Global Small Cap Strategy

Representative Commentary — 3Q23

Performance

	3Q23	1YR	3YR	5YR	Annualized Since Inception (1/1/2018)
Global Small Cap Composite (Gross)	-4.32%	16.71%	1.35%	1.90%	2.48%
Global Small Cap Composite (Net)	-4.54%	15.68%	0.44%	0.99%	1.56%
MSCI World Small Cap (Net) Index	-4.39%	14.00%	6.23%	3.10%	3.52%

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.

During the quarter, Value outperformed Growth stocks and large cap outpaced their smaller peers. Within the global small cap universe, Japan finished the quarter slightly positive while returns from other regions lagged. Energy had a double-digit rebound during the quarter while Information Technology, Health Care, and Communication Services underperformed.

The Global Small Cap Portfolio outperformed the MSCI World Small Cap benchmark during the third quarter of 2023. Relative strength in the Americas offset relative weakness in other regions.

Regional Performance: The Americas
Strong stock selection in the Americas contributed to the portfolio's outperformance.

Our preferences among Health Care stocks are those companies providing novel therapies for unmet needs that deserve premium pricing, or specialized service providers. During the quarter, **Reata Pharmaceuticals**—a biotechnology developer of therapies for types of chronic kidney and neurological diseases—agreed to an acquisition offer from Biogen, Inc. That lifted its shares by 69% and we sold our holdings.

Many of our Industrials positions provide necessary business-to-business operational services, highly technical components, automation & efficiency improvements, or essential infrastructure services. Slipping by -16% was **Casella Waste Systems,** which handles solid waste collection, transfer, disposal, and recycling for residential, commercial, municipal, and industrial customers. Casella's revenues and earnings fell slightly shy of expectations, though the company increased its guidance for the balance of the year. While its pricing power remained strong, there were fewer one-off waste projects during that period. Climbing by 14% was **EMCOR Group**, which provides construction and operational services for mechanical and electrical systems to a broad range of commercial, industrial, utility, and institutional customers. The company's revenues and earnings bested expectations, leading management to increase its earnings guidance for the rest of 2023. Profitability improved within EMCOR's electrical and mechanical operations, and its project backlog increased year over year. After the post-report share gain, we trimmed our position.

Among the wide variety of Information Technology companies, we prefer critical system providers, specialized component designers, and systems that improve productivity or efficiency for their clients. Late in the quarter, **MACOM Technology** reported results that were largely in line with expectations for this designer of radio frequency, millimeter wave, microwave and photonic analog semiconductor chips for the aerospace/defense, communication network, and datacenter markets. The market seemed enthusiastic regarding increased guidance for its final quarter of the fiscal year, and the surging growth of its datacenter business. Later, there were additional rewards for MACOM after it announced the acquisition of Wolfspeed's complementary radio frequency business. While the deal makes strategic sense, because MACOM will fund the purchase partly with shares, we pruned our position as it gained 23%.

In the Communication Services sector, we generally prefer media-related companies that either benefit from providing advertisers with a different target audience or provide related services. This quarter, those businesses lagged the broader sector. One example was **Integral Ad Science**, which provides digital advertising verification services. Its revenues and earnings edged ahead of expectations with guidance for the remainder of the year in line with projections. Management indicated that there should be a reacceleration of revenue growth in 2024 as its tools are employed to measure traffic for new social media offerings. The price decline appeared driven by short-sighted investors who wanted a faster growth trajectory. We believe management was prudent with its plans, and we added to our position during the -34% decline.

Our preferences in the Consumer-oriented sectors lean toward value-oriented or specialty retailers, franchise models, or premium brands. This quarter, with measures of consumer confidence and sentiment falling, we have seen many challenges in this area. Slipping by -30% were the shares of **Topgolf Callaway Brands**, which manufactures golf equipment and accessories, as well as operates entertainment venues. Revenues were shy of expectations because recent wildfires in Canada led to temporary closures of Topgolf locations there. However, the company's equipment sales showed larger-than-expected volumes and recent golf industry data indicated higher activity levels.

