U.S. Small/Mid Cap Growth Strategy

Representative Commentary — 1Q23

Performance

			Annualized			
	1Q23	**1YR**	**3YR**	**5YR**	**7YR**	**10YR**
U.S. SMID Cap Growth Composite (Gross)	7.16%	-9.43%	15.31%	7.31%	10.07%	9.23%
U.S. SMID Cap Growth Composite (Net)	6.90%	-10.33%	14.18%	6.25%	8.99%	8.16%
Russell 2500™ Growth Index	6.54%	-10.35%	14.75%	6.82%	10.39%	10.04%

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 along with decreased energy demand brought welcome relief to Europe. These signs of vigor have been recognized by central banks, which may need to act for longer than previously anticipated 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 the U.S., equities weathered a banking crisis, cryptocurrency meltdowns, and a lack of clarity for what is in store for the economy. While the labor market remains strong, consumers continue to dip into savings that were accumulated during the pandemic. Home prices are falling across much of the country, with elevated mortgage rates dampening purchase activity. The Federal Reserve raised interest rates by 25 basis point increments for both February and March, while also keeping a watchful eye on lending in recognition of recent banking system stress. Growth outperformed value by a wide degree, with lower valuation stocks lagging among small-to-mid capitalization growth companies. The Energy sector gave up some of its past gains with falling oil and natural gas prices.

Amidst this environment, the portfolio outperformed the Russell 2500™ Growth Index in the first quarter. There was relative weakness in Consumer Discretionary, Energy, Materials, and Health Care. That was more than offset by strength from our positions in the Financials, Industrials, and Communication Services sectors.

In Consumer Discretionary, **Leslie's Inc.** is the largest omnichannel specialty retailer of swimming pool supplies, spa supplies, services, and related products. Mixed fiscal first quarter results caused its stock to dip by -13%, with revenues above consensus estimates and earnings below. Wet weather in Texas and California reduced same-store sales in those states. **National Vision Holdings Inc.** 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. More positive was the 45% climb for **Global-E Online Ltd.**, a platform provider facilitating cross-border ecommerce. Solid fourth quarter results included revenues that were slightly ahead of consensus estimates and profits well ahead due to solid cost controls. **Floor & Decor Holdings Inc.**, a specialty retailer of hard surface flooring and related accessories, jumped 36%. Fourth quarter revenues were slightly below the Street's projections, while same-store sales increased. Floor & Decor has continued to drive strong engagement with professional remodelers and have experienced a solid enrollment increase in their pro premier rewards program. Management also noted easing freight costs that should translate into margin tailwinds. A new addition this quarter is **European Wax Center Inc.,** a franchiser and operator of body and facial waxing service locations. They reported strong results and initial 2023 guidance is in line with the Street. Despite a challenging economic backdrop, waxing has continued to hold up as an essential service.

In the Energy sector, **Cactus Inc.** designs and manufactures a range of pressure control equipment for the energy industry. They reported a strong beat to profit expectations as the company continues to take market share in its core wellhead business and margins continue to improve. While there is some apprehension with respect to drilling activity in recognition of the drop in natural gas prices, management is seeing a pickup in oil basin activity. Nevertheless, its shares sold off by -19% and we added to the position. **Matador Resources Co.** is an exploration and production company operating in Southeast New Mexico and West Texas. Fourth quarter results were strong, with beats across most of its operating metrics. However, forward guidance was met with disappointment and that caused its stock to slip by -17%. Production estimates are lower than sell-side projections, while capital expenditures were higher. Earlier this year, Cactus and Matador announced acquisitions, which we view as positive. While both companies possess strong balance sheets, these deals may have caused angst on the part of some investors.

Within Materials, **RPM International Inc.** produces coatings, sealants, and building materials. The company reported in line fiscal second quarter results, with notable strength in the U.S. countering weakness in Europe. Management offered cautionary guidance that factored in macroeconomic headwinds, housing trends, and higher interest rates. This caused a -13% pullback in the stock and we added to the position. New to the portfolio this quarter is **Avient Corp.**, a producer of thermoplastic compounds. Its shares edged forward by 5% since it was added. Fourth quarter results were mixed including lower-than-expected revenues and higher earnings. Sales were impacted by weak global demand conditions and customer destocking across nearly every market and region. Forward guidance includes improving macro conditions in the second half of the year.

