

Global Small Cap Strategy

Representative Commentary — 4Q23

| Performance | Annualized | | | | |
|------------------------------------|------------|--------|--------|-------|-------------------------------|
| | 4Q23 | 1YR | 3YR | 5YR | Since Inception (1/1/2018) |
| Global Small Cap Composite (Gross) | 11.12% | 15.40% | -0.74% | 8.73% | 4.19% |
| Global Small Cap Composite (Net) | 10.88% | 14.38% | -1.63% | 7.76% | 3.26% |
| MSCI World Small Cap (Net) Index | 12.47% | 15.76% | 2.87% | 9.76% | 5.41% |

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.
- Concerns surrounding wage inflation and access to skilled workers generally subsided across markets, with the notable exception of Japan where that remains a significant challenge.
- Growth, Value, and Quality finished the quarter in positive territory. However, it was Beta that significantly outpaced all other style factors. Within the global small cap universe, Europe and the Americas outperformed other regions with double-digit performance. Except for Energy, 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:** Cybersecurity remains a top priority for companies, propelled by recent well-publicized cyberattacks and new SEC disclosure rules on cyber risks which took effect in December 2023. Our channel checks indicate that IT budgets will continue growing, with cybersecurity becoming an increasing percentage. Interest continues to grow in machine learning and generative-AI tools and applications, though companies approach this area cautiously given the costs and fast-paced changes.
- **Industrials:** Many years of prior underinvestment leave significant ground to recover that recent government programs have only begun to address. 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.
- **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 Global Small Cap Portfolio underperformed the MSCI World Small Cap benchmark during the last quarter of 2023 due to relative weakness in Europe and Japan.

Regional Performance: The Americas

Within Consumer Discretionary, there was the -9% pullback from **Visteon**, which designs and manufactures automotive electronics, primarily for driver information and display clusters. Its revenues were shy of expectations, though earnings exceeded them. Combined with the initial settlement of the UAW strike against U.S. auto manufacturers, Visteon's management lifted its guidance for the remainder of the calendar year. However, automotive suppliers faced headwinds as the settlement is expected to increase auto prices and possibly dampen demand, especially for EVs where Visteon has experienced significant growth. With those pressures unlikely to abate soon, we trimmed our position.

Many of our Industrials positions provide necessary business-to-business operational services, highly technical components, automation & efficiency improvements, or essential infrastructure services. Here there was a strong contribution from the global welding company **ESAB Corporation**. Revenues and earnings outstripped expectations. Business activity was stronger than anticipated with resilience in most markets and steady volumes, especially from emerging markets. ESAB's management increased its guidance, and we trimmed our position during its 23% climb. Slipping by -8% was **WNS Holdings**, which provides business process management services—including customer interaction, finance and accounting, and data analytics—to a variety of industries. Its results were in line with expectations, though management reduced guidance for the balance of its fiscal year. Although the core business continued generating significant cash flows, WNS noted that a recently signed contract for a captive insurance operation was taking longer than expected to start—and generate revenues. The company also saw hesitancy from a travel industry client who projected more conservative growth levels. Out of caution, recognizing some of these one-offs need to clear before its shares reaccelerate, we trimmed our position in WNS.

In the Financials sector we tend to avoid banks that face credit deterioration or rising deposit costs. **Webster Financial** (the holding company for Webster Bank) is seeing deposit costs moderating and benefiting from the increase in interest rates since the majority of the company's loan book is floating rate. The bank reported solid third quarter results with an improving net interest margin driven by robust core deposit growth, and its share price jumped 26%.

In the Health Care sector, **Chemed** is a provider of hospice and palliative care services, as well as the operator of Roto-Rooter franchises for plumbing and related maintenance. The company reported strong results in its Vitas Hospice segment and better-than-expected results in the Roto segment. We trimmed our position with the stock ascending 13% during the quarter.

A rebound in the PC and smartphone markets benefited **Synaptics**, the developer of human interface technologies for a variety of devices. Synaptics' fiscal quarterly revenues and earnings surpassed expectations thanks to that stabilization, and its management expects a further recovery in 2024. The company also won several new design mandates. That gave its shares a 28% lift.

