TIMESSQUARE CAPITAL MANAGEMENT, LLC

International Micro Cap Strategy

Representative Commentary — 3Q22

Performance	3Q22	1YR	Since Inception (1/1/2021)
International Micro Cap Composite (Gross)	-8.62%	-35.88%	-17.94%
International Micro Cap Composite (Net)	-8.89%	-36.64%	-18.89%
MSCI AC World Ex USA Small Cap (Net) Index	-8.37%	-28.93%	-12.14%

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 greatest discomfort was in emerging markets with a -12% return, followed by relative improvements in developed non-U.S. markets, and a -9% showing, to the U.S. with -4%. 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. 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. Setting the pace, the U.S. Federal Reserve increased rates twice in the third quarter—each time by 75 basis points—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%. Other money centers shadowing those moves included Switzerland, which lifted its interest rates above 0% for the first time since 2014. The one notable holdout remained Japan, which was steadfast with maintaining its negative interest rate policy, though the Bank of Japan bought yen for the first time in over 20 years to buoy its falling currency. Currency woes also knocked the U.K. late in the quarter—bringing its pound to all-time lows vs. the U.S. dollar—as new Prime Minister Truss unveiled an economic stimulus plan that included significant tax cuts (in response to the market reaction, that portion of the plan was withdrawn). Despite all those actions, global inflation rates remained at elevated levels.

Throughout this quarter, there was little differentiation between larger versus smaller capitalization stocks. Among the benchmark stocks, the Energy and Materials sectors were relatively more resilient while Communication Services, Health Care, and Real Estate sectors lagged the broader benchmark.

Portfolio Performance Attribution

Amidst this environment, the International Micro Cap Portfolio slightly underperformed the MSCI AC World ex USA Small Cap benchmark during the third quarter of 2022. Our holdings in the Americas had a positive impact on performance while relative weakness was seen in Europe. Japan slightly detracted from performance while Asia/Pacific Ex Japan and the Emerging Markets had a neutral impact. There was weakness in the Consumer Discretionary and Materials sectors; that was somewhat offset by strong selection in Health Care and our underweight to the Real Estate sector.

Regional Performance: Europe

For this quarter, Europe was the weakest region in the benchmark on back of the continuing energy crisis. Our relative underperformance in Europe was attributed to stock selection and our overweight in the region. Holdings in Ireland, Italy, and Sweden detracted from performance while our names in the United Kingdom helped.

Ireland-based hotel operator **Dalata** was the largest detractor in the region. The environment remains challenging with global inflationary cost pressures around food supply, payroll, and energy. Although the company has not seen any material impact on demand, consumer discretionary spending may weaken in the future and those worries led shares to shed -24%. Despite these challenges, Dalata continues to be a best-in-class operator with strong market share in Ireland and we see pent-up demand post COVID normalization.

In Germany, **Friedrich Vorwerk Group** is a turnkey solutions provider that specializes in three distinct areas: natural gas, electric grids, and hydrogen. It experienced lower profitability from startup costs for major projects launched at the beginning of the year and from the ongoing integration of the Puhlmann Group. Increased material, energy, and personnel costs also put pressure on margins. Management maintained its revenue guidance for the 2022 financial year but cautiously widened the earnings margin guidance range to 13-15%, compared to the previous expectation of 15%. Despite the fact that shares were down -34% for the quarter, we remain confident in management's ability to capitalize on Europe's unprecedented investment in sustainable energy.

Also within the infrastructure sector, Sweden-based **Sdiptech** provides infrastructure services focusing on water, power and energy, air, transportation, and building technical services. Some projects with longer pricing cycles have not yet been able to fully compensate for cost increases. That said, we believe the company can ultimately pass on those costs. Its shares declined -25% and we used the opportunity to add on weakness. Another detractor was leading window and door manufacturer **Inwido.** Its shares dropped -28% on worries of a weaker consumer demand and Inwido's exposure to new builds which contribute to 30% of revenues. Though they continued to see disturbances in the input material supply chains, they have managed to offset this by raising prices. Fellow countryman **Karnov Group** is market leader in information systems for the judicial market. In its recent results, there was a negative impact on cash flow and working capital related to the timing of royalty payments. They also recognized some merger and acquisition related expenses. As a result, its shares corrected -18%.

Relatively better results came from United Kingdom based **Craneware** where share price only pulled back by -4% (compared to the country's average -17% decline). They are a leader in automated revenue integration solutions, which improve the financial performance of U.S. healthcare organizations. The core business declined in fiscal year 2022 due to its lower-margin professional services business, but its overall group margin performance was strong. They also reported a healthier outlook with guidance ahead of expectations.