In Health Care, **Ascendis Pharma**, a biopharmaceutical company focused on developing therapies for unmet medical needs dropped -11% despite having in-line fourth quarter sales of the company's Skytrofa therapy, which is approved to treat growth hormone deficiency in children. Going forward, management expects Skytrofa sales to exceed current estimates, driven by the continued increase in patient population reimbursements. **Silk Road Medical Inc.**, a medical device company focused on treating carotid artery disease, declined by -26%. The company posted solid fourth quarter revenues on growing TCAR adoption. Gross margin came in a touch below estimates. Management's initial 2023 guidance points to healthy revenue growth, however, much of it is expected to come from the back half of the year due to planned territory expansion and increasing revenues per procedure. We decided to reduce the position. **AtriCure Inc.** develops and produces devices for the surgical ablation of cardiac tissue. While overall results were in line with its pre-announcement, minimally invasive ablation revenues have not grown as anticipated and that caused its shares to trade down by -7%. Healthier results were found in **PTC Therapeutics Inc.**, a biopharmaceutical company focused on the discovery and development of medicines for patients with rare disorders. The stock jumped 28% after reporting fourth quarter results that were aided by its therapeutics for treating Duchenne muscular dystrophy. Of note, several pivotal trials are underway for other therapies and indications. In the latter part of the quarter, PTC announced its CEO would be retiring after 25 years at the helm and to be replaced by its current Chief Operating Officer as part of an orderly succession plan. **Envista Holdings Corp.** manufactures dental products for diagnosing, treating, and preventing dental conditions. The stock price improved 18% after reporting fourth quarter sales and earnings that were slightly above the consensus, aided by momentum in orthodontics and consumables. Fundamentals are expected to improve in the year ahead as its China business rebounds and newer products begin to mature.

Within Financials, wealth management services company **Focus Financial Partners Inc.** advanced 36% on news that they are being acquired by Clayton Dubilier & Rice. We booked profits and sold out of the position on this development. Another credit for the sector came from the 12% gain for **Hamilton Lane Inc.**, an investment firm specializing in direct and fund of fund investments. Third quarter results exceeded estimates on higher incentive income and lower operating costs. Specialized funds were an area of notable strength. **Jack Henry & Associates Inc.** 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 a touch below forecasts. Management reduced forward guidance in anticipation of a decline in bank consolidation activity which would result in lower de-conversion fees. These factors led to a -15% selloff. (Jack Henry typically receives contract termination fees when one of its customers is acquired.) The portfolio's single bank holding was **Signature Bank**, which offers commercial banking services predominantly in the New York metropolitan area. In the beginning of March, we became increasingly concerned regarding the risk of deposit outflows. These fears were heightened as SVB Financial suffered deposit challenges and difficulty in consummating an equity capital raise. While we did not perceive comparable risk to SVB Financial in terms of Signature's fixed income portfolio, we viewed its deposit position as risky. We therefore decided to liquidate our remaining position in this bank prior to its subsequent closure, which was down -21% for the time it was held during the quarter.

