TIMESSQUARE
CAPITAL MANAGEMENT, LLC

Global Small Cap Strategy

Representative Commentary — 4Q22

Performance				
				Annualized
	4Q22	1YR	3YR	Since Inception (1/1/2018)
Global Small Cap Composite (Gross)	12.39%	-24.54%	-1.75%	2.08%
Global Small Cap Composite (Net)	12.15%	-25.23%	-2.63%	1.17%
MSCI World Small Cap (Net) Index	10.76%	-18.76%	2.93%	3.46%

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.

In 2022, global equity markets retreated sharply after three consecutive years of double-digit gains. For example, the MSCI World Index declined by -18% after average calendar year gains of 22% from 2019 to 2021. Though there were many economic challenges for the markets last year, weakness among global equities did not arise from poor company fundamentals—realized and projected earnings per share for the average MSCI World stock were either stable or increased in 2022 while their price/earnings ratios contracted. Weighing on the markets during the year was a combination of higher inflation rates, climbing commodity prices, tighter monetary policies, and slowing measures of business activities that moved into the range of economic contraction.

Though down for the year, in the fourth quarter equities rose from troughs earlier in 2022. That initial rebound was strongest for non-U.S. developed markets with a 17% quarterly gain, followed by emerging markets at 10%, and then 7% for the U.S. Across all geographies, value stocks remained favored above growth stocks. Positive returns were more evenly distributed among the global economic sectors this quarter, although for the year Energy remained the lone positive—and significantly so. As inflation rates remained above the goals for most major central banks, many of them raised interest rates at least once during the quarter.

In the U.S., the year began with highs and lows that moved to opposite ends of their respective spectrums. In January, economic activities were well into the range of expansion, but by year-end they either approached contraction levels or passed them. Consumer expectations eroded, in part matching the progressive climb of inflation, though the latter began to recede in the fourth quarter. In Europe, warmer-than-expected winter weather put energy transition worries on the backburner. Asian markets rallied as China reversed its zero-COVID policy and commodity prices began to ebb.

Quality/Profitability and Value performed well in most regions while Growth suffered. Within the global small cap universe, positive performance was seen across most regions with Europe leading while Middle East underperformed. Among sectors, Materials, Industrials, and Consumer Staples, showed strength, while Health Care, Communication Services, and Real Estate lagged.

Amid this environment, the portfolio outperformed the MSCI World Small Cap Index for the quarter. Our stock selection in the Americas and Japan contributed while other regions lagged. Relative strength in Consumer Staples, Health Care, Financials, and Consumer Discretionary more than offset relative weakness in Information Technology, Materials, and Industrials.

Regional Performance: Americas

Positive stock selection drove the strategy's outperformance in the Americas.

Leading the Financials sector was the 32% gain from the reinsurance provider **RenaissanceRe Holdings**. RenRe's level of gross premiums written was higher than anticipated, though more importantly the company expects that underwriting income, investment income, and fee income all are poised to increase materially in 2023. We trimmed our position on that strength. The sector also housed the strategy's greatest detractor - **Silvergate Capital**, which provides financial infrastructure solutions and services for the digital currency industry. While we initially believed Silvergate's financial position was stable and valuation was attractive, the market punished its shares and sentiment was unrelentingly negative. Lacking the conviction to rebuild the position, we sold our remaining shares, which were down -71% while we owned them this quarter.

The industrials sector bolstered performance this quarter. We initiated a position in **ESAB**, a leading global welding company. Despite a challenging economic environment for its end markets, ESAB reported revenues and earnings that exceeded expectations thanks to growth in volumes and pricing. That growth continued unabated, despite the exclusion of its divested operations in Russia, and lifted its shares by 28% this quarter since it was added to the portfolio. Another boost was the 28% gain from **EMCOR Group**, which provides construction and operational services for mechanical and electrical systems to a broad range of commercial, industrial, utility, and institutional customers. EMCOR's revenues and earnings bested expectations, as did the increased guidance for the rest of 2022. Notable growth was generated from its service groups for construction and building services, along with a higher backlog of activities. As its price climbed, we trimmed our position. Slipping by -13% was **Zurn Elkay Water Solutions**. Zurn specializes in water management products for end markets including commercial, residential, industrial, energy, aerospace, and construction—all of which fared differently recently. The company's revenues were below expectations and earnings were in line, though management offered lower-than-expected guidance for the next quarter. Exposure to residential markets tempered the outlook as did a prior overestimation of near-term sales from the recently acquired Elkay operations. Later, Zurn's management noted there may be some destocking of inventories among its distributors, which added to the pressure on its shares. After speaking with Zurn's management, we believe that expectations have been reset and that the recent forecast should prove overly conservative.

