TimesSquare Capital Management, LLC

Emerging Markets Small Cap Strategy

Representative Commentary — 3Q22

Performance

			Annualized		
	3Q22	**1YR**	**3YR**	**5YR**	**Since Inception (1/1/2017)**
Emerging Markets Small Cap Composite (Gross)	-4.81%	-25.17%	5.02%	2.92%	6.17%
Emerging Markets Small Cap Composite (Net)	-5.08%	-26.01%	3.88%	1.79%	5.01%
MSCI Emerging Small Cap (Net) Index	-5.25%	-23.23%	5.53%	1.25%	4.72%

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.

Global markets—using the MSCI World Index as a proxy—began the third quarter in fine fashion (up 8% in July) but stumbled (down -4% in August) and then fell further (-9% in September). For the full quarter, the most concerning area was the emerging markets with a -12% return, followed by relative improvements in developed non-U.S. markets with its -9% showing, and -4% for the U.S. Measures of global economic activities fell to the demarcation line between expansion and contraction—with manufacturing showing greater weakness than services though both noting slower rates of new orders[1]. That ebbing tide contributed to falling prices among commodities, especially oil and natural gas.

Central banks commanded investor focus during the quarter as they continued constricting their respective monetary supplies. 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%. In contrast, the People's Bank of China (PBoC) lowered key rates in August to provide support to the Chinese economy. Meanwhile, after twelve consecutive rate increases, the Central Bank of Brazil left interest rates unchanged in its latest policy meeting, signaling the end of its tightening cycle.

Within the emerging markets universe, smaller companies outperformed their larger cap peers, while Value once again outpaced Growth. Among emerging markets small cap stocks, Latin America outshined other regions, Energy and Consumer Discretionary significantly outperformed, while Information Technology, Real Estate, and Health Care lagged.

Amidst this environment, the portfolio outperformed the MSCI Emerging Markets Small Cap Index for the quarter. Relative strength in the Americas offset relative weakness in Asia and EMEA.

Regional Performance: Asia

Holdings in Asia detracted from relative performance.

Chinese equities felt the impact of rigid COVID lockdowns in various cities and weakness in China's housing market. Case in point was property manager **A-Living**. Its parent company, Agile Holdings, has been more proactive in addressing short-term debt and liquidity needs than its peers. With consolidations in the sector on the horizon, we believe Agile is in a strong position to capture market share, which will ultimately benefit A-Living. As a result, we added to the position on the -51% price weakness. One of the largest information technology services providers in China, partnering with tech giant Huawei, **Chinasoft International** is at the forefront of the creation of China's homegrown HarmonyOS. In August, Huawei warned its employees of tough conditions ahead and emphasized its main target is survival. While Chinasoft affirmed that they would not be impacted by Huawei's cost cutting measures, this news nonetheless drove its shares down -40%. **Yeahka** is an independent payment platform and merchant acquirer. In July, its shares slid after the company issued convertible notes with the intention of using most of the proceeds to fund an overseas expansion. In September, Yeahka announced encouraging FY2022 interim results with strong in-store and ecommerce growth and its share price recovered some ground. For the quarter, Yeahka was marked down by -20%. On the positive side was **Shanghai Kindly Medical Instruments** and its 9% gain. The company engages in the research, development, and selling of cardiovascular interventional devices throughout China and international markets. Kindly reported robust growth despite the COVID lockdown in Shanghai, where its main production site is based. We trimmed the position on its price strength.

Across the strait, we added to **eCloudvalley Digital Technology**, the largest Amazon Web Services (AWS) Managed Service Provider in Greater China. Cloud growth, AWS growth, and the addition of new markets and competencies continue to drive its expansion. In 2021, the company's strong storage distribution business was boosted by the appetite for crypto in mainland China. As that demand waned, eCloudvalley's revenue normalized, and its shares sold off -50%. Over time, a favorable mix shift in terms of revenue and profitability should lead to a better earnings and dividend profile. Delivering a better return of 18%, **Alchip** manufactures application specific IC (ASIC) as well as system on a chip (SoC) for complex, high-growth applications such as artificial intelligence and higher performance computing. The company announced record revenue and net income for the first half of 2022 and affirmed robust production demand.

The de-rating of the Korean market had an outsized impact to some of our holdings in that market. South Korea's **K Car** is a platform service for used cars. A key part of the company's business operation is its K Car Data Driven Management System, which allows K Car management to make better purchasing, pricing, and market decisions. K Car's second quarter results showed improvements but the impact of tight used car supply lingered. In September, one of its facilities was flooded along with 200 vehicles due to a recent typhoon. Although the damage is expected to be recovered through insurance and K Car gained market share from smaller used car dealers during the recent floods, its share price retrenched -39%. One of the leading suppliers of containment systems for LNG ships in South Korea, **Dongsung Finetec** declined -20%. As a beneficiary of the LNG shipbuilding cycle, Dongsung's robust backlog and revenues have both reflected this upcycle. However, its margins recently took a hit from the high cost of MDI (a precursor for its polyurethane product) as well as Korean won weakness. The price of MDI has started to moderate, and we expect Dongsung's profitability to improve.

