TimesSquare
Capital Management, LLC

Emerging Markets Small Cap Strategy

Representative Commentary — 4Q23

Performance

			Annualized			
	4Q23	1YR	3YR	5YR	7YR	Since Inception (1/1/2017)
Emerging Markets Small Cap Composite (Gross)	9.12%	26.63%	4.85%	11.76%	10.00%	10.00%
Emerging Markets Small Cap Composite (Net)	8.83%	25.28%	3.71%	10.55%	8.81%	8.81%
MSCI Emerging Small Cap (Net) Index	8.95%	23.92%	6.45%	9.91%	8.30%	8.30%

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.

After prior weakness, in the fourth quarter the global equity markets closed out 2023 with their highest quarterly returns this year.

- That rebound was bolstered by central banks pausing rates increases, but it may be premature to declare victory over inflation and plot a near-term pivot to monetary easing. That speculation led to a rally benefiting global equities—especially small & microcaps and emerging markets.
- Growth, Value, and Quality finished the quarter in positive territory. However, it was Beta that far outpaced all other style factors. Within the Emerging Markets small cap universe, Latin America outperformed other regions with double-digit performance. All sectors generated positive returns with Real Estate, Information Technology, and Financials leading the way.

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:

- **Technology investment & Technology adoption remains an important theme throughout EM:** Taiwanese and Korean companies are important enablers of latest advancements in hardware (driven by AI and continued demand by companies to make chips smaller, faster, and more efficient). China's self-sufficiency drive and the vast amount of related investment and government support continues unabated. India is investing heavily in attracting high tech manufacturing, tech localization, and moving up the value chain. We continue to see EM companies make use of the latest innovations in e-marketing, CRM, Big Data, and even AI in their businesses.
- **Regional elections may present risks but are largely believed to extend the status quo:** Taiwan, Indonesia, India, Mexico, and South Africa will hold presidential and key legislative elections. The U.S. Presidential election will also be held in 2024, and both the run-up and election results could have global ramifications, especially as it relates to U.S.-China relations.
- **China:** Localization and import substitution are major trends, either due to geopolitical concerns in the case of the technology industry, or trading down to cheaper domestic products due to consumer weakness. Meanwhile, both Chinese and multinational companies continue to seek other manufacturing centers in the region, or reshore them completely, which should benefit Southeast Asia, Mexico, and India.

The Emerging Markets Small Cap Portfolio performed in line with the MSCI Emerging Markets Small Cap benchmark during the last quarter of 2023. Relative strength in EMEA and Frontier markets was offset by relative weakness in Asia.

Regional Performance: Asia
Within Asia, the portfolio's performance was mixed, with holdings in India and Taiwan outperforming, while those in China and Indonesia underperformed.

China's weaker-than-expected consumer recovery weighed on **Xtep International Holding**, the country's leading running shoe manufacturer. The company benefited from increased local buying versus global competitors with significantly improved quality, lower prices, and a shift in consumer sentiment favoring domestic brands, but they faced challenges from overall weak consumer sentiment. Xtep reported soft Singles Day (China's largest online shopping festival) sales and revised their annual guidance downwards. Consequently, their shares declined by -40%.

Across the strait, **M31 Technology** saw its shares surge 39%. The company supplies third-party Functional and Foundational intellectual property (IP) to foundries and integrated circuit (IC) design companies. As IC design gets more expensive and complex, especially for leading-edge nodes, customers rely more and more on M31's IP to save time and development costs. M31's licensing and royalty-based business model is asset-light and highly profitable due to its strong IP portfolio. The company reported in-line third-quarter results and management expects revenue growth in 2024 driven by fabless and advanced node demand.

India has emerged as one of the beneficiaries of the shift in supply chains away from China**. RailTel Corp. of India**, which provides telecommunication services including video conferencing, data center, broadband, virtual private network, and consulting services, has seen its project revenues grow as supply chain pressures ease. The company's order backlog remains healthy, and investors have been further encouraged by its recent success in securing several large contracts. **Kalyan Jewelers** owns and operates jewelry stores that offer gold, diamond, platinum, and silver jewelry. Despite volatile gold prices, Kalyan delivered better results than its peers driven by franchise-led retail expansion. **BSE** (formerly Bombay Stock Exchange) continues to benefit from the digitization of Indian capital market. Since the re-launch of the BSE Sensex-30 and Broker derivative contracts in mid-May 2023, the exchange has seen better than expected growth and strong momentum. We trimmed all three positions with them surging 49%, 42%, and 64% respectively. A weak spot within India was **One 97 Communications**, better known as **Paytm**, which provides payment solutions and financial services to consumers and merchants. While the company's quarterly earnings came in line with expectations and growth in its payment business remained on track, management expected a slowdown in its loan distribution business in the near term due to new regulations related to consumer loans on its platform. Shares of One 97 traded down -27% as a result.

