

U.S. Mid Cap Growth Strategy

Representative Commentary — 3Q22

Performance	Annualized					
	3Q22	1YR	3YR	5YR	7YR	10YR
U.S. Mid Cap Growth Composite (Gross)	-0.01%	-20.86%	8.69%	10.98%	11.87%	12.63%
U.S. Mid Cap Growth Composite (Net)	-0.21%	-21.47%	7.84%	10.11%	11.00%	11.75%
Russell Midcap® Growth Index	-0.65%	-29.50%	4.26%	7.62%	9.53%	10.85%

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 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. 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 during the third quarter at 75-basis-point increments 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 in 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stimulus plan that included significant tax cuts (in response to the market reaction, that portion of the plan was withdrawn).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.

Across the U.S. equity landscape, investors backed either prior winners or potential hyper-growth areas. On the surface, the Russell value indexes were punished more than growth and there were steadily worsening returns as size increased (from the microcap to the megacap indexes). Underlying that, the influence of the growth style was neutral while value was negative; stocks with high exposures to market sensitivity or momentum reaped relative benefits. Among small and mid cap growth stocks, there were positive returns for stocks with high valuations and higher growth rates for sales. Despite falling commodity prices, the Energy sector remained relatively strong while Real Estate and Consumer Staples especially lagged. Also notable was that Health Care had positive returns for small caps, led by the Biotechnology industry, but both were below average in mid cap, where stocks in that industry and sector tend to be more mature in their growth profiles.

Amidst this environment, the portfolio outperformed the Russell Midcap® Growth Index in the third quarter. There was relative weakness in the Communication Services, Consumer Staples, Health Care, and Real Estate sectors. That was offset by strength across Consumer Discretionary, Energy, Financials, Industrials, Information Technology, and Materials.

In Communication Services, global media and Internet conglomerate **IAC Inc.** tumbled -27%. It operates through four business segments: Angi is a leader in digital home services, Dotdash Meredith is the largest digital and print publisher in the U.S., IAC's Search includes Ask.com as a broad collection of reference websites, and Emerging & Other is comprised of investments in early-stage companies. Overall second quarter results were in line with sell-side projections, though underlying business segments were mixed. Angi generated revenues above sell-side projections, Dotdash Meredith fell short, Search decelerated, while Emerging & Other generated a modest improvement. Better performance came from **Pinterest Inc.**, an image-based social media company. Their shares surged 28% after reporting second quarter results inclusive of in line revenues and a higher level of monthly active users. Results were aided by large online retailers and international advertisers.

Within Consumer Staples, **Olaplex Holdings Inc.** produces a line of patent-protected hair care products sold at professional hair salons, retailers, and directly to consumers. Despite second quarter revenues and earnings exceeding expectations, gross margins fell short and that caused a -32% tumble in the stock price. This stemmed from a mix shift that occurred when professional salons ordered ahead of price increases. **Casey's General Stores**, which operates over 2,000 gas stations and convenience stores across the Midwestern U.S., rose 10%. Fiscal first quarter results outpaced consensus estimates on the strength of higher fuel margins. We added to the position early in the quarter.

Several notable detractors this quarter hailed from the Health Care sector. **Veeva Systems Inc.** supplies cloud solutions to the global life sciences industry. The company reported an inline fiscal second quarter but lowered fiscal year guidance and that resulted in a -17% selloff to its shares. Veeva's reduced outlook came from a combination of foreign currency translations, with the remaining tied to anticipated macroeconomic headwinds. **ICON Plc** is a clinical research organization that provides outsourced development services to the pharmaceutical, biotechnology, and medical device industries. The company reported fairly strong second quarter results as both revenues and earnings topped the consensus. Management slightly lowered revenue guidance, citing foreign exchange headwinds and that caused its stock price to pull back by -15%. Healthier performance came from **Ascendis Pharma** and its 11% improvement. This biopharmaceutical company focuses on developing therapeutics for unmet medical needs using its transient conjugation. TransCon allows for a slow and sustained release of drug therapies. Their Skytrofa pediatric human growth hormone is commercially available. The company has several endocrine and oncology programs in development. Second quarter results met expectations. New to the strategy this quarter is **Legend Biotech Corp.**, a clinical-stage biopharmaceutical company engaged in the discovery and development of novel cell therapies for

oncology and other indications. The company's lead product is a CAR-T treatment for multiple myeloma and is currently in joint development/commercialization with Janssen Biotech. Chimeric antigen receptor T cells are genetically engineered for use in immunotherapy.

Our sole holding in the Real Estate sector is **SBA Communications Corp.**, an owner and operator of wireless communications infrastructure. They reported a slight beat to estimates for the second quarter and raised full year guidance. One notable blemish on the quarter was higher international churn. This came from carrier consolidation and liquidation events in Panama and Guatemala. Management is very positive on tower leasing activity and development services. The company entered into an agreement to acquire 2,600 additional towers in Brazil. Nevertheless, its shares descended by -11%.

In the Energy sector, we continued to see the impact of Europe's natural gas challenges as they diversify away from Russian supplies. **Cheniere Energy Inc.** is an energy infrastructure company that operates liquefied natural gas terminals in Louisiana and Texas. A blowout second quarter and an increase to profit guidance boosted the stock price by 25%. Natural gas prices are likely to remain elevated for years given the situation in Europe. New to the portfolio this quarter is **Antero Resources Corp.**, a natural gas focused exploration and production company with operations in Pennsylvania and Ohio. The continued buildout of U.S. liquefied natural gas stems from utility plants switching from coal to natural gas and European demand.

