield on the 10-year increased 67bps during the quarter, ended 2Q22 at 3.01%. Higher rates continued to compress growth stock valuations during 2Q22 and, while healthcare has outperformed, healthcare growth stocks have not been immune to these pressures.

As growth-oriented investors, the Fund did not escape these macro issues, and this led to negative performance in April and May. We continued to tighten positioning and reduce our growth factor exposure which led to improved performance in June. We primarily adjusted our net and factor positioning by increasing our short exposure, as we remain committed to investing in innovative growth companies. Our net exposure declined by ~860bps in 2Q22 and we ended the quarter ~10% net long. While interest rates unlikely to moderate in the near-term, we are adding high quality growth stocks that are less economically sensitive.

Overall, the healthcare sector held up reasonably well during the second quarter, outperforming the broader market, with a return for the MSCI World Health Care Index of -7.20% vs. -16.19% for the MSCI World Index. Unsurprisingly, the outperformance of healthcare was driven by the more defensive subsectors of pharma and managed care, which tend to benefit from rising interest rates. Biotech, especially small cap biotech, continued to struggle apart from a late June surge. The XBI ended the quarter returning -17.49%. The lack of a bid has frozen the capital markets for biotech and has spilled over into the biopharma supply chain, namely the Contract Research Organizations (CROs) and life science tools subsectors.

If we isolate the performance of small cap health care, where we tend to focus our attention, health care modestly underperformed with the MSCI World Health Care Small Cap index returning -17.52% vs. the MSCI World Small Cap Index of -17.18%. As mentioned above, this reflects the poor performance of biotech which has fallen victim to the broader sell-off in growth names. We continue to believe our focus on innovative biotech companies with a clear path to commercialization will drive alpha.

As a Fund, our approach and long-term view is unchanged. We continue to pursue investments in companies driving healthcare innovation. We believe the greatest long-term alpha will be achieved by identifying these disruptive companies at an early stage.

2Q 2022 Commentary

The second quarter brought another period of volatility in equities, including healthcare. Aside from the macro concerns mentioned above, the healthcare sector continues to be hampered by Covid, delaying a recovery in nursing labor and supply chains. While tragic, the war in the Ukraine is more of a macro concern, as healthcare is fairly insulated from direct effects. We are monitoring our positions exposure to Europe, particularly manufacturing facilities in Germany, as Russia threatens to constrain supplies of natural gas.

As mentioned above, we have reduced our net exposure in reaction to the increased volatility of the market and our expectation that the valuation reset for growth stocks is unlikely to yield until interest rates have peaked. In addition, we have added positions that would be insulated from a recession, since the Fed has not proved adept at executing a soft landing. To that end, we are focused on companies that derive a greater percent of revenue from Medicare rather than commercial insurance. We also added IDEXX Laboratories (IDXX) in the second quarter because we view animal health's prospects as resistant to an economic downturn.

While biotech has been a drag on performance for the past year, we are maintaining a net long position because we remain confident that our focus on commercial assets will outperform the more speculative, earlier stage assets littered throughout the XBI. Given the valuation reset and the need for large biopharma to replenish their pipelines, we believe we are in the early stages of an M&A cycle in biotech. In fact, we attribute the strong bounce in the XBI late in the quarter to news reports of MRK potentially pursuing an acquisition of SGEN. We added Arcellx (ACLX) to the portfolio.

Our enthusiasm for investing in innovative healthcare is unchanged. We believe the recent volatility and risk-off sentiment has opened attractive entry points, particularly into growth stocks that have been punished beyond what their fundamentals would imply. However, since we know valuation dislocations can last a long time, we are being disciplined by limiting our portfolio additions only to names with near-term catalysts. Our alpha short positions continue to be focused primarily on companies that derived an extreme benefit from the pandemic.

