Global Small Cap Strategy

Representative Commentary — 1Q23

Performance

	1Q23	1YR	3YR	5YR	Annualized Since Inception (1/1/2018)
Global Small Cap Composite (Gross)	9.25%	-5.81%	12.77%	3.70%	3.71%
Global Small Cap Composite (Net)	9.01%	6.66%	11.77%	2.78%	2.79%
MSCI World Small Cap (Net) Index	4.29%	-9.38%	17.59%	4.45%	4.12%

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.

It was a rollercoaster ride for global equity markets for the quarter, featuring considerable volatility. Most indexes ended positively in the mid-to-high single digits. The year began with optimism fueled by China's reopening of its borders to tourists. A mild winter drove down energy prices and lowered energy demand, bringing welcomed relief to Europe. These signs of vigor have been recognized by central banks, which may need to take action for longer than previously anticipated in order to bring inflation under control, though the degree of monetary tightening slowed. Global manufacturing activity decelerated, though it appears the supply chain challenges are fading. Geopolitical uncertainty remains a prominent consideration, with the war in Ukraine passing the one-year mark. In March, the collapse of SVB in the U.S. led to concerns over the broader global banking industry.

The UK and Eurozone economies showed surprising resiliency and fared better than expected so far this year. Despite the turmoil in the banking sector, the European Central Bank announced a further rate hike of 50 bps and pledged its support to preserve price and financial stability if needed. China's reversal of its zero-COVID policy at the end of last year led to a rebound in its economy while inflation has remained low. The low inflation, combined with the below-expected CPI print in February, led the People's Bank of China to announce a 25bp cut to its reserve requirement ratio for banks in March. During the quarter, developed markets outpaced emerging markets while Growth outperformed Value stocks. Within the global small cap universe, Europe outperformed other regions, while the Middle East lagged. Most of the sectors had positive returns with the exception of Financials and Energy.

The Global Small Cap Portfolio outperformed the MSCI World Small Cap benchmark during the first quarter of 2023. Stock selection was positive across most regions with Europe and Japan leading the way. There was relative weakness in Information Technology and Utilities, which was more than offset by strength in other areas.

Regional Performance: Europe

Outperformance in Europe was driven by strong stock selection. Holdings in Sweden, France, and Norway helped while Germany detracted.

The Energy sector housed some of the portfolio's best performers. Based in France, **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. After last quarter's strong performance, its shares climbed another 36%. The company issued strong guidance for 2023, which was materially higher than consensus estimates. We believe Technip will continue to benefit from the energy transition and decarbonization through a combination of LNG projects and new energy technologies including carbon capture and hydrogen. However, on the back of the current banking crisis and potential ramifications for the global economy, we became more cautious on the outlook for oil and notably reduced our exposure.

There was mixed performance in the portfolio's Information Technology holdings. In the United Kingdom, **Spirent Communications** is a leading provider of automated testing and assurance solutions for networks, security, and positioning (GPS). The company noted prolonged order delays in 5G investment from telecom carriers, which led its FY23 revenue guidance lower. With limited near-term visibility, we exited our position in Spirent, which lost -30% this quarter. More positive were our holdings in Fortnox. Providing IT applications and solutions for small and medium sized companies, shares of Sweden-based **Fortnox** reported a strong fourth quarter and its shares soared 50%.

Within industrials, Swedish defense equipment manufacturer **Saab** enjoyed another quarter of strong performance with its shares surging by 54%. 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. We trimmed our position on its price strength.

The collapse of Silicon Valley Bank led to turbulence in the global banking sector. Despite reporting better-than-expected results and generating solid inflows and net sales, shares of the portfolio's sole bank holding **FinecoBank** retreated -7%. Amid this backdrop, we trimmed our position in this online financial services firm with one of Italy's largest financial advisory networks.

Regional Performance: The Americas
Holdings in the Americas contributed to the portfolio's relative performance.

In Canada, manufacturer of agricultural equipment **Ag Growth International (AGI)** rose 42%. The company's strategy places it in the center of the global food infrastructure buildout, which has become increasingly critical given the growing global population, increased grain demand, shifting geopolitical uncertainties and supply chain disruptions. AGI delivered a strong quarter and continues to see a strong backlog and momentum across the business. On the other side was **Pason Systems**, which designs and produces sensors, instrumentation and data management systems used for drilling land rigs for oil and gas production. The company delivered solid 4th quarter results but indicated the slowing drilling activity will continue into the first half of 2023. We reduced our position due to the weaker outlook.

