

## U.S. FOCUS Growth Strategy

### Representative Commentary — 3Q23

| Performance                           | Annualized |        |       |        |        |        |
|---------------------------------------|------------|--------|-------|--------|--------|--------|
|                                       | 3Q23       | 1YR    | 3YR   | 5YR    | 7YR    | 10YR   |
| FOCUS Growth Equity Composite (Gross) | -2.04%     | 23.08% | 9.81% | 12.90% | 14.05% | 11.77% |
| FOCUS Growth Equity Composite (Net)   | -2.29%     | 21.88% | 8.73% | 11.79% | 12.93% | 10.67% |
| Russell Midcap® Growth Index          | -5.22%     | 17.47% | 2.61% | 6.97%  | 10.39% | 9.94%  |

*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.*

Global equity markets fell in the third quarter, though remained positive year to date. Value generally held up better than Growth, which was evident from the market indexes and the style factors. The strongest style factor in the U.S. market was Profitability, though its influence was far more muted worldwide.

As our investment team meets with companies, reviews recent earnings reports, and surveys the global landscape, they note several investment dynamics that inform our positioning:

- Labor pools continue to shrink and get more costly. Some companies adjusted to wage inflation and are in stronger positions to offset those costs and maintain margins thanks to their pricing power. Others either outsource certain operations to specialized providers or increase their use of productivity enhancement tools or software.
- While adoption of cloud-based processes is still in the nascent stages, earlier this year many businesses slowed their pace of spending as part of broader cost-cutting measures. Now in better financial positions, companies are beginning to reengage with their cloud initiatives and those green shoots were noted by some of our holdings.
- Enthusiasm for the new series of GLP-1 obesity treatments touched nearly all areas of Health Care, and part of the Consumer Discretionary sector. Aspects of that sentiment seem extreme to us, especially the way many medical technology stocks were punished. However, that may create investment opportunities.
- Consumers have traded down with their spending habits or tightened the hold on their wallets. That was partly a response to higher expenses from rising credit costs and energy prices, which makes us more cautious about some consumer-oriented companies.
- One area benefiting from increased spending has been Industrial infrastructure. Companies have been reassessing their supply chains in the face of geopolitical pressures and the greater costs or risks with long-distance shipments. At the same time, many of the larger economies provided new government support programs for infrastructure investments. That causes growing shifts of production capacity to local regions and leads to significant project backlogs for some of our holdings, especially those capable of improving industrial efficiency.

Among small-to-mid cap growth stocks this quarter, the better performing stocks had lower betas or higher returns on equity. Those with excessive valuations (defined by price/earnings) or lacking near-term earnings were out of favor. Amidst this environment, the portfolio outperformed the Russell Midcap® Growth Index in the third quarter.

Focus Growth is a concentrated strategy of our best Mid Cap Growth ideas. These include businesses possessing differentiated capabilities, low-cost energy producers, well-placed insurance companies, business service enterprises, and specialty retailers.

**CrowdStrike Holdings Inc.**, a provider of cloud-delivered protection across endpoints and cloud workloads, surged ahead by 14%. They reported a very solid fiscal second quarter that was driven by increased demand for CrowdStrike's cloud, identity, and next generation Security Information and Event Management (SIEM) products. Guidance was raised for the full year based on a strong pipeline, sales execution, and platform demand.

**Cheniere Energy Inc.** operates liquefied natural gas terminals in Louisiana and Texas. The company reported a solid quarter and raised forward guidance, which contributed to its 10% return. During the quarter, Cheniere bought back stock and paid down debt. Although these amounts did not meet Street expectations, management is building cash to fund projects and plans to accelerate their share repurchases in the back half of the year.

**RenaissanceRe Holdings Ltd.**, a provider of reinsurance and insurance products, gained 6%. Its second quarter numbers were solid across underwriting, property catastrophe premiums, investment income, and fee income. While there was an impact from severe storms during the quarter, RenRe's losses were modest.

**Synopsys Inc.**, a supplier of electronic design automation software for use in designing and testing integrated circuits, rose 6%. Fiscal fourth quarter results were solid and management raised forward guidance. Despite macroeconomic concerns, their customers remain focused on developing next generation semiconductors with their electric design automation tools.

