TIMESSQUARE
CAPITAL MANAGEMENT, LLC

U.S. Mid Cap Growth Strategy

Representative Commentary — 4Q23

Performance						
			Annualized			
	4Q23	1YR	3YR	5YR	7YR	10YR
U.S. Mid Cap Growth Composite (Gross)	13.66%	25.95%	5.04%	16.63%	14.50%	11.72%
U.S. Mid Cap Growth Composite (Net)	13.44%	24.97%	4.21%	15.72%	13.59%	10.83%
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 underperformed the Russell Midcap® Growth Index in the fourth quarter.

For the Communication Services sector, we generally prefer to invest in media and services companies that are either well placed from an advertising perspective with a target audience or provide differentiated services. **Pinterest Inc.**, an image-based social media company, jumped 37%. The company reported a strong third quarter with an increase in monthly active users. Revenue growth accelerated and profitability was meaningfully better. Their mobile deep linking advertising product is generating positive results, with participant advertisers seeing a substantial improvement in the sales conversion rate.

In Consumer-oriented sectors, we lean towards value-oriented or specialty retailers, franchise models, as well as premium brands. **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 had trimmed back the position in anticipation of softer fundamentals. **Five Below Inc.** is a discount retailer focused on teens and pre-teens with most goods priced less than $5. Their product offering includes gloves, scarves, fragrances, cosmetics, and novelty items. The latest quarter was strong, with revenues and same-store sales comparisons ahead of sell-side projections. Growth came from Five Beyond (goods over $5) that are now in half of their stores. Forward guidance was slightly better than the consensus. Shares of Five Below were lifted 32% on this report. **Floor & Decor Holdings Inc.**, a hard surface flooring and accessories company, rose by 23%. Third quarter results were mixed with sales slightly below the consensus and earnings above. Management cut their full-year sales and earnings outlook as sustained pressure in the housing market continues to weigh on overall demand. Also gaining 23% over the quarter was **Ross Stores Inc.**, an off-price retailer featuring apparel and home fashions. Third quarter results were solid as sales comparisons accelerated with higher levels of customer traffic across geographies. Management raised full-year guidance. We added to the position given our increased conviction at the start of the quarter. **Aptiv Plc** is a supplier of electronic automotive technology for safety and entertainment systems. Its stock fell -9% after they reported a mixed third quarter, which included beats to revenues and earnings, though missed on profits and margins. The United Auto Workers strike had an adverse impact on their Advanced Safety and User Experience products. The company held guidance stable while increasing its global production estimates. We reduced the position. **O'Reilly Automotive Inc.** is a specialty retailer of after-market automotive parts and accessories. Third quarter same store sales comparisons exceeded Street projections, with continued outperformance from its professional mechanics segment and steady growth in the do-it-yourself business. Gross margin improvements have come from lower product costs and supply chain efficiencies. Its 5% return was shy of the index sector average return of 18%. **BJ's Wholesale Club** operates membership warehouse clubs. While revenues were softer than expected, third quarter earnings exceeded expectations due to gross margin improvement stemming from easing supply chains and a more favorable product mix. Customer traffic gains and membership fee income growth were highlights of the quarter. We added to the position on its -7% share price weakness.

We often see the ebb and flow of the Energy sector tied to underlying commodity prices. In this area, we seek low-cost exploration & production companies with high-yielding acreage or specialized service providers. **Cheniere Energy Inc.** operates liquefied natural gas terminals in Louisiana and Texas. Third quarter results were solid with lower than anticipated levels of expected capital expenditures, and management maintained full year guidance. Its shares edged forward by 3% on this report. **Pioneer Natural Resources Co.** is an independent exploration and production company with operations in West Texas. Exxon Mobil formally announced the acquisition of Pioneer in an all-stock deal that is expected to close in the first half of 2024. We trimmed the position, which had a 0% return for the quarter – which outpaced the index sector average decline of -2%.