Fund Performance

As market volatility and the underperformance of small cap healthcare continued throughout the quarter, we decreased our net exposure. We made some adjustments to our Biopharma and Life Sciences Tools sector exposure and added to Healthcare Equipment & Supplies and Healthcare Technology. Positive contributions came from the Fund's stock selection in Pharmaceuticals and Biotech, while Healthcare Equipment & Supplies and Life Sciences Tools & Services were the largest detractors.

Legend Biotech Corp. (LEGN) was the largest long contributor to performance during the quarter. LEGN, along with their partner JNJ, received approval for Carvkti to treat multiple myeloma in late 1Q22. Early demand has been robust and has outpaced supply as the companies build out capacity. Their $24M sales in 2Q22 exceeded expectations. We expect sales to continue to ramp and await data from Cartitude-4 in late 2022/early 2023, which could move Carvkti earlier in the treatment paradigm, greatly expanding the market opportunity.

Argenx (ARGX) was the second largest long contributor on the quarter. ARGX is a commercial stage biotechnology company that is in the early launch phase for the company's first approved drug. Vyvgart, was approved in December 2021 for myasthenia gravis. Early demand has been robust and has exceeded expectations. Recently reported 2Q sales came in well ahead of expectations, setting the drug on a blockbuster

launch trajectory. We remain bullish on the name, as we have confidence in future data readouts, namely CIDP in early 2023, which should lead to label expansion, greatly increasing the market opportunity.

Outset Medical, Inc. (OM) was the biggest detractor from performance during the quarter. In mid-June, OM received notice from the FDA that an ongoing 510k review was taking longer than expected. Thus, OM was encouraged to halt shipment of their Tablo dialysis machine into the home market. This was expected to create a ~$10M headwind to revenue in 2Q22, precipitating a sharp decline in share price. Given, that the FDA did not require OM to stop shipping in the hospital setting and company communication with the agency that suggests an approval in 3Q, we do not expect this shipment hold to linger beyond 3Q22. We reduced the position on the disclosure.

Conclusion

Sentiment in 2022 has oscillated between concerns over the Covid variant de jour to macro related headwinds, namely runaway inflation, and the looming specter of recession. More recently the market has seemingly looked past rising rates and once again revived the bid for growth equities. Given the recent spate of M&A activity in growth healthcare, we believe investor interest to be more durable. Accordingly, we have begun to loosen our net exposure. While we remain cautious on speculative, early-stage assets, we have recently added high quality growth names. Our bias continues to remain focused on commercial stage businesses within biopharma. On the short side, we continue to see opportunities in those businesses that benefited from covid. In addition, capital spending has tightened considerably, creating further opportunity for alpha generating short positions.

On the legislative front, passage of the Inflation Reduction Act seems all but assured. The healthcare components of the bill are essentially unchanged from last year's failed attempt to pass reconciliation. The legislation contains two main healthcare components: drug price reform and continuing the ACA subsidies. While allowing Medicare to directly negotiate drug pricing is a significant change, the limit to 10 drugs in 2026 and 20 drugs by 2029 minimizes the near-term impact. We also view drug price reform primarily as a concern for large pharma and see fewer implications for the innovator segment of the market where we seek to invest.

Overall, despite some near-term headwinds, our long-term outlook for the healthcare sector remains bullish. Innovation in the sector and the structural themes we have been investing in are very much intact. We believe the Fund includes competitively advantaged growth companies with pricing power, quality management teams, and strong balance sheets. We are hopeful that M&A will continue at the recent pace, as large cap balance sheets remain healthy.

Our objective as a fund is to deliver consistent positive returns in any market. We aim to achieve that goal by identifying healthcare innovation and building a diversified healthcare portfolio through fundamental bottoms-up research.

We thank you for your continued confidence during these challenging market conditions. As always, we are available for any questions you might have as we endeavor to protect and grow the assets you have entrusted with us. Meanwhile, we hope that you, your family, and your colleagues remain in good health.

Best Regards,

David Ferreiro, Ph.D. Bret D. Jones, CFA
Lead Portfolio Manager Co-Portfolio Manager

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