The United States housed some of the portfolio's largest contributors and detractors for the quarter. On the negative side, **Jack Henry & Associates** offers core technology solutions and ancillary services to banks and other financial services organizations. The latest quarter's results included revenues and earnings that were slightly below forecasts. Management reduced forward guidance in anticipation of a decline in bank consolidation activity which would result in lower de-conversion fees (Jack Henry typically receives contract termination fees when one of its customers is acquired.). These factors led to a -14% selloff. **National Vision** is an optical specialty retailer operating under the America's Best, Eyeglass World, and Visa Optical brands. Their fourth quarter earnings came up short versus sell-side projections, though revenues were in line. Management cited a difficult operating environment, particularly for their lower-income customers. The company's 2023 outlook was slightly below estimates, incorporating continuing constraints on eye exam capacity due to a shortage of optometrists. We decided to liquidate the position, which fell -40% for the time it was held this quarter. Future concerns weighed on the shares for **Encompass Health Corporation**, one of the largest U.S. providers of post-acute services, such as rehabilitation. Encompass's fiscal quarterly revenues and earnings were better than expected, with labor costs under control and patient volume growing. Encompass's initial guidance for 2023 appeared conservative and later in the month there were concerns that a future federal rule might encourage expedited discharges from inpatient rehabilitation facilities to home health settings. That led its shares down by -9%, though in our view, the conservative projections were typical for Encompass and no rule changes of the latter type were likely until late 2024 at the earliest.

More positive, and climbing 26%, **ESAB** is a manufacturer of welding equipment and consumable products. Upside to Street projections came from the combination of higher prices and sales volume growth. Forward guidance was better-than-expected. **WNS** is a business process management company supplying data, voice, analytics, and transformation services. Its stock was lifted 16% by the combination of solid results and higher forward guidance. During the quarter, WNS added 11 new clients and expanded relationships with 24 existing customers. Wealth management services company **Focus Financial Partners** advanced 39% on news that they are being acquired by private equity firm Clayton Dubilier & Rice. We started selling out of the position on this development.

Regional Performance: Japan

Japan was another area of strength driven by positive stock selection. **Internet Initiative Japan** is one of Japan's oldest Internet Service Providers (ISP). The company has leveraged its early extensive Internet connectivity footprint across Japan's government and blue-chip enterprise customers to upsell and cross-sell additional network connectivity solutions, transforming itself into a dominant data infrastructure player, network services provider and system integrator**.** Shares of IIJ marked up 12% during the quarter.

Regional Performance: Asia Pacific Ex-Japan and Middle East

Asia Pacific Ex-Japan was the only region of slightly relative weakness versus the benchmark. Intellectual property services provider **IPH Management** was the target of a cyber-attack in March. Although most of the breach was not concerning client files, it is hard to estimate the indirect impact on its reputation. As a result, we trimmed our position in the stock with its price down -15%.

In the Middle East, Israeli provider of enterprise software solutions and services, **NICE Ltd**, rose 19%. Though fourth quarter revenues and guidance were a touch below Street expectations, cloud revenues and guidance were robust. The company's Contact Center as a Service business has also been relatively macro resilient, with growing cloud revenues. NICE continues to make share gains in this competitive market.

Regional Performance: Emerging Markets

Within the Emerging Markets, Taiwan's leading e-commerce player **momo.com** surged 43% and we trimmed the position on its price strength. The company reported a beat to consensus estimates and increased its fiscal year 2023 earnings forecast. With the continued e-commerce penetration in Taiwan, we believe momo.com is well positioned to benefit from the structural tailwind.

Conclusion

While recession concerns persist, employment data has remained stable. Earnings reports include cautious guidance amid macroeconomic uncertainty. As bottom-up investors, we remain focused on business fundamentals. While quality can be in and out of favor by the market at certain points, we believe these types of businesses are well positioned to perform well over time. As always, we are available for any questions you may have as we endeavor to protect the assets you have entrusted to 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

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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.

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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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