Southeast Asia was an area of weakness within the region. **PT Samator Indo Gas** is Indonesia's largest industrial gas company with the largest distribution network in the country but has seen lower than expected sales and profit growth due to re-adjustment away from Covid-related hospital gas sales, which created difficult comparisons and delayed growth projects in other areas. Lower-than-targeted cash collection from both non-performing loans and non-performing assets hurt Thailand's largest domestic asset management corporation, **Bangkok Commercial Asset Management.** The increase in the operating expenses was another factor behind the company's below-expectation third quarter results, which drove down its share price by -17%.

Korea housed some of the portfolio's biggest contributors but also one of the largest detractors. **Caregen,** a maker of aesthetic dermal fillers and peptide-based dietary and personal care supplements, revised down guidance due to lower than expected sales in the Middle East, resulting in shares declining by -26%. We continued to build up our position in **LIG Next1**, a developer of defense technology and security products. The company's products include anti-submarine guided missiles, harbor underwater surveillance systems, and electronic warfare platforms. We believe it is well positioned to benefit from the increasing defense exports trend in Korea, as well as future trends in warfare (such as increased usage of drones and missiles). South Korea's leading carrier-neutral Internet Data Center and its only carrier-neutral Internet exchange operator, **KINX** continues to benefit from surging demand for data centers driven by the proliferation of AI and cloud computing. Shares of LIG Next1 and KINX rose 59% and 35% respectively.

Regional Performance: EMEA
While EMEA was the weakest performing region in the benchmark, the portfolio's relative strength can be attributed to its underweight in the region and positive stock selection. However, foreign exchange as well as geopolitical impacts weighed on some of our companies in this region. Case in point was **AlAmar Foods**, a master franchise operator for Domino's in the MENAP (Middle East, North Africa and Pakistan) region and Dunkin' Donuts in North Africa. The company reported a revenue decline (revenue increase in constant currency) due to devaluations of Egyptian Pound and

Lebanese Lira, but we also became concerned over anti-American boycotts across Muslim countries due to the conflict in Israel. We exited the position with the stock losing -24% while it was held in the portfolio during the quarter.

Regional Performance: Latin America
In Latin America, our holdings in Mexico and Uruguay contributed while holdings in Brazil detracted.

CM Hospitalar SA is a leading distributor of drugs, medical supplies, and materials in Brazil. They reported in-line third quarter results, but competitive pressures continued in the high-cost drug market and management is signaling a lower growth outlook in 2024. As a result, its share price tumbled -14%. Uruguay-domiciled **Arcos Dorados** is the largest McDonald's independent franchise globally, operating or sub-franchising over 2,000 McDonald's restaurants in 20 countries and territories in Latin America and the Caribbean. The company delivered better-than-expected third quarter results on solid same store sales growth (above inflation), market share gains across the board, higher digital penetration and food and paper cost deflation. Its share price soared 34% on the positive news.

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. This year will also be one of the biggest for global elections. Including the U.S., Taiwan, India, Mexico, and expectations for the U.K., there will be nearly 40 national elections. That all but guarantees shifting fiscal policies as over 40% of the world's population heads to the voting booths. With those influences beyond our control, we focus on how our portfolio companies plan to navigate this environment. Many showed improving fundamentals toward the end of 2023 that we expect to continue into 2024 and beyond. 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 question 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 Emerging Market stocks with market capitalizations at time of purchase generally within the range of capitalizations of stocks in the MSCI Emerging Markets Small Cap Net Index. Portfolios will hold approximately 70-75 securities. Frontier securities may be included in holdings. The process is fundamental research driven. Primary selection criteria include quality management, distinct competitive advantage, and strong, sustainable growth. Composite inclusion threshold $500,000. Fee basis is 110 points. The composite creation and inception date is January 1, 2017.

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.

Past performance does not guarantee future results. Times Square's list of composites is available upon request. The firm's list of limited distributed pooled funds are available upon request.

Benchmark

Performance is measured against the MSCI Emerging Markets Small Cap (Net) Index. MSCI Emerging Markets Small Cap (Net) Index is a trade or service mark of MSCI Inc. The MSCI Emerging Markets Small Cap (Net) Index is an unmanaged, market-weighted index of small companies in emerging 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 Emerging Markets 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 1.10% 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 8.9%. The ending dollar value of the account would be $46,914,683.76 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. 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. To receive additional information regarding TimesSquare Capital Management, LLC, including a GIPS Composite Report for the strategy presented in this commentary, contact TimesSquare at info@tscmllc.com.

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