India was an area of strength. **ICICI Securities** is one of the largest retail and institutional equities brokerage firms in the country. Cash equity trading volume recovered from recent lows and led its share price up 21%. We reduced our position on this strength. One of India's leading domestic manufacturers of medical consumables and devices, **Poly Medicure** rose 13%. The company reported mixed quarterly results with inline revenue growth driven by strong recovery in exports but lower-than-expected profitability due to lower margins. As raw material and freight costs start to ease, we should expect to see improvement in margins going forward.

Our holdings in Southeast Asia had mixed performance. In the Philippines, the largest highspeed broadband operator in the country, **Converge ICT Solutions (CNVRG)** had lower-than-expected subscriber additions and an elevated churn rate and tumbled -42%. Due to its rapid expansion in the last few years, CNVRG experienced tremendous growth. We expect the revenue growth and subscriber additions to normalize to a sustainable level with lower capital expenditures. In neighboring Indonesia, we added to our position in **PT AKR Corporindo** at the beginning of the quarter. The company engages in the general trading and distribution of chemical and petroleum products. During the quarter, they reported strong 6-month results with impressive net profit growth. AKR is well-positioned to benefit from the increasing demand for basic chemicals and petroleum products as well as Indonesia's increasing inbound foreign direct investment flows. We booked some profit with its share price up 31%.

Regional Performance: The Americas

The Americas was the portfolio's best performing region, helped by both strong stock selection and an overweight allocation.

With the monetary tightening cycle coming to an end, our Brazilian holdings took some of the top spots of the portfolio. Leading home builder in the region**, Cyrela Brazil Realty** finished the quarter up 50%. Despite the inflationary and high interest rate environment, demand continued to hold up. **Afya** is the largest medical education company in the country. The company reported higher-than-expected revenue and management reaffirmed 2022 guidance. Later in the quarter, one of its key shareholders increased its stake, which helped push the stock price up 36%. Surging 55%, **Locaweb Servicos de Internet** is one of Brazil's leading web hosting platforms with a growing e-commerce and software-as-a-service platform. Their second quarter results beat expectations on higher revenues and margins. Strong revenue growth was generated both organically in the commerce segment as well as in the acquired companies, underscoring the strength of the business-to-business commerce opportunity.

In Argentina, online travel agency **Despegar.com** delivered a strong beat, driven by better-than-expected growth of gross bookings from both domestic and international travel. However, the stock was down -30% due to increasing concerns about slowing economic growth and impact to diminishing discretionary spending from the high inflationary environment.

Regional Performance: EMEA

We initiated a position in **Arabian Contracting Services (Al Arabia)**, the largest outdoor advertiser in Saudi Arabia. The company is going through the transition of shifting its billboards from static to digital. This transition would expand ad inventory with little incremental spending, as the digital billboards offer more available ad space, are easier to update, can be more interactive, and can provide better measures on advertisers. With its dominant market share, Al Arabia is well-positioned to benefit from the initiatives led by the Vision 2030 programs, which is expected to bring increased business and tourism activities. Shares of Al Arabia ascended 16% since they were added to the portfolio this quarter.

Conclusion

Surveying the remainder of 2022, there seem to be many uncertain balances ready to tip either way. With nearly all central banks well on the quantitative tightening path, there are concerns whether they might raise rates too high too fast, as well as worries that they may pivot and begin easing too soon. Many economies across the globe teeter on the edge between expansion and contraction with the determining factor appearing to be new order demand, which has not yet fully recovered. Across our investment universe, companies are concerned about a future recession, and many have taken precautionary steps for a more challenging future business environment. Our bottom-up analyses and discussions with company management teams aim to find holdings that can be resilient whichever way the scales tilt. 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 MSCI EAFE Small Cap (Net) Index. MSCI EAFE Small Cap (Net) Index is a trade or service mark of MSCI Inc. The MSCI EAFE Small Cap (Net) Index is an unmanaged, market-weighted index of small companies in developed markets, excluding the U.S. and Canada. Its returns include net reinvested dividends but, unlike the Composite returns shown, do not reflect the payment of sales commissions or other expenses incurred in the purchase or sale of the securities included in the Index. All indexes, including the MSCI EAFE Small Cap (Net) Index, are based on gross-of-fee returns, including net reinvested dividends.

This composite generally invests in Emerging Market stocks with market capitalizations at time of purchase generally within the range of capitalizations of stocks in the MSCI Emerging Markets Small Cap Net Index. Portfolios will hold approximately 70-75 securities. Frontier securities may be included in holdings. The process is fundamental research driven. Primary selection criteria include quality management, distinct competitive advantage, and strong, sustainable growth. Composite inclusion threshold $500,000. Fee basis is 110 points. The composite creation and inception date is January 1, 2017.

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 standard fee schedule listed for this strategy during the period presented. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. TimesSquare's fee schedule is available upon request and may also be found in Part 2A of our Form ADV. 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 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.