In Consumer Staples, food products distributor **Performance Food Group** operates through two segments: Foodservice and Vistar. Foodservice delivers food-related products to restaurants. Vistar serves vending, theater, retail, and other channels. Recent revenues and earnings exceeded expectations, which led Performance Food's management to increase its guidance for the balance of its fiscal year. The company's staffing situation improved—less need for costlier temporary employees—and it gained market share among independent restaurants. Shares jumped 36% as a result.

In Canada, **Spin Master** is a children's entertainment company that creates, designs, manufactures, licenses, and markets various toys, entertainment franchises, and digital games The company offers its products under the PAW Patrol, Bakugan, Kinetic Sand, Air Hogs, Hatchimals, Rubik's Cube, GUND, Toca Boca, Sago Mini, Etch A Sketch, Meccano, and Orbeez brands. They revised down 2022 revenue growth guidance from low double digit percent year-over-year to low single digit percent growth. The main culprit for this downward revision was the pull-forward of demand by customers in order to secure supply/product, which led to lower order patterns. Though shares declined -19%, we remain positive given the resilience of toy demand and the company's ongoing digital transformation.

Regional Performance: Europe

The strategy's holdings in Europe underperformed the benchmark's regional return though it was offset by our overweight position of the region.

Health Care was an area of weakness. In Switzerland, contract development and manufacturing organization **Siegfried Holding** reversed some gains from the prior quarter. Its two key businesses are: 1) Drug Substances, the ingredients used in drug therapies and 2) Drug Products, manufacturing drugs for pharmaceutical customers. We expect Siegfried's relevant small molecule contract business to experience robust growth for the next five years. However, 2023 will be a transition year. It will take some time before the volumes from the Pfizer/BioNTech COVID-19 vaccine contract – which will end this year – are replaced. As a result, shares retreated by -11%. Another detractor was Danish listed pharma company focused on allergy therapies, **ALK-abello**, which dropped by -13%. Sales guidance for its tablet division was revised down due to destocking from European wholesalers and a weak tree pollen season. In addition, its gross margin guidance was lowered due to one-off costs related to the discontinuation of a non-core product and facilities maintenance. We slightly reduced our position on the back of the softer guidance.

Also falling short with a -6% retreat while held in the portfolio this quarter was Sweden based **Viaplay,** the Nordic region's leading entertainment provider. For 2022, we expected its earnings to be depressed given the company's heavy investments in content. However, pricing power in Norway and overall advertising revenues were weaker than what we had expected. We decided to exit the name until we gain greater clarity on its outlook.

France based **Technip Energies** is well positioned as the world transitions to cleaner energy sources. It is one of only a handful of companies that can build liquefied natural gas (LNG) plants. The company resumed providing guidance, which is very positive as it means they have increased visibility. The market was pleased, and shares increased by 38%. We see a wide opportunity set for its backlog to be replaced following their commitment to fully exit the Arctic LNG 2 gas project led by Moscow-listed gas producer Novatek. Within Consumer Discretionary, **Games Workshop** is a global leader for tabletop miniature gaming. Shares were rewarded on the back of solid quarterly results owing to improving sales and operating trends and a solid dividend announcement. Later in the quarter, Amazon struck a deal with them to create a series based on its Warhammer franchise, the science-fiction fantasy miniature war game. This announced deal will be a multi-year series with an upfront fee and multiple royalties. This is the first proper globalization of Warhammer and opens the door to further agreements down the road. Shares surged 60%. Offering a bright spot in Financial Services was **FinecoBank** with its 33% leap. An online financial services firm with one of Italy's largest financial advisory networks, the bank reported top- and bottom-line beats supported by higher-than-expected revenue growth and cost control measures.

Regional Performance: Japan

Japan was an area of strength thanks to positive stock selection. Two of the Consumer Staples names from the country were among the portfolio's top contributors this quarter. During the quarter we initiated a position in **MatsukiyoCocokara ("MKCF")** on its initial price weakness. The company is one of Japan's largest drug store chains, with a larger presence in central urban locations than its peers. They reported strong quarterly results with better margins thanks to higher-than-expected cost synergies post their Cocokara Fine merger. With its superior locations in areas with heavy tourist traffic, we believe MKCF will benefit from higher inbound tourism to Japan. Shares bounced 35% since they were added to the portfolio this quarter. Another strong performer with its 20% return was discount supermarket chain, **Kobe Bussan.** The outlook is positive for continued unit growth and same-store sales improvement, while the recent currency reversal places a floor of support for earnings this year. Its rising private label products are driving margins higher. The company is a beneficiary of the structural trend of Japanese consumers trading down.

