U.S. FOCUS Growth Strategy

Representative Commentary — 4Q23

Performance

			Annualized			
	4Q23	**1YR**	**3YR**	**5YR**	**7YR**	**10YR**
FOCUS Growth Equity Composite (Gross)	14.87%	35.25%	10.02%	19.92%	16.82%	12.07%
FOCUS Growth Equity Composite (Net)	14.59%	33.95%	8.94%	18.75%	15.68%	10.97%
Russell Midcap® Growth Index	14.55%	25.87%	1.31%	13.81%	12.48%	10.56%

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.
- Though in the fourth quarter, that speculation led to a rally benefiting global equities—especially small & microcaps and emerging markets.
- Concerns surrounding wage inflation and access to skilled workers generally abated across markets, with the notable exception of Japan where that remains a significant challenge.
- Other than Beta and in the U.S. Volatility, style factors had limited influence on returns this quarter.

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:

- Regarding **Technology**, cybersecurity remains a top priority for companies, propelled by recent well-publicized cyberattacks at MGM Resorts, Caesars Entertainment, and Clorox. Coincidentally, new SEC disclosure rules on cyber risks took effect in December 2023. Those require additional governance rules for each company's cyber risk management strategy, how adept the board is in those matters, and timely disclosures for material cybersecurity incidents. Our channel checks indicate that IT budgets will continue growing, with cybersecurity becoming an increasing percentage. Globally, Gartner Group forecasts an 8% growth in IT spending for 2024.
- 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. Broader biopharma strengthened with many new drug trials underway. With the pandemic well behind it, the FDA has a more constructive and predictive stance with a normalized schedule for meetings and onsite inspections.
- Many **Industrials** holdings benefit from lower costs and greater capital expenditures. Transportation costs appeared to have bottomed after declining for the past two years. The less-than-truck load carriers we favor fared much better with pricing than other modes of transportation in 2023 and should see price increases in 2024. Industrial capital expenditures may continue to be a bright spot for several years as structural labor challenges are addressed with greater automation and supply chains move closer to home, particularly away from China. Additionally, the U.S. is in the early stage of increased domestic infrastructure spending related to recent government programs.

Among U.S. small to mid cap growth stocks in the fourth quarter, the best returns were found among those with the lowest quality (by return on equity) or lacking earnings. Also notable was that low risk (beta) stocks were notable laggards. Amidst this environment, the portfolio managed to slightly outperform the Russell Midcap® Growth Index in the fourth quarter.

Focus Growth is a concentrated strategy of our best Mid Cap Growth ideas. These include businesses possessing differentiated capabilities, low-cost energy producers, well-placed insurance companies, business service enterprises, and specialty retailers.

CrowdStrike Holdings Inc. provides cloud-delivered protection across endpoints and cloud workloads. Their stock rallied 53% on the heels of solid fiscal third quarter results, with net new annualized recurring revenues accelerating sequentially.

Gartner Inc. offers information technology research and advisory services. The company outpaced estimates in the latest quarter, raised forward guidance, and that led to a 31% upside to its stock price. The key contract value metric was up nicely and surpassed expectations. We trimmed the position on this strength.

Palo Alto Networks Inc., a supplier of network and cloud-based security solutions, advanced 26%. The fiscal first quarter results included upside to estimates for Net Generation Security, annualized recurring revenues, operating margins, free cash flow, and earnings. However, they fell short on billings and management further reduced billings guidance. Management stressed they are not seeing any change in the demand environment and that pipeline visibility remains high. Higher interest rates may well mean that customers are less willing to sign multi-year contracts. We trimmed the position on this strength.

Cintas Corp. supplies identity uniforms and facilities services. The company's shares climbed 26% after exceeding expectations. This included beats to revenues and earnings estimates, as well as an increase to forward guidance.

Chemed Corp. operates two distinct businesses. Their Vitas segment offers hospice and palliative care services. Roto-Rooter provides plumbing, drain cleaning, and water restoration services. Its shares rose 13% after the company reported a solid quarter for Vitas along with better-than-expected results in Roto-Rooter.

Martin Marietta Materials Inc. is a supplier of aggregates and other materials to the construction industry. Their third quarter included higher than expected earnings with inline revenues. Across its product lineup: aggregate volumes declined, cement volumes were flat, ready-mix volumes were up, and asphalt volumes were up. These results along with higher profit guidance led to a 22% increase in the stock price and we trimmed the position on this strength.

IDEXX Laboratories Inc. develops, manufactures, and distributes products and services for the animal veterinary, livestock, poultry, dairy, and water testing markets. Third quarter revenues missed estimates on weaker clinical vet visits in the companion animal segment. Clinical veterinarian visit softness was not entirely unexpected this quarter given publicly available VetSource data and management expects visits to pick up as capacity constraints ease. Improved operating margins led to better earnings and a 27% gain for IDEXX.

Brunswick Corp. designs and manufactures marine recreation products worldwide. The Propulsion segment operates under the Mercury brand. Their Boat business lineup features Sea Ray, Boston Whaler, Bayliner, Lund, Crestliner, and Princecraft. Its shares surged ahead by 23% despite reporting mixed results which included better earnings, though with weaker sales from a soft demand environment. Propulsion was the standout, driven by healthy demand for higher horsepower outboard engines. Brunswick moderated full-year guidance. We decided to liquidate the position.

RenaissanceRe Holdings Ltd., a provider of reinsurance and insurance products, slipped by -1%. Their third quarter earnings exceeded Street projections by a substantial amount with strong contributions coming from underwriting income, investment income, and fee income. Premium growth, however, was below expectations. Of note, RenRe's property catastrophe business is heavily weighted to the first and second quarters from a sales activity perspective.

Verisk Analytics Inc., a supplier of data analytic solutions to the insurance market, edged forward by 1%. That return, however, fell short of the 15% index return. Third quarter revenues and earnings topped consensus estimates with notable strength in Underwriting and Claims. Despite this upside, full-year guidance was maintained across key metrics and that disappointed investors.

New to the portfolio this quarter was **Veeva Systems Inc.**, a provider of cloud-based software for the life sciences industry. Its customer relationship management solutions enable pharmaceutical and life sciences companies to increase productivity and compliance of their sales and marketing functions. We used near-term weakness as an entry point.

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 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 invests in stocks with market capitalizations at time of purchase generally within the range of capitalizations of stocks in the Russell Mid Cap 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 15 stocks. Historical turnover has averaged 73% per year. Composite inclusion threshold $500,000. From January 1, 2007 to April 30, 2010 the fee is 150 basis points. From May 1, 2010 the fee is 100 basis points. The composite creation and inception date is September 1, 2005.

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 Russell Midcap® Growth – a market capitalization-weighted index that measures the performance of those Russell Midcap® companies with higher price-to-book ratios and higher forecasted growth rates. All indexes, including the Russell Midcap® 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. From January 1, 2007 to April 30, 2010 the applied standard fee was 150 basis points. From May 1, 2010 through present the applied standard fee is 100 basis points. 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. TimesSquare's fee schedule is available upon request and may also be found in Part 2A of our Form ADV.

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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