TimesSquare Capital Management, LLC

International Small Cap Strategy

Representative Commentary — 3Q23

Performance

			Annualized			
	3Q23	1YR	3YR	5YR	7YR	10YR
International Small Cap Composite (Gross)	-4.74%	16.04%	-3.31%	-1.82%	2.00%	4.59%
International Small Cap Composite (Net)	-4.98%	14.90%	-4.27%	-2.79%	1.00%	3.56%
MSCI EAFE® Small Cap (Net) Index	-3.51%	17.90%	1.10%	0.76%	3.96%	4.30%

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 international small cap universe, Japan outperformed while returns from other regions lagged. Energy had a double-digit rebound during the quarter while Information Technology, Health Care, and Industrials underperformed.

The International Small Cap Portfolio underperformed the MSCI EAFE Small Cap benchmark during the third quarter of 2023. Relative weakness in Japan was partially offset by strength in Emerging, Asia/Pacific Ex Japan, and the Americas.

Regional Performance: Europe
Recognizing the geopolitical landscape and economic reality, we continued to trim in Europe. For the quarter, underperformance in the region was driven by stock selection. Holdings in France, Sweden, and the Netherlands helped while those in the United Kingdom, Germany, and Italy detracted.

In the United Kingdom, **Keywords Studios (KWS)** is a provider of outsourced creative and technical services to the video game industry. The company reported resilient first half 2023 results, however, speculation on potential disruption by artificial intelligence (AI) has created volatility for business outsourcing companies. The company also noted impact from the U.S. writer/actor strikes. As a result, the stock was down -18%. We believe KWS' dominant exposure in the growing market and its long-standing client relationships will be beneficial in the long run, and the U.S. writer's strike was resolved at the end of the quarter. Food ingredients company **Tate & Lyle** finished the quarter with a -9% pullback due to prolonged destocking at the customer level communicated by its peers. More recently, the chatter about GLP-1s having a negative impact on food shoppers' basket size also did not help Tate & Lyle's narrative. U.K. 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 is intact. Traditionally we tend to shy away from real estate companies due to their high correlation to interest rates. Through our bottom-up investment process, we identified high quality specialty real estate companies. A case in point is **Safestore Holdings**, a position we initiated in the second quarter and continued to build on. This UK's largest self-storage group has 20% of market share. They are also the leader in the markets they operate, which gives them an advantage over smaller competitors with very low awareness of self-storage. New to the portfolio and up 25% since it was added to the portfolio this quarter, **Restaurant Group** operates casual restaurants and pubs through the following segments: Wagamama, Pubs, Leisure, and Concessions. The company's growth engine, Wagamama and Pubs, continue to generate market-leading growth.

In France, we added to **Technip Energy,** 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%.

Based in the Netherlands, **Arcadis** is an engineering consultant that stands to benefit from increased infrastructure investments in the U.S. and Europe. The company is on track to achieve their 2021-2023 operating EBIT margin strategy target that was set in 2020. Additionally, they are seeing increasing momentum with additional projects awarded that are connected to the IRA legislation and CHIPS act. These positive developments served to lift its stock price by 8%.

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. **Goldwin** is a specialist sportswear chain with direct ownership or exclusive sales for the manufacture of 20 sporting brands in Japan and Korea including The North Face, Helly Hansen, and others. The firm's products have been gaining popularity among Asian visitors to Japan and inbound sales continued to recover, though faced headwinds from unfavorable foreign exchange rates. The share price of Goldwin pulled back by -19%. **Socionext** is a leading Japanese fabless semiconductor IC (integrated circuit) design company. The proliferation of artificial intelligence has increased the demand for customized application-specific integrated circuits (ASICs). Additionally, the construction of Japan-based semiconductor foundries by TSMC (the world's largest fab foundry) and the desire among customers for IC design talent outside of mainland China should also be beneficial for Socionext. The company reported impressive first quarter results, further demonstrating the strength of the company's business model, though in our mind management was conservative about not upgrading guidance. We added to our position as the stock declined -29%.

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. Improving by 8%, **Nippon Gas** enjoys a massive cost advantage versus its smaller, mom and pop competitors. It also bundles gas and electricity at slightly lower cost than competitors and has a structural advantage in distribution by relying on third-party sales. We believe that a cash-strapped consumer is much more likely to seek out lower cost energy alternatives (away from the incumbent), to more nimble independents like Nippon Gas.

During the quarter we initiated a position in **Rakuten Bank,** Japan's leading digital bank, operating with no physical branches or proprietary ATM network and provides all its banking services online. Japan is behind other markets in e-commerce, data traffic and digitalization across all sectors and regions. Even with the sharp pickup in e-commerce and digital services since 2020, digital banking remains underpenetrated in Japan. Rakuten Bank also benefits from being part of the Rakuten ecosystem, which has over 100 million members.

Regional Performance: Asia/Pacific Ex Japan 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%. We added to our position in **Carsales.com**, the #1 online classified platform in Australia with a growing presence in South Korea, Latin America, and the U.S. In September, the company hosted U.S. and Brazil investor days, which provided clarity on the company's medium-term outlook and drove its share price up 15%.

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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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 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.

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 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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