Regional Performance: Europe

Recognizing the geopolitical landscape and economic reality, we continued to reduce our position in Europe. For the quarter, underperformance in the region was driven by stock selection.

In the United Kingdom, wealth manager **St. James's Place** has been a long-time holding in the portfolio. The company announced an annual product management fee cap for long duration bond and pension investments. We acknowledged that their business model will be challenged going forward due to this regulatory change and exited the position with it losing -21% while held during the quarter. Food ingredients company **Tate & Lyle** faced challenges due to the continued destocking at the retail level. As Tate's growth roadmap is heavily impacted by the industry-wide destocking, we continue to value Tate at a discount to peers. We trimmed our position to reflect this view with the stock losing -6% for the quarter.

In France, **Technip Energy** is one of only a handful of companies that can build liquefied natural gas (LNG) plants. Amid the stock's strong year-to-date performance and the geopolitical uncertainty in the Middle East region, we trimmed the position with its share price down -6% for the quarter (though it remained one of our greatest contributors for the calendar year).

In Denmark, we benefited from **Ascendis Pharma's** 34% gain. A biotechnology developer of treatments for rare indications in endocrinology and oncology, Ascendis announced positive results from its Phase 3 trial to treat adult growth hormone deficiency.

Regional Performance: Japan

Within Japan, the significant rotation to Value somewhat calmed down during the quarter. Company specific events impacted relative performance. As a result, Japan housed some of the portfolio's worst detractors.

Falling by -27%, **Nakanishi** is a niche manufacturer specializing in highspeed rotation technology. The company manufactures a wide range of dental products and industrial-use grinders. Management signaled strong growth but later issued an abrupt downward revision. While they attributed the revision to weak earnings of a dental chair maker the company recently absorbed, our team decided to trim the position as we reevaluate the name. **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. Despite earlier supply issues with the raw materials, the company reported strong fiscal quarter and half year results with improving inbound demand. However, management did not update their full year guidance, which led investors to believe that Rohto will have a weak second half. That drove the share price down -26% and made Rohto the largest detractor of the portfolio for the quarter. Leading Japanese logistics provider **AZ-Com** has benefitted from recent momentum of freight rate hike in the logistics industry and e-commerce-related outsourcing services. The company announced the issuance of new shares and secondary offering of shares in November. The dilution in the share price and selling pressure from existing shareholders led to a -24% slide. We believe the company's outlook remains solid but reached out to local brokers to voice our disapproval regarding this action.

There are also some bright spots in the portfolio's Japan holdings. Ascending 26%, **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. Although IIJ's systems integration business was hit by delays in sales recognition, its network service business benefits from rising demand, and the company continues to win large-scale complex projects in both business lines.

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, Middle East, and Emerging Markets

The share price of Australia's intellectual property services provider **IPH** came under pressure due to increased leverage with its recent acquisition in Canada and the lack of organic growth in its home market. We believe the acquisition in Canada was attractive and the reasons for poor sentiment are increasingly behind us. We continue to hold the name even though its shares traded down -8%.

In Israel, **CyberArk** is a global leader in Privileged Access Management (PAM). Recent high-profile data breaches fueled investor interest in CyberArk's solutions. Contrast to its security software peers who reported before them, CyberArk surpassed expectations with stellar results and raised their full-year outlook. The share price of CyberArk climbed 33%, prompting us to trim our position on this price strength.

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 35% 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.

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This composite generally invests in stocks with market capitalizations at time of purchase generally within the range of capitalizations of stocks in the MSCI World Small Cap 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 110 stocks. Composite inclusion threshold \$500,000. Fee basis is 90 basis points. The composite creation and inception date is January 1, 2018.

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 World Small Cap (Net) Index. MSCI World Small Cap (Net) Index is a trade or service mark of MSCI Inc. The MSCI World Small Cap (Net) Index is an unmanaged, market-weighted index of small companies in developed 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 World 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 0.90% 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. 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@tscmlc.com.

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