TIMESSQUARE CAPITAL MANAGEMENT, LLC

U.S. Small/Mid Cap Growth Strategy

Representative Commentary — 3Q23

Performance

			Annualized			
	3Q23	**1YR**	**3YR**	**5YR**	**7YR**	**10YR**
U.S. SMID Cap Growth Composite (Gross)	-2.65%	14.56%	1.82%	5.50%	9.08%	7.95%
U.S. SMID Cap Growth Composite (Net)	-2.89%	13.44%	0.81%	4.45%	8.00%	6.88%
Russell 2500™ Growth Index	-6.84%	10.61%	1.01%	4.04%	8.78%	8.37%

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 punished. Amidst this environment, the portfolio outperformed the Russell 2500™ Growth Index in the third quarter.

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. For instance, the direct-to-consumer pool care products and services company **Leslie's Inc**. was

down -34%. The company preannounced substantially lower revenues and earnings for the current quarter, as well as reduced its outlook for the remainder of the fiscal year. With the magnitude of the reset, the company also announced the departure of its CFO. Though we had projected some weakness in this period, this went well past our expectations. Combined with the CFO change at a difficult time for the company we sold our position. Another sale was **Planet Fitness,** which franchises fitness centers across the U.S. Its shares had been weak earlier in the quarter and we trimmed ahead of its earnings report in early August given general concerns on consumer-focused businesses. While it subsequently reported better-than-expected trailing results, Planet announced a slower future pace for new store openings. Then in September, the company's board discharged its CEO over differing views on how best to move the company forward. In our follow-up discussion with the CFO and interim CEO, we were not convinced a positive change was near, so we sold our remaining position as the stock fell -28% during the partial quarter. 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. Better was the 13% gain from warehouse club operator **BJ's Wholesale Club**. The company's results were largely as expected during its mid-quarter report. Subsequently, competitors noted that general merchandise sales had improved industry wide. That also should provide a future lift for BJ's.

In the Financials sector we tend to avoid banks that face credit deterioration or rising deposit costs, preferring either asset managers or niche insurance companies. Benefiting the strategy was **Hamilton Lane**'s 13% climb. Providing private markets investment services, Hamilton's revenues and earnings exceeded expectations with fee-earning assets growing by 17%. Inflows were especially strong for its Evergreen strategies that are not limited with the fixed lifespan common among private equity funds. As its shares climbed, we steadily trimmed our position. Another example was **ProAssurance Corporation**, which provides medical liability insurance to practitioners throughout the U.S. ProAssurance reported revenues and earnings that outpaced expectations with gains in premiums written, higher investment income, and an active share repurchase program. That lifted its share price by 25%. We began building a position in the private equity manager **TPG, Inc**. This is a current holding in our Mid Cap strategy, and during this quarter we increased our position there as well. TPG proved very adept at both raising assets for new funds and exiting fund holdings at notable premiums, such as the recent sale of its stake in Creative Artists Agency.

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 67% and we sold our holdings. We also exited our position in the developer of medical equipment to treat obstructive sleep apnea, **Inspire Medical Systems**. The new anti-obesity medicines led to a market belief that a decline in obesity rates will cause a decline in sleep apnea diagnoses and thus lower sales volumes for Inspire. However, that view is not supported by our discussions with doctors, nor by the high demand and long wait times for Inspire's devices. Nevertheless, there is some correlation between obesity levels and sleep apnea. Given that this cloud will take several quarters to dissipate, we sold our position that was down -33% during the partial quarter. There also were challenges for **Phreesia, Inc.,** a cloud-based platform for practice management and electronic health records. The company's recent revenues were as anticipated although its earnings bested expectations. Some investors believed a meaningful portion of the revenues were pulled forward from future periods or doubted that revenues will grow at a fast enough pace to meet Phreesia's 2025 targets; that pressured its shares by -40% this quarter. From our evaluations and discussions with the company, we found the current revenue growth was steadily increasing and that the company was preparing both new products and price increases. Gaining 16% was **HealthEquity Inc**., an administrator of consumer-driven health benefit programs. Recent revenues and earnings were higher than anticipated with much better gains from custodial yield revenue from the funds it administers. That led HealthEquity's management to increase its guidance for the balance of its fiscal year. New to the strategy was **Stevanato Group**, which manufactures glass packaging for syringes, autoinjectors, and other pharmaceutical needs. The company should benefit from the commercial growth of weight loss and diabetes drugs, which are expected to be blockbusters and use this type of drug delivery system.

Many of our Industrials positions provide necessary business-to-business operational services, highly technical components, automation & efficiency improvements, or essential infrastructure services. Slipping by -18% was **GFL Environmental**, which disposes non-hazardous waste, remediates soil, and provides other environmental services. While earnings outpaced estimates, revenues came up short on lower solid waste volumes. However, that appeared linked to the purposeful shedding of lower-margin, non-core businesses inherited from acquisitions. Also detracting from returns was

Driven Brands, an automotive services company providing a range of needs, including paint, collision, glass, vehicle repair, oil change, maintenance, and car washes. Although its recent fiscal quarterly results were better than expected, guidance for the rest of 2023 was reduced. Most areas saw growth, though there was a marked decline in car wash volumes, with management citing poor weather conditions as the culprit. Driven also noted competition was growing in that segment, and the combined effect was a -54% decline. 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 24%. One blemish in the sector was **Allegro MicroSystems**, which develops semiconductor magnetic sensors and power management chips. In July, we trimmed our position as its shares rallied ahead of its quarterly report. Then in August, Allegro reported better-than-anticipated results and increased its near-term guidance. However, on the earnings call its management seemed more cautious with the outlook, especially related to volatility for its sales in China, and Allegro's shares pulled back by -30%. Speaking with management later, we gained a better sense of short-term concerns with China—that comprise less than a quarter of Allegro's business—and the expected rebound, so we added back to our position. **New Relic** develops Application Performance Monitoring systems that optimize software across different platforms and environments. During the quarter, the company agreed to be acquired by a pair of private equity firms. That lifted its shares by 31% and we exited the position. In other trading, we began buying **HashiCorp, Inc**., which provides a suite of cloud infrastructure tools for development, automation, connectivity, and security. Its primary offering, Terraform, has been widely adopted by developers to automate new cloud-based work for greater efficiency at lower costs. As more developers use HashiCorp's development tool, that provides additional sales opportunities for the company's connectivity, security, and other services. In addition, the increased migration to the public cloud leads to greater overall demand.

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.

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.

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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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