In Financials, we prefer well-placed insurance companies and niche businesses while tending to avoid banks which face credit deterioration and rising deposit costs. Alternative asset manager **TPG Inc.** climbed 45%. They offer advisory, debt & equity arrangement, underwriting & placement services, and capital structuring. Third quarter earnings were well above Street estimates, driven by management and performance fees. **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 sales activity for property catastrophe business is heavily weighted to the first and second quarters from an activity perspective. **Interactive Brokers Group Inc.** operates as an automated electronic broker worldwide. Third quarter's earnings were above consensus estimates, aided by the combination of higher revenues and lower expenses. Despite the beat, its shares lost -4% due to reduced expectations around inorganic

account growth as two new Asian broker relationships have been pushed out. **Nasdaq Inc.** is engaged in trading, clearing, exchange technology, regulatory, securities listing, and company services. Earnings outpaced consensus estimates due to the combination of stronger revenues and lower operating expenses. We decided to sell out of the position due to the upcoming close on their Adenza acquisition. We question the merits of this deal and prefer to watch from the sidelines for the time being. Nasdaq edged forward by 3% for the time it was held this quarter.

Our preference within Health Care is for novel therapies to address unmet medical needs, specialized providers, and innovators. **DexCom Inc.** is a producer of glucose monitoring systems for people with diabetes. Third quarter revenues surpassed Street estimates and that lifted the stock by 33%. The company continues to see increased growth and insurance coverage across wider populations and is also benefiting from the ongoing G7 product launch. **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 veterinarian visits in the companion animal segment. Clinical vet visit softness was not entirely unexpected this quarter given publicly available VetSource data and management expects this to improve as capacity constraints ease. Improved operating margins led to better earnings and a 27% gain for IDEXX. **ICON Plc** is a clinical research organization that provides outsourced development and commercialization services. Its shares improved by 15% on mixed third quarter results, which included revenues that were slightly below and inline earnings. Noteworthy were margin expansion and strong net new business bookings. **Cencora Inc.** sources and distributes pharmaceutical products. Another strong quarter boosted its stock by 14%, with beats across all major metrics. Cencora's mix is heavily weighted to specialty drugs and that continues to drive above market growth. Management's forward guidance was better than feared. **Stevanato Group SPA** engages in the design, production, and distribution of products and processes for the biopharmaceutical industry. The company reported soft third quarter results with revenues falling short of expectations. The miss was largely driven by lower results in its Biopharmaceutical and Diagnostic Solutions segment. Management noted demand has remained strong and they are seeing limited impact from destocking trends in diagnostics consumables and vials. Nevertheless, its stock sold off by -8%. **Legend Biotech Corp.** is a clinical-stage biopharmaceutical company focused on the development of novel cell therapies for oncology and other indications. Third quarter results included an upside to revenue estimates for Carvykti in the treatment of multiple myeloma patients. Additional manufacturing capacity will come on stream during the first quarter of 2024 to address increasing demand. The stock's -11% decline appears tied to management's conservative guidance. We added to the position on this weakness. **argenx ADR** is a global immunology company focused on autoimmune diseases. Third quarter revenue was above the consensus, while the loss per share was lower than anticipated. Vyvgart sales grew nicely over the quarter and exceeded projections. Management gave a detailed account of its pipeline and clinical trials. In late November, the company announced the Advance SC trial failed to meet the primary or secondary endpoints in patients with advanced immune thrombocytopenia. This caused a -23% pullback in the stock and we added to our position. **Envista Holdings Corp.** develops and manufactures dental products. We exited the position on the combination of disappointing third quarter results and lowered forward guidance. They reported softness in adult orthodontics and high-end implants. Envista's stock sold off by -19% while held during the quarter.

