TIMESSQUARE
CAPITAL MANAGEMENT, LLC

International Small Cap Strategy

Representative Commentary — 4Q22

Performance

			Annualized			
	4Q22	**1YR**	**3YR**	**5YR**	**7YR**	**10YR**
International Small Cap Composite (Gross)	13.45%	-27.13%	-5.32%	-3.26%	2.83%	6.27%
International Small Cap Composite (Net)	13.18%	-27.88%	-6.27%	-4.22%	1.81%	5.22%
MSCI EAFE® Small Cap (Net) Index	15.79%	-21.39%	-0.93%	-0.05%	4.44%	6.21%

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 amid recent optimism of peaking inflation, supply chain disruptions easing, and China re-opening. 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.

Focusing on the non-U.S., warmer-than-expected winter weather in Europe put energy transition worries on the back burner. As a result, Europe was the strongest region within the benchmark during the quarter. Asian markets also rallied as China abandoned its zero-COVID policy and commodity prices began to ebb. Meanwhile, in Brazil, President Lula returned with a large spending plan which fostered increased fiscal uncertainty. Within the benchmark, early cyclicals within Financials, Industrials, and Consumer Discretionary showed strength while the Health Care, Energy, and Real Estate sectors lagged.

Portfolio Performance Attribution

Amidst this environment, the International Small Cap Portfolio underperformed the MSCI EAFE Small Cap benchmark during the fourth quarter of 2022. Stock selection in Japan and our underweight in the Middle East had a positive impact on performance while Europe, Asia/Pacific Ex-Japan and the Emerging Markets detracted. There was relative weakness in Financials and Health Care, while Consumer Staples holdings and our underweight to the Real Estate sector were areas of strength.

Regional Performance: Europe
Relative underperformance in Europe was attributed to stock selection. Our holdings in the United Kingdom helped while Denmark and Switzerland hurt.

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 within the Health Care sector was **ALK-abello** which dropped by -13%. They are a Danish listed pharma company focused on allergy therapies. 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 -5% 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. In light of the headwinds, we decided to exit the name until we gain greater clarity on its outlook. Returns were better from Swedish defense equipment manufacturer **Saab** which climbed 26%. Military spending in the world had been in a long-term decline though given the current geopolitical situation, there should be structural increases in spending. The company is hiring and ramping up production capacity as demand for its products is expected to benefit from a surge in defense spending across Europe as well as Sweden's pending entry into NATO. Continuing tensions in the region have also increased appetite for the holding.

In addition to defense, another area where we see strong structural demand is the Energy sector. A beneficiary of Europe's structural energy transition is **Technip Energies**. Based in France, Technip 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. Delivering weaker performance in France was **GTT**, which develops membrane containment systems for liquefied natural gas vessels. The Seoul High Court ruled in favor of Korean shipyards, requiring the Company to separate its Technical Assistance service from the License Agreement; these services were historically bundled together when GTT sold their membrane technology. In addition, the mild winter that Europe experienced has resulted in lower than expected LNG demand. Though shares were down -3%, their business is as fundamentally strong as ever and so is the outlook for LNG demand.

More positive were our holdings in the United Kingdom. **Games Workshop (GWK)** 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%.

Also positive was fellow countryman **Rotork**, a manufacturer of mission-critical flow control and instrumentation solutions for oil and gas, water, and other flow control markets. Earlier in the year, we pared our exposure to the stock as the company faced headwinds from semiconductor component challenges and reduced deliveries from its China facilities. We added back to the name in the third quarter as component shortage challenges and logistic bottlenecks faded, allowing Rotork to meet strong demand in a timely fashion in 2H22. Shares jumped 41% this quarter.

On back of China reopening, a beneficiary with its 57% share price increase was **Befesa.** Based in Germany, they engage in the collection and recycling of steel dust and aluminum residues. Utilization rates are higher in Europe (versus maintenance in third quarter) and the CEO expects its China business to be profitable in 2022; this implies a sequential

improvement in the final quarter of the year. The improving outlook for zinc prices and China reopening is a tailwind while the company's medium-term story of recycling and decarbonization is also attractive.

Regional Performance: Japan

Japan was an area of strength during the quarter. The top contributor from the country with its 56% share price rise was **Organo,** a provider of water recycling services. In October, the company raised guidance above expectations, mainly from customers in the overseas electronics industry. It made solid progress passing through higher raw material costs to its customers and the yen depreciation was also beneficial. In addition, an advisory panel to Prime Minister Kishida approved a plan to extend the useful lives of nuclear reactors and to build new units; and Organo is an important key player in that value chain.

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.

Moving in the other direction and declining -1% was **Kadokawa,** a comprehensive entertainment publisher that monetizes its significant anime library across an increasing array of e-books, mobile games, and movie titles. The company missed earnings primarily from the ¥1.5bn write-down of a movie in its Video segment. As a result, Kadokawa announced plans to strengthen its production process control system and changed its live action movie business to the direct leadership of the company's president. Further, higher-than-expected cost increases in papers and logistics in its Publishing segment also weighed on margins.

New to the portfolio this quarter was **Fujikura,** one of the three major electric cable players in Japan. Fujikura stands out for its high-quality optical fiber business where it has captured more than 20% global share and is the only Japanese entity that supplies British Telecom in the UK. Its forte is within telecom systems which accounts for 50-60% of operating profit and has enabled it to grow earnings – including in China – faster than its peers. Shares jumped 27% since it was added to the portfolio.

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

The portfolio's Asia Pacific Ex-Japan holdings underperformed the regional benchmark. Leading Australasia insurance broker **Steadfast** 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.

Moving in the other direction with a -15% decline was **Downer,** 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 pared our exposure to the name.

Also negative was leading human resources provider **APM Human Resources.** Shares dropped -26% when they warned that profitability for this coming year was going to be second-half loaded. One of the major government programs requires some upfront investment and is also more outcome-based, so initial profitability will be lower. In addition, the lockup period for APM's major shareholder expired creating an overhang on the stock. Finally, the market had concerns that its personnel costs could exceed estimates, although its competitors are likely facing even more severe issues. We believe these near-term factors do not change our thesis and used the opportunity to buy on weakness.

Over in the Americas, **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, leading to lower order patterns. Though shares declined -18%, we remain positive given the resilience of toy demand and the Company's ongoing digital transformation.

Regional Performance: Emerging Markets

Within the Emerging Markets, our largest detractor in the region 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.

Moving to the other side of the world, a holding which we reduced was **TOTVS,** Brazil's largest software-as-a-service software provider. Due to increasing short term concerns on the political situation in Brazil post presidential election, we exited TOTVS given its higher valuation and year-to-date outperformance; shares were flat for the period that it was held during the quarter.

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 non-US stocks with market capitalizations at time of purchase generally within the range of capitalizations of stocks in the MSCI EAFE Small Cap Net Index. Portfolios will hold approximately 70-75 securities. The process is fundamental research driven. Primary selection criteria include quality management, distinct competitive advantage, and strong, sustainable growth. Historical turnover has averaged 37% per year. Composite inclusion threshold $500,000. Fee basis is 100 points. The composite creation and inception date is April 1, 2012.

From 04/01/2015 until 12/31/16, accounts are removed from the composites 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 January 1, 2017 this composite does not have a significant cash flow policy.

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 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.

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 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. 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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