Within the Financials sector, we tend to avoid banks that face credit deterioration or rising deposit costs. However, through our bottom-up research process, we identified **Webster Financial Corp.** (the holding company for Webster Bank) as a high-quality bank candidate that is suitable for this portfolio. The company is seeing moderate deposit cost increases. However, since majority of the company's loan book is floating rate, the company is benefiting from the increase in interest rates. **PJT Partners** is an investment bank offering advisory and restructuring services. The company reported a solid beat to earnings, driven by higher revenue from strong restructuring results. With Webster and PJT up 7% and 15% respectively, we trimmed both positions.

Regional Performance: Europe
Recognizing the geopolitical landscape and economic reality, we continued to trim in Europe.

In the United Kingdom, wealth manager **St. James Place** reported a mixed first half 2023 with lower-than-expected net inflows for the second quarter. In addition, they announced an annual product management fee cap for long duration bond and pension investments. As a result, the share price of St. James declined -25%. We believe the market overreacted and the company's business model stays intact.

In France, **Technip Energy** is one of only a handful of companies that can build liquefied natural gas (LNG) plants. During the quarter, Technip was awarded a significant contract by BP for a hydrogen production unit in Australia. We remain bullish on the name as it is well positioned as the world transitions to cleaner energy sources. Shares of Technip ascended 8%. Fellow countryman **Verallia SAS** is the European leader in glass packaging for food and drinks. The company sees strong pricing in Europe but mixed demand in different regions. We exited the position with its share price up 19% while it was held during the quarter.

Regional Performance: Japan
Within Japan, there has been a significant shift to Value after the Tokyo Stock Exchange urged companies with low price-to-book ratios to start focusing on using capital more efficiently. That led active investors to allocate capital into low P/B stocks and created a significant rotation to Value. Though in the short term, this stylistic headwind impacts some of our holdings, we believe this could be positive in the long term as companies will be more likely to take excess capital and reallocate to the market.

Losing -19% is **Daiei Kankyo**, a leading Japanese waste management company that offers a one-stop waste management service encompassing collection, intermediate treatment, recycling, and final disposal. We believe that Daiei Kankyo is poised to consolidate an extremely fragmented Japanese waste management market.

There was also impact from company specific events. **Internet Initiative Japan (IIJ)** 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**.** IIJ missed their quarterly results due to the increase in the prolonged delays of their large projects, which led its shares down -13%. Our subsequent meeting with their management did not provide additional comfort and we trimmed our position in IIJ.

On the positive side and gaining 22%, **Rohto Pharmaceutical** is a leading manufacturer of OTC healthcare products in Japan with domestic market-leading eyedrops as well as its skincare products and other health-related consumer products. Rohto's eyedrops have seen greater demand due to heavier screen usage while its skincare products benefit from Japanese consumers trading down from higher-end products. Rohto is also seeing strong growth from international markets, particularly other Asian countries.

Regional Performance: Asia/Pacific Ex Japan, Middle East, and Emerging Markets
Australasia's largest insurance broker network, **Steadfast Group** continues to benefit from the rising premium rate cycle, acquisitions, and technology efficiencies. The company reported FY23 results that were in line with estimates but its shares traded down -8%.

NICE provides enterprise software solutions and services. Its second quarter results were roughly in line with expectations, however, cloud revenue decelerated. NICE continued to demonstrate success moving upmarket with its artificial intelligence offerings. Management raised forward guidance for revenues and earnings. The stock sold off by -18% on concerns about the company's cloud revenue growth trajectory.

Though speculation on potential impact from AI was a headwind for some of our holdings, it was beneficial for **Accton Technology**, a leading manufacturer of white-box network devices, in particular network switches. The company saw a strong demand trend for their 400G switches. We trimmed our position with the stock surging 38%.

Conclusion

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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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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