In the Industrials sector we gravitate toward business service companies, those focused on automation & efficiency improvements, and essential infrastructure services. **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 in forward guidance. **Carlisle Companies Inc.**, a manufacturer of engineered products including roofing materials, rose 21%. While third quarter sales declined somewhat, operating margins improved. Management believes the destocking activity which persisted through the past few quarters is complete. **Paylocity Holdings Corp.** provides cloud-based human capital management and payroll software solutions. They reported a decent quarter with slightly better recurring revenue growth and much stronger profitability. The company cited strong sales execution with a healthy demand environment. There was however weakness in employment counts among their clients and that caused its shares to pull back by -9%. There were a number of new additions to the Industrials sector this quarter. **EMCOR Group Inc.** provides electrical and mechanical construction as well as facilities services. Management has raised full-year guidance. The company continues to see resilient trends in the semiconductor, data center, manufacturing, health care, and EV markets. Within their Building Services segment they are seeing further upside in energy efficiency, retrofitting projects, building automation, and air quality upgrades. **Hexcel Corp.** develops and produces carbon fibers, structural reinforcements, and composite materials for use in commercial aerospace, space & defense, and industrial applications. The commercial airline industry needs more aircraft to meet increasing demand. Hexcel's components are included in production assemblies from Boeing and Airbus. **SAIA Inc.** operates as a transportation company offering

less-than-truckload freight and logistics services. They continue to win new business and retain existing volumes by delivering strong service metrics.

Across the Information Technology universe, we seek companies possessing differentiated capabilities, products, and services. **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. **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. **CyberArk Software Ltd.** develops and markets software-based security solutions and services. Another beat and raise quarter led to a 34% jump in their shares. Of note, subscription revenues grew nicely. Another incremental driver was privileged access management, where CyberArk has a dominant share. Of note, MGM installed CyberArk's system as a corrective measure after their high-profile breach. **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. **Bentley Systems Inc.** provides infrastructure engineering software solutions. The company had a very solid third quarter that was highlighted by margin expansion and a significant increase in free cash flow guidance. Its 4% gain fell short of the 21% index sector average. **Lattice Semiconductor Corp.** develops semiconductor products such as field programmable gate arrays. Despite reporting in line third quarter results, fourth quarter guidance was weaker than expected. Management highlighted softening demand in the industrial and automotive end markets. We decided to liquidate the position, that fell by -32% for the time held in the quarter. We sold out of **Keysight Technologies Inc.**, which offers a wide array of services including electronic design automation software, instrument measurement software, and software testing. The telecommunications malaise is still ongoing. As such, that end-market lacks visibility and near-term estimates are being cut. The stock lost -7% while held during the quarter. New to the portfolio this quarter is **Universal Display Corp.**, a developer of organic light emitting diode technologies for use in display and solid-state lighting applications. The company stands to benefit from a recovery in the end-markets it serves including smartphones, televisions, notebooks, and tablets.

Within Materials, we seek well positioned companies that are less susceptible to swings in commodity prices. **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. **RPM International Inc.**, a producer of coatings, sealants, and building materials, gained 18%. Fiscal first quarter revenues and earnings topped consensus projections. Growth was led by business lines touching building maintenance, infrastructure, and plant spending while sales to Original Equipment Manufacturers were weaker.

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.

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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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 75 stocks. Historical turnover has averaged 51% per year. Composite inclusion threshold $5mm. Fee basis is 80 basis points. The composite creation and inception date is October 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 mid cap market as represented by the Russell Midcap® Growth Index. The purchase range was amended to reflect a range bounded by the approximate value of the smallest security in the index (in most cases) 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. Previously, in August 2007, TimesSquare had modified its purchase capitalization range to match the mid cap market as represented by the Russell Midcap® Growth Index at that time, with a change from $1.5 billion to $10 billion at time of purchase to $2.5 billion to $15 billion.

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 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 and sustains 10% annual gross return for each year during this period. If an advisory fee of 0.80% of average assets under management is charged per year, for each year of the ten-year period, the resulting annual net return would be 9.2%. The ending dollar value of the account would be $48,223,239, as compared to $51,874,849 if the advisory fees had not been deducted.

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. 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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