TimesSquare Global Health Care Fund

To our Investors,

Through the end of September 30, 2022, the Fund's net performance was +1.15% for September, +1.44% QTD, (-2.47%) YTD and +23.53% cumulative since inception (April 1, 2020).

Central banks commanded investor focus during the quarter as they continued to constrict monetary supply. Leading the charge, the U.S. Federal Reserve increased rates twice during the third quarter at 75 basis point intervals and to a new range of 3.00% to 3.25%. There also were a pair of hikes from the European Central Bank, which made its first increase since 2011 in July and followed that with another in September, swinging European interest rates from negative territory to the current 0.75%. Despite all those actions, global inflation rates remained at elevated levels.

Market volatility remained elevated; the influence of the growth style was relatively neutral while value was negative. The Fund remained resilient and generated positive performance during the quarter despite macro headwinds. As noted in the previous letter, we had cautiously begun to loosen our net exposure. By the end of the third quarter, we increased the net exposure moderately to 13% from 10% as of the end of the previous quarter. We continue to focus on high quality growth companies that are less economically sensitive.

Overall, the healthcare sector slightly underperformed the broader market, with a return for the MSCI World Health Care Index of (-6.69%) vs. (-6.08%) for the MSCI World Index. Within the Health Care sector, Providers & Services and Biotech led performance while Pharmaceuticals lagged. If we isolate the performance of small cap Health Care, where we tend to focus our attention, the MSCI World Health Care Small Cap index returned (-1.53%) vs. the MSCI World Small Cap Index of (-5.28%). The strength in small cap Health Care was mostly supported by positive performance from small cap Biotech (+5.92%). We 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 and believe the greatest long-term alpha will be achieved by identifying these disruptive companies at an early stage.

3Q 2022 Commentary

While market volatility ebbed in the quarter, it remained at an elevated level. Labor and supply chains remain pressured in the post-pandemic world and these headwinds continue to hamper procedure volumes. In addition, we believe the reopening of the world is likely to create more pronounced seasonality in 3Q numbers. Inflationary pressures from the war in the Ukraine remain more of a macro concern, as healthcare is fairly insulated from direct effects. While energy costs are a relatively minor input for the sector, we continue to monitor our positions in Europe, particularly manufacturing facilities in Germany.

We modestly increased the Fund's net exposure from 10% to 13% and reduced the Fund's gross exposure from 106% to 99%. While M&A in the sector significantly dropped this year, 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. Case in point was Amgen's $3.7 billion acquisition of one of our core biotech positions, ChemoCentryx. At the portfolio level, with the outperformance in biotech and market volatility, we shifted our exposure to more durable larger biopharma names, such as Novo Nordisk. With this move, we finished the quarter with a net short position in biotech but net long (and growing) position in pharmaceuticals. We remain confident that our focus on commercial assets will outperform the more speculative, earlier stage names.

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 exercising discipline by limiting our portfolio additions 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

Small cap health care companies outperformed the market during the quarter while market stayed volatile. We made some adjustments to our Biopharma and Life Sciences Tools industry exposures and added to Healthcare Equipment & Supplies and Healthcare Technology. The Fund enjoyed positive stock selection from our long positions in Biotech, Health Care Providers & Services, and Health Care Equipment & Supplies while holdings in Pharmaceuticals lagged. On the short side, our alpha shorts in Life Science Tools & Services were the largest contributors.

ChemoCentryx (CCXI) was the largest long contributor to performance. Approved in October 2021, CCXI's first commercial drug (TAVNEOS) treats a rare autoimmune disease affecting small blood vessels. In addition to TAVNEOS, CCXI also has a pipeline of candidates that target chemoattractant receptors in other inflammatory diseases and an oral checkpoint inhibitor for cancer. To strengthen its inflammation portfolio, Amgen announced an all-cash deal to acquire ChemoCentryx in August.

Shockwave Medical (SWAV) was the second largest long contributor on the quarter. SWAV develops intravascular devices for calcified cardiovascular diseases. The company received FDA approval for its L6 peripheral IVL catheter ahead of schedule and reported better-than-expected revenues and earnings expectations. There were increased sales of its C2 coronary catheter system following a resumption of medical procedures. International sales also improved, and management increased its guidance for the balance of the year.

Legend Biotech Corp (LEGN) was the biggest detractor from performance this quarter. LEGN, along with their partner JNJ, received approval for Carvykti to treat multiple myeloma in late 1Q22. Early demand has exceeded supply. LEGN shares have been volatile in part due to headlines surrounding U.S. and China relations. We continue to view this as noise, as the majority of LEGN's employees are outside of China and their business is currently focused on the US.

Conclusion

Surveying the remainder of 2022, there seem to be many uncertainties ready to tip balances either way. With nearly all central banks on the quantitative tightening path, there are concerns that they might raise rates too high too fast, as well as worries that they may pivot and begin easing too soon. Earlier in the quarter, the market seemingly looked past rising rates and once again revived the bid for growth equities. Accordingly, we loosened our net exposure. However, with market volatility on the rise once again, we adjusted our positioning. We remain cautious on speculative, early-stage assets, and turned to high quality 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, Congress passed the Inflation Reduction Act in early August. The healthcare components of the bill are essentially unchanged from last year's failed attempt to pass via reconciliation. The legislation contains two main healthcare components: drug price reform and continuation of 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, strong management teams, and excellent 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. Lead Portfolio Manager

Bret D. Jones, CFA Co-Portfolio Manager

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