TimesSquare Global Health Care Fund

To Our Investors,

Through the end of 2023, the Fund's net performance was +0.89% QTD (+0.46% Net), +9.69% YTD (+7.88% Net), and +36.13% (+23.40% Net) cumulative since inception (April 1, 2020).

In the fourth quarter the global equity markets closed out 2023 with their highest quarterly returns this year. Growth, Value, and Quality finished the quarter in positive territory. However, it was Beta that significantly outpaced all other style factors. In 2023 for Health Care, market enthusiasm for GLP-1 obesity treatments nearly equaled that for artificial intelligence. Though moving into 2024, that market frenzy has waned.

Large Cap Health Care significantly underperformed the broader market with MSCI World Health Care returning 5.87% vs. 11.42% from MSCI World. Contrary to the broader market, small cap health care, where we tend to focus our attention, outperformed the broad small cap index. The MSCI World Health Care Small Cap Index posted a 13.46% return vs. the MSCI World Small Cap Index of 12.47%. Among the subsectors within the small cap health care stocks, Health Care Equipment had the best performance, followed by Life Science Tools and Health Care Technology.

As a Fund, our approach and long-term view is unchanged. We continue to pursue investments in companies driving health care innovation and believe the greatest long-term alpha will be achieved by identifying these disruptive companies at an early stage.

4Q 2023 Commentary

During the quarter we have gradually increased our net exposure; now 23% at the end of the year from 13% as of the end of September. We maintain our focus on high quality growth companies that are less economically sensitive.

As discussed in previous investor letters, we expected M&A activity to pick up in the innovative areas of health care, with a particular focus on biopharma. We were not disappointed by the level of deal flow in 2023, as large biopharma companies consummated a number of deals throughout the year. In the second quarter, we were fortunate to participate in two deals, with Iveric being acquired by Astellas Pharma and Merck announcing the acquisition of Prometheus. During the third quarter, this trend continued, as the Fund benefited from Biogen's decision to acquire Reata. Deal activity continued its uptick and surged towards the end of the year. Notably, in December, Bristol Myers Squibb announced two deals, acquiring Karuna Therapeutics for $14 billion and RayzeBio for $4.1 billion. AbbVie was also active, buying ImmunoGen for $10.1 billion, followed by the announced acquisition of Cerevel Therapeutics for $8.7 billion a week later. In aggregate, large biopharma retains significant balance sheet flexibility, despite the recent flurry of deal activity, which should provide a further tailwind to small and mid cap biopharma in 2024.

In our 3Q letter we wrote about the broad selloff across health care subsectors as investors irrationally extrapolated the impact of GLP-1 therapies following release of the SELCT trial results. While we do see some clear losers from broader GLP-1 use, many of the assumptions the market has made on the potential fallout would take a generation to prove true, if ever. Not unexpectedly, the GLP-1 hype subsided in the fourth quarter. The move to more rational behavior coincided with a decline in the 10-year yield, ultimately leading to a rally in growth small and mid cap health care.

Health care utilization trends have continued to normalize, following the disruption from Covid-19. 3Q results saw a return to normal seasonality, resulting in pockets of reduced utilization during the summer vacation season. Thus far 4Q utilization commentary has indicated a strong snap back in demand. As a result, we have seen increased investor demand for Medical Device stocks for the first time in over a year.

While health care never really receives a respite from the political winds, the focus is especially acute as 2024 is an election year. Despite rumblings from Washington, we do not expect to be surprised by major legislation that would materially impact the space. Recent legislative focus has been on pharmacy benefit manager (PBM) transparency over drug pricing reform. Fallout from the Inflation Reduction Act (IRA), which allows for direct price negotiation between Centers for Medicare & Medicaid Services (CMS) and manufacturers remains a focal point, as management teams have begun to outline the potential impact. We are monitoring the multiple court challenges to the IRA, filed by pharmaceutical manufacturers, which likely represents the best opportunity to reverse the IRA, outside of a republican sweep in 2024.

Our enthusiasm for investing in innovative health care is unchanged. We believe the recent volatility and risk-off sentiment has created attractive entry points, particularly into growth stocks that have been punished beyond what their fundamentals would justify. However, as the ripple effect from the March banking crisis continues to unfold, we remain cautious in earlier stage companies, as well as companies that have exposure to early-stage companies (such as CROs and CMOs). Our alpha short positions are primarily focused on companies burning cash that are unlikely to achieve breakeven without raising additional capital.

Fund Performance

The Fund's positive performance during the quarter was reflective of strong contributions from long and alpha generating shorts in the Biopharma subsector.

Ascendis Pharma (ASND) is the Fund's top contributor on the long side. The company develops treatments for rare indications in endocrinology and oncology. During the quarter, Ascendis received approval for TransCon PTH in Europe. In addition, the FDA accepted their resubmission with a PDUFA of May 14, 2024. Skytrofa sales continue to surprise on the upside. Finally, management has indicated they will be cashflow breakeven in 2024, with contribution from TransCon PTH representing additional benefit.

Another significant contributor was DexCom (DXCM), a producer of continuous glucose monitoring (CGM) systems for people with diabetes. During the third quarter the company was penalized as a loser in the GLP-1 trade. We remain steadfast in our view that the CGM opportunity remains intact as the insulin dependent market is underpenetrated, with continued growth avenues for Type 2 diabetics on basal insulin, and even for monitoring blood sugar in non-insulin dependent diabetics. Recently issued 2024 guidance came in ahead of expectations, a bullish signal from a historically conservative company. The company continues to see increased growth and insurance coverage in the basal population and is also benefiting from the ongoing G7 product launch.

The portfolio's largest detractor was **argenx SE (ARGX)**. Third quarter revenues were above the consensus, with Vyvgart sales growing nicely over the quarter and exceeding projections. However, recent data releases in advanced immune thrombocytopenia and pemphigus vulgaris have missed the mark. At these prices we believe the street is under-appreciating the opportunity in myasthenia gravis and chronic inflammatory demyelinating polyneuropathy (CIDP). ARGX has submitted an application for label expansion in CIDP and we are hopeful for an expedited review and mid-2024 launch.

Conclusion

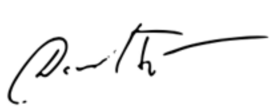
Looking forward into 2024, markets will keep a close eye on central banks and the polls. Early indications are for some monetary easing, though there is a wide divergence on when that may occur. As bottom-up investors with a focus on business fundamentals, we look for competitively advantaged growth companies with pricing power, strong management teams, and excellent balance sheets. 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. While it will be hard to escape the macro drivers from the past year, we will remain focused on minimizing the factor exposure to reduce volatility.

While capital markets remain tight reducing funding opportunities for the sector, we are encouraged to see increasing M&A activity and are hopeful for continued acceleration into 2024, as large cap balance sheets remain healthy. Overall, despite some near-term headwinds, our long-term outlook for the health care sector remains bullish. Innovation in the sector and the structural themes we have been investing in are very much intact.

Our objective as a Fund is to deliver consistent positive returns in any market. We aim to achieve that goal by identifying health care innovation and building a diversified Fund through fundamental bottoms-up research.

We thank you for your continued confidence during these challenging market conditions. As always, we are available for any questions you might have as we endeavor to protect and grow the assets you have entrusted with us. Meanwhile, we hope that you, your family, and your colleagues remain in good health.

Best Regards,



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