Regional Performance: Japan

Though Japan slightly detracted from performance due to our underweight to the region; the country housed some of the portfolio's top contributors. **Zuken** is a computer-aided design (CAD) software design firm for Printed Circuit Boards (PCB). Shares climbed 8% when they reported strong results where operating profits climbed 50% year-on-year. Its higher margin CR-8000 software for CAD design is seeing strong growth as electric vehicle motor manufacturers are increasingly using 3D CAD to simulate circuit designs. Another positive contributor was **Toyo Tanso** which produces graphite and carbon products for the semiconductor, solar cell, mechanical, and electronic industries. Shares rose 9% for the quarter as the company expects to fully pass through material cost rises to clients. It is also seeing strong underlying demand from its diverse end markets.

Regional Performance: Asia Pacific Ex-Japan, Middle East, and Americas

The portfolio's Asia Pacific Ex-Japan holdings returned mix performance. More positive with a 12% increase was **APM Human Services**, a provider of recruitment services for disabled individuals. APM delivered a strong maiden full year result for 2022 with core operations performing ahead of expectations. Moving in the other direction was pathology provider **Australian Clinical Labs.** When they announced results, the market did not like: 1) the decrease in operating efficiency, leading to higher consumables and labor costs, and 2) the lack of visibility as to when non-COVID revenues will recover. In addition, private equity shareholder Crescent Capital sold a ~30mn share block in August. As a result, its shares dropped -21%.

In the Americas, **Pet Valu** is a profitable and growing pet food retailer selling pet food and other consumables. It has a flexible, franchise-led operating model. Led by pet food and treats, consumables account for 70% of total product sales providing a recurring revenue generation. They beat on quarterly results and raised guidance. The business shows no signs of decelerating despite high year-on-year comparables and shares reacted with a 6% rise.

Regional Performance: Emerging Markets

Within the Emerging Markets, Latin America was an area of strength while North Asia lagged. Our holdings in South East Asia fared better though our underweight to India weighed on performance.

Starting in Poland, **Selvita** operates laboratories out of Poland and Croatia and has the goal of becoming a leading global contract research organization. Overall, the company reported strong revenue and the backlog for 2022 is 30% higher year-over-year. The Ukraine war has not had an impact on Selvita's business and the company is in advanced merger and acquisition talks to further their expansion. Shares moved forward by 20%.

Also within the healthcare industry, **Blau Farmacêutica** is a Brazilian-based company with a portfolio of complex pharmaceutical products focused on biological, specialty, and oncology. The market is expecting a much better second half, predicated on the acceleration of the company's product launches and increased sales of immunoglobulin, which have been at depressed levels since the pandemic. Shares climbed 27%. Other names in Brazil also benefitted from capital flow tailwinds. **Locaweb** is the country's leading web hosting platform with a growing e-commerce and software-as-a-service solutions portfolio. 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 the acquired companies, underscoring the strength of the business-to-business commerce opportunity. Shares jumped 55% for the quarter.

Flying across the world to Taiwan, **eCloudvalley Digital Technology** is the largest Amazon Web Services (AWS) Managed Service Provider in Greater China. Cloud growth, AWS growth, and the addition of geographies and competencies are driving its growth. In 2021, the company's strong storage distribution business was boosted by the appetite for crypto in mainland China. As the demand waned, eCloudvalley's revenue also normalized, and its shares sold off -50%. Over time, a favorable mix shift in terms of revenue and profitability should reflect itself into a better earnings and dividend profile.

Finally, moving over to South East Asia, Indonesia based **AKR Corporindo** is a leading manufacturer and distributor 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 of basic chemicals and petroleum products as well as Indonesia's increasing inbound foreign direct investment flows. AKR is seeing not only increasing fuel distribution volumes to all these new tenants but also land sales from its industrial real estate. Shares increased 30% for the 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 global 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 analysis 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 ACWI ex USA Small Cap (Net) Index. MSCI ACWI ex USA Small Cap (Net) Index is a trade or service mark of MSCI Inc. The MSCI ACWI ex USA Small Cap (Net) Index is an unmanaged, market-weighted index of small companies in developed markets, excluding the U.S. 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 ACWI ex USA Small Cap (Net) Index, are based on gross-of-fee returns, including net reinvested dividends.

Benchmark returns are not covered by the report of independent verifiers.

This composite generally invests in non-US stocks with market capitalizations at time of purchase generally within the range of capitalizations of stocks in the MSCI ACWI Ex USA Small Cap Net Index. Portfolios will hold approximately 75 securities. 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 115 points. The composite creation and inception date is January 1, 2021.