In the Industrials sector, **GFL Environmental Inc.** is a vertically integrated solid waste company. Revenues surpassed estimates, while earnings came up short due to unforeseen IT and maintenance costs. The company issued guidance above the Street inclusive of three non-core divestitures being used to reduce leverage. That news was well received by the market as its shares rallied 18%. **ESAB Corp.**, a manufacturer of welding equipment and consumable products, climbed 25%. Upside to Street projections came from the combination of higher prices and sales volume growth. Forward guidance was better-than-expected. We trimmed the position on this strength. Transportation services company **Saia Inc.** surged ahead by 30%. They reported mixed fourth quarter results, with inline revenues and earnings coming up a bit short. While tonnage declined, revenue per shipment was up nicely. The earnings miss came from a rapid decline in tonnage as well as lower diesel prices. Management believes the pricing environment remains constructive. While length of haul was down, weight per shipment is trending positively. **AZEK Company Inc.** manufactures wood-alternative building products for residential, commercial, and industrial markets. Although the company reported a mixed fiscal first quarter, investors are more focused on normalization of inventory levels at distributors. Full-year sales projections are higher than Street estimates. AZEK rose 11% and we trimmed the position on this strength. **Booz Allen Hamilton Holding Corp.**, a provider of management and technology consulting services, dropped by -7%. While the fiscal third quarter results were in line with sell-side estimates, there was a decline in the book-to-bill ratio. That appears attributable to some large orders that were pushed out. We exited the position. **Zurn Elkay Water Solutions Corp.** is engaged in the design and manufacture of water solutions. Its shares slid by -1% after reporting fourth quarter results that were slightly below sell-side projections. This stemmed from channel destocking and weakness in the residential market. Margins also missed as they realized the impact of higher cost inventory. An improvement in margins is expected in recognition of lower transportation and commodity costs. We decided to trim the position.

Within Communication Services, digital advertising verification company **Integral Ad Science Holding Corp.** jumped by 62% over the quarter. Their cloud-based platform enables advertisers to check whether their ads are being seen by the right audience in a safe and suitable manner. The company's fourth quarter results surpassed estimates, amid a challenging macroeconomic backdrop, with increased adoption of context control. Revenue growth was driven by its automotive, technology, and telecommunication verticals. New wins included Ford, Hershey, Bel, and Kering. First quarter revenue and profit guidance are ahead of consensus projections.

In the Information Technology sector, **Allegro Microsystems Inc.** is a fabless manufacturer of sensor integrated circuits (ICs) and application-specific analog power ICs for motion control and energy efficient systems, mainly focused on the automotive industry. They reported a very good quarter, with revenues coming in at the high end of guidance and earnings exceeding projections. Its shares gained 57% and we trimmed the position on this strength. **Onto Innovation Inc.** supplies process control tools to ensure quality control of semiconductor manufacturing. Fourth quarter results were modestly above expectations. It appears that management acted conservatively by issuing lower-than-anticipated first quarter guidance due to a softer memory market. Onto is implementing cost-saving actions to boost margins. Those actions were well received by the market with its share bid up by 28%. **NICE Ltd.**, a provider of enterprise software solutions and services, rose 19%. Fourth quarter revenues were a touch below Street expectations. The company's Contact Center as a Service business has been relatively macro resilient, with growing cloud revenues. Products and Services were essentially in line with estimates. NICE continues to make share gains in this competitive market. **JFrog Ltd.** is a software company that offers a platform to efficiently manage and distribute software updates. Mixed fourth quarter results coupled with lower-than-expected revenue guidance caused the stock to fall by -11%; management called out a progressively worsening macroeconomic environment with business being pushed out and an increased amount of deal scrutiny. **PowerSchool Holdings Inc.** offers cloud-based software to the K-12 education market. The company posted a solid fourth quarter, with improving margins. Revenue guidance for 2023 was slightly below consensus estimates due to a slight delay in the signing of a large contract and that triggered a -17% retreat. Of note, net revenue retention has increased for five consecutive quarters supported by renewals and cross-sell activity. We added to the position.

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:

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This composite invests in stocks with market capitalizations at time of purchase generally within the range of capitalizations of stocks in the Russell 2500 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 90-120 stocks. Historical turnover has averaged 61% per year. Composite inclusion threshold $5mm. Fee basis is 100 basis points. The composite creation and inception date is November 1, 2000.

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.

In July 2014, TimesSquare modified its purchase capitalization range to match the changes in the small/mid cap market as represented by the Russell 2500™ Growth Index. The purchase range was amended to reflect a range bounded by $300 million 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.

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 Russell 2500™ Growth – a market capitalization-weighted index that measures the performance of those Russell 2500™ companies with higher price-to-book ratios and higher forecasted growth rates. All indexes, including the Russell 2500™ Growth Index, are based on gross-of-fee returns. FTSE Russell is the source and owner of the Russell Index data contained or reflected in this material and all trademarks and copyrights related thereto.
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 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 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.

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. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.

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