Regional Performance: Asia Pacific ex-Japan and Middle East

The portfolio's Asia Pacific Ex-Japan and Middle East holdings underperformed the benchmark's regional performance.

Downer is a leading infrastructure services provider in Australia and New Zealand. The company reported accounting irregularities in its utility business that involved historical misreporting of work in progress and revenue in one of the maintenance contracts; an investigation is underway. Compounding the concerns was the company's announcement in December that guidance was unlikely to be met (after reiterating guidance in November). In light of the developments, we liquidated the name, which lost -16% while it was held during the quarter. More positive was leading Australasia insurance broker **Steadfast**, which increased its shareholding in UnisonSteadfast, the largest global network of independent insurance brokers, to a majority stake of 60%. This strategic move marks a significant evolution in the partnership of the broker networks and solidifies their commitment to growing the global distribution platform for their network brokers. Investors were pleased with the transaction and Steadfast's shares were rewarded with a 25% share boost.

CyberArk Software is a global leader in Privileged Access Management (PAM) based in Israel. PAM controls access to critical enterprise applications and data on internal networks. CyberArk has gradually expanded their offer to include Identity Access Management (IAM) and other security applications, allowing them to provide a complete identity platform to customers. The company reported a strong third quarter with broad-based strength despite macro headwinds, but shares traded down -13%. We believe the company is uniquely positioned to consolidate market share.

Regional Performance: Emerging Markets

Within the Emerging Markets, our largest detractor was Taiwan based **Accton**, a leading manufacturer of white-box network devices, in particular network switches, for brand vendors (Broadcom, HP) and leading data center

“hyperscalers” (such as Facebook and Amazon). Share price underperformed due to poor sentiment from anti-China semiconductor policies and disappointing earnings results from industry bellwethers Microsoft and Google. Despite solid fundamentals, shares declined -11% and we added to the name.

Conclusion

Looking forward into 2023, many investors remain fixated on the macroeconomic environment. Which central bank will blink first by pausing—or even reversing—its quantitative tightening? Will those actions effectively reduce global inflation? How shallow or deep will 2023’s widely anticipated recession be? As bottom-up investors, our attention zeroes in on a company’s fundamentals and capital structure. While the contraction of P/E multiples weighed on nearly all stocks last year, many continued to increase their earnings and have stronger balance sheets than they did before the last recession. Stocks with that combination have a larger place in our strategy because we believe they will be well-positioned no matter what 2023 holds. 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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Firm and Composite Information

TimesSquare Capital Management, LLC ("TimesSquare") is a registered investment adviser that is owned by the former equity management team of TimesSquare Capital Management, Inc. ("TimesSquare Inc.") and Affiliated Managers Group, Inc. TimesSquare was formed to manage TimesSquare Inc.'s growth equity investment advisory business which was sold to TimesSquare in a transaction that closed on November 19, 2004.

This composite generally invests in stocks with market capitalizations at time of purchase generally within the range of capitalizations of stocks in the MSCI World Small Cap 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 110 stocks. Composite inclusion threshold $500,000. Fee basis is 90 basis points. The composite creation and inception date is January 1, 2018.

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.

TimesSquare's list of composites is available upon request. Past performance does not guarantee future results. The firm's list of limited distributed pooled funds are available upon request.

Benchmark

Performance is measured against the MSCI World Small Cap (Net) Index. MSCI World Small Cap (Net) Index is a trade or service mark of MSCI Inc. The MSCI World Small Cap (Net) Index is an unmanaged, market-weighted index of small companies in developed markets. 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 World 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.

Performance Calculations

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 fee level from 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 0.90% 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. Net of fee performance is available upon request.

Internal dispersion is calculated using the equal-weighted standard deviation of all accounts included in the composite on a gross basis for the entire year; it is not presented for periods less than one year or when there were five or fewer portfolios in the composite for the entire year.

The three-year annualized standard deviation measures the variability of the composite and the benchmark returns on a gross basis over the preceding 36-month period. The three-year annualized standard deviation calculation is not presented for the composite and/or benchmark for years when 36 monthly returns are not available. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.

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