International Small Cap Strategy

Representative Commentary — 1Q23

Performance

			Annualized			
	1Q23	**1YR**	**3YR**	**5YR**	**7YR**	**10YR**
International Small Cap Composite (Gross)	9.33%	-6.85%	9.02%	-2.17%	3.88%	6.35%
International Small Cap Composite (Net)	9.07%	-7.78%	7.94%	-3.13%	2.86%	5.31%
MSCI EAFE® Small Cap (Net) Index	4.92%	-9.83%	12.07%	0.87%	5.25%	5.86%

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, banking troubles 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 international 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 Real Estate.

Portfolio Performance Attribution
The International Small Cap Portfolio outperformed the MSCI EAFE Small Cap benchmark during the first quarter of 2023. Stock selection was positive across most regions, especially Europe and Japan. There was relative weakness in Information Technology and Utilities, which was more than offset by strength in other sectors.

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. Fellow French company **GTT** develops membrane containment systems for liquefied natural gas vessels. GTT announced better-than-expected 2022 results but guided 2023 below market expectations. Management noted the potential risk with the Russian shipyard orders and factored that into their 2023 guidance. Shares of GTT traded down -4% as a result. Norwegian listed, global oilfield services company **TGS** ascended 34%. Management raised its multi-client investment guidance and announced a new joint venture project in the Gulf of Mexico. They also secured vessel capacity, which provides increased cost visibility and vessel availability. However, on the back of the current banking crisis and potential ramifications for the global economy, we become more cautious on the outlook for oil and notably reduced all three of these positions in the strategy.

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 trimmed our position in Spirent, which lost -30% this quarter. More positive were our holdings in Fortnox and Sopra Steria Group. 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%. Improving by 39% was France-based **Sopra Steria Group**, which provides consulting, systems integration, software development, infrastructure management and business process services. The company continued to see strong growth for its consulting business and reported solid 2022 results. During the quarter, they announced a proposed takeover bid for Amsterdam-listed Ordina. The deal is expected to further strengthen Sopra's position in the region.

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. In neighboring Finland, process technology provider **Valmet** supplies entire production lines and mills to pulp and paper end markets. During the quarter, Valmet announced a strong end to their FY2022 helped by a strong margin recovery in the 4th quarter in their Service segment and solid order intake in their Process Equipment and Flow Control segments. The margin recovery reinforced the belief that 2Q 2022 was the trough for margin contraction. Shares of Valmet jumped 23% as a result. Delivering weaker performance was U.K.-based **RWS,** a language and intellectual-property (IP) support services provider, which declined by -16%. The company continues to see a number of new clients wins and a strong retention of existing clients.

Regional Performance: Japan

Japan was another area of strength driven by strong stock selection. During the quarter, we exited our holdings in Daiseki and Systena, which declined by -11% and -24% respectively while they were held this quarter. An environmental specialist focusing on the treatment, recycling, and safe transportation of industrial waste, **Daiseki** lowered its full year earnings forecast for the third time in the last 9 months. System integrator **Systena** engages in the mobile and Internet solution business. The company's fiscal 3Q sales results came in slightly above consensus estimates but its operating margins disappointed with a high number of employees leaving the firm due to limited salary increases. With competition for scarce engineering talent increasing rapidly in Japan, the declining margin trends could continue in the near term.

Continuing its upward momentum with a 23% share price rise was **Organo,** a provider of water recycling services. Demand from the semiconductor industry remains strong while orders from general industry jumped by more than 100% year-over-year, reflecting the recovery in industries such as food and pharmaceuticals. We reduced our exposure to leading Japanese consulting company **BayCurrent** with its share price leaping by 31%. The company reported a strong set of fiscal 3Q earnings, driven by robust hiring and solid pricing growth.

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

Asia Pacific Ex-Japan was the only region of relative weakness versus the benchmark. Leading human resources provider **APM Human Services** focuses on disability, employment, and related services and generates revenue backed by long-term government funding. Concerns over regulatory risk, expiration of share trading lock-ups, as well as poor returns from other social services linked companies weighed on the stock and drove the share price down -16%. Intellectual property services provider **IPH Management** was under 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%.

Over in the Americas, Canadian 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.

Regional Performance: Emerging Markets
Within the Emerging Markets, Taiwan based **Accton** is a leading manufacturer of white-box network devices, in particular network switches, for brand vendors (such as Broadcom and HP) and leading data center "hyperscalers" (such as Facebook and Amazon). Share price rebounded 37% on the back of better-than-expected quarterly results helped by easing supply chain pressure and strong demand trend for 400G switches. We pared our exposure into this price strength.

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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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.

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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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