In the Industrials sector, **Waste Connections Inc.** provides non-hazardous waste collection, transfer, and resource recovery services in the U.S. and Canada. Their shares rose 9% after topping second quarter estimates and raising forward guidance. This was driven by better-than-expected solid waste pricing and robust growth in the E&P waste business for oil exploration companies. **Hubbell Inc.**, a designer and manufacturer of electronic products, climbed 26%. Ongoing capital expenditures by its electrical utility customers resulted in sizable beats to revenue and earnings projections. A substantial backlog led management to raise forward guidance. **Carlisle Companies** is a diversified manufacturer of engineered products. Continued strength in the commercial roofing market enabled the company to generate solid results and an 18% lift to its stock. **TransUnion** is a credit bureau providing risk and information services. Share price weakness of -25% stems from weaker-than-expected results and a reduction in forward guidance; some of which is attributable to lower mortgage volumes. We have been reducing this position for most of 2022, and plan to exit completely. New to the portfolio is **Equifax Inc.**, a credit bureau that also provides human capital management outsourcing services. Their Workforce Solutions segment continues to grow at a steady pace. **Generac Holdings Inc.** produces power generation equipment and energy storage systems. The company reported a strong second quarter as home standby generator

sales increased substantially. Commercial & Industrial sales were also up for the quarter. The stock sold off by -16% due to a decline in orders in the home standby generator product line. **PACCAR Inc.** designs and manufactures light, medium, and heavy-duty commercial trucks. We decided to sell the position with a looming risk of European energy rationing that could impact manufacturing output this winter. Its shares edged forward by 3% for the time it was held in the quarter.

The Information Technology sector was home to the strategy's strongest contributor. **Paylocity Holding Corp.**, a provider of cloud-based human capital management and payroll software solutions, surged ahead by 38%. Strong results and management's initial fiscal 2023 guidance were both above expectations. Despite an increasingly uncertain macroeconomic outlook, Paylocity has not seen a slowdown in demand. **Gartner Inc.** operates as a research and advisory company. Their stock price jumped 14% after they reported a beat to Street expectations due to robust performance from its research and conference businesses. A new addition to the sector this quarter is **Aspen Technology Inc.**, which offers enterprise asset performance management, monitoring, and optimization solutions. The company continues to see improvement in the demand environment and is not seeing any impact from the macro-related slowdown. Management also noted they are making good progress with the Emerson integration. The acquisition of Micromine further diversifies their end-market exposure into the metals and mining industry. Less positive was the -18% return from **SS&C Technologies Holdings Inc.**, a supplier of software products and services to the financial services and healthcare industries. Results were pressured by economic weakness, foreign exchange headwinds, and employee cost inflation. That led to lower forward guidance and we decided to trim the position. **Entegris Inc.** is engaged in the manufacture and supply of specialty materials for the microelectronics industry. A mixed quarter caused its shares to drop by -10% as higher revenues were offset by foreign currency translations. The company completed its

acquisition of CMC Materials in July. Management believes the improved product mix will enable its business to be more resilient to macroeconomic conditions.

Within the Materials sector, **Martin Marietta Materials Inc.** supplies aggregates to the construction industry. Solid results boosted the stock by 8%, with very good aggregate order growth and higher cement pricing. While the demand environment is strong, it does appear that energy inflation will have an impact on operating margins through year-end. **FMC Corp.** is an agricultural sciences company offering solutions in areas such as crop protection, plant health, professional pest, and turf management. The company reported mixed results with an upside to revenues though with declining margins on cost headwinds. While the stock pulled back by -1%, we used this weakness as an opportunity to increase the position.

In keeping with our previously announced transition plan, Sonu Chawla now leads this strategy's portfolio team. Tony Rosenthal continues his active involvement as a portfolio manager until his retirement next spring and Grant Babyak's portfolio manager role remains unchanged.

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 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.

The opinions and information expressed and provided are for general information only and are not intended to provide specific advice or recommendations but rather, a basis from which strategies can be built, taking into account the specific objectives of each portfolio, in terms of return, time horizon, and risk constraints, as well as diverging investment perspectives and assumptions. All material has been obtained from sources believed to be reliable, but its accuracy and completeness are not guaranteed.

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Composite & Performance Disclosure:

Performance is measured against the Russell Midcap® Growth – a market capitalization-weighted index that measures the performance of those Russell Midcap® companies with higher price-to-book ratios and higher forecasted growth rates. All indexes, including the Russell Midcap® 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 at time of purchase generally within the range of capitalizations of stocks in the Russell Mid Cap Growth Index. The process is fundamental research driven. The investment style is growth. Primary selection criteria include quality management, distinct competitive advantage, and strong, sustainable growth. Portfolios will hold approximately 75 stocks. Historical turnover has averaged 51% per year. Composite inclusion threshold \$5mm. Fee basis is 80 basis points. The composite creation and inception date is October 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 mid cap market as represented by the Russell Midcap® 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. Previously, in August 2007, TimesSquare had modified its purchase capitalization range to match the mid cap market as represented by the Russell Midcap® Growth Index at that time, with a change from \$1.5 billion to \$10 billion at time of purchase to \$2.5 billion to \$15 billion.

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 0.80% 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 and sustains 10% annual gross return for each year during this period. If an advisory fee of 0.80% of average assets under management is charged per year, for each year of the ten-year period, the resulting annual net return would be 9.2%. The ending dollar value of the account would be \$48,223,239, as compared to \$51,874,849 if the advisory fees had not been deducted.