**Verisk Analytics Inc.**, a supplier of data analytic solutions for the insurance market, edged forward by 5%. Second quarter revenues were above sell-side expectations, driven by broad-based revenue upside across Underwritings & Ratings as well as Claims. Management increased full year guidance.

**Martin Marietta Materials Inc.**, a supplier of aggregates and other materials to the construction industry, dropped by -11%. Second quarter revenues were in line with expectations while profits were well ahead. Volumes were mixed and management lowered its aggregates volume outlook along with mid-year price increases. End market demand remains split with infrastructure and heavy commercial showing strength, while residential and light commercial markets have been weak.

**Brunswick Corp.** designs and manufactures recreational marine products. Its boat brands include Sea Ray, Boston Whaler, Bayliner, Lund, Crestliner, and Lund. Marine engines fall under the Mercury brand. Brunswick's second quarter results fell short of estimates due to lost production days stemming from a cybersecurity incident, and that caused its stock to sink by -8%.

**Palo Alto Networks Inc.** supplies network and cloud-based security solutions to enterprises, service providers, and government entities. Their shares sold off by -8% on mixed fiscal fourth quarter results which included a shortfall to billings growth estimates, in line revenues, and an upside on earnings. Palo Alto's updated guidance was materially ahead of lowered Street expectations.

**Waste Connections Inc.**, a non-hazardous waste company, pulled back by -6%. They serve residential, commercial, municipal, and industrial customers in the U.S. and Canada. Second quarter results included inline revenues, an upside to profits on better margins, though with slightly lower volumes. Management noted that volumes came in weaker than anticipated due to intentionally shedding low margin contracts. Forward revenue guidance was lowered slightly, reflecting lower surcharges from falling diesel prices.

**O'Reilly Automotive Inc.** is a specialty retailer of after-market automotive parts and accessories. Its second quarter results edged past the consensus and management increased forward guidance. In the professional mechanics space, O'Reilly is gaining market share and has been experiencing a higher average ticket in the do-it-yourself area. After four decades at the company, their CEO announced he will be retiring next January with the current COO stepping into that role. O'Reilly accelerated investments, including store image improvements. Better employee benefits have led to higher retention rates, though at a higher cost. The stock price of O'Reilly pulled back by -5% on these developments.

**Chemed Corp.** operates in two segments. VITAS provides hospice and palliative care services. Roto-Rooter offers plumbing, drain cleaning, and other related services. While VITAS continues to improve, Roto-Rooter experienced

softening demand and that led to a reduction in forward guidance as well as a -4% decline in its shares. We added to the position on this pullback.

New to the portfolio this quarter is **IDEXX Laboratories Inc.** They are a developer, manufacturer, and distributor of products and services for the animal veterinary, livestock, poultry, dairy, and water testing markets.

As bottom-up investors, we seek underpinnings to near-term valuations in the form of expected earnings growth and other business fundamentals. We continuously review the business models and management teams of current and potential holdings, and fine tune our own valuation models on an ongoing basis, as we endeavor to protect the assets you have entrusted with us. As always, we are available for any questions you might have.

## **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 invests in stocks with market capitalizations at time of purchase generally within the range of capitalizations of stocks in the Russell Mid Cap 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 15 stocks. Historical turnover has averaged 73% per year. Composite inclusion threshold \$500,000. From January 1, 2007 to April 30, 2010 the fee is 150 basis points. From May 1, 2010 the fee is 100 basis points. The composite creation and inception date is September 1, 2005.*

*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 Russell Midcap® Growth – a market capitalization-weighted index that measures the performance of those Russell Midcap® companies with higher price-to-book ratios and higher forecasted growth rates. All indexes, including the Russell Midcap® 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. From January 1, 2007 to April 30, 2010 the applied standard fee was 150 basis points. From May 1, 2010 through present the applied standard fee is 100 basis points. 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. TimesSquare's fee schedule is available upon request and may also be found in Part 2A of our Form ADV.*

*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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