TIMESSQUARE
CAPITAL MANAGEMENT, LLC

U.S. Small/Mid Cap Growth Strategy

Representative Commentary — 4Q23

Performance

			Annualized			
	4Q23	**1YR**	**3YR**	**5YR**	**7YR**	**10YR**
U.S. SMID Cap Growth Composite (Gross)	9.80%	18.63%	-2.18%	12.64%	10.25%	7.83%
U.S. SMID Cap Growth Composite (Net)	9.53%	17.47%	-3.15%	11.53%	9.16%	6.77%
Russell 2500™ Growth Index	12.59%	18.93%	-2.68%	11.42%	10.23%	8.77%

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 2500 Growth Index in the fourth quarter.

Our preferences in the Consumer-oriented sectors lean toward value-oriented or specialty retailers, franchise models, or premium brands. One example was **Five Below**, the discount retailer focused on teens and pre-teens with most goods priced less than $5. Its shares recovered 33% this quarter as management emphasized its improvements with technology-related offerings and greater anticipated sales from an increased focus on Halloween-related products. Five Below then reported better-than-expected revenue and earnings. The company now had its *Five Beyond* offerings (items greater than $5) in more than half its stores and was seeing meaningful revenue growth there. Offsetting that was the -10% pullback from **Visteon Corporation**, which designs and manufactures automotive electronics, primarily for driver information and display clusters. Its revenues were shy of expectations, though earnings were better than expected and management lifted its guidance. While the UAW strike settlement was a positive development for automotive production in the short term, concerns grew around EV component providers as North American EV supply exceeded demand. Even though Visteon's digital cockpit solutions are used across all types of vehicles, notable future growth is expected from its wireless battery management systems for EVs. Because EV sales rates might take several quarters to reaccelerate, we trimmed our position in Visteon. We actively traded our position in the warehouse club operator **BJ's Wholesale Club** during the quarter. BJ's revenues and earnings edged higher than anticipated, though excluding gasoline purchases, revenues were flat and less than expected. Store traffic increased, but deflation offset that. We projected some weakness ahead of time, and we trimmed our position prior to the earnings report. With plans for additional membership incentives and new store openings, we believe management has reset expectations for the future. As its shares slipped by -7% after the report we added back to our position.

In the Financials sector we tend to avoid banks that face credit deterioration or rising deposit costs, preferring either asset managers or niche insurance companies. Detracting from results was a -28% decline from **Flywire Corp**., a global payments platform focused on education, health care, and travel industries. Flywire's revenues only met expectations, although earnings were better. During the recent reporting period, there were transitional issues such as greater headwinds from adverse foreign exchange rates and delays implementing systems for new clients. Although we think highly of the management team, in our follow-up discussions with Flywire, it was not clear what would rejuvenate the share price over the next several quarters. We began trimming the position with plans to completely exit it. Also challenged this quarter was **ProAssurance Corporation** with its -27% showing. Providing medical liability insurance to practitioners throughout the U.S., ProAssurance's earnings fell short of expectations. Although its primary malpractice insurance business was good, its smaller workers' compensation business fared poorly as it faced notable medical cost inflation. That was enough to weigh on overall underwriting results. We had trimmed the position prior to the report in the face of potential risks, and did so again afterward, though the company's valuation based on the malpractice business remained very attractive. On the positive side of the ledger, there was **TPG Inc**. The private equity manager's earnings and dividend were each higher than expected. Performance fees were a significant contributor as was a greater-than-anticipated level of fundraising. That led its shares up by 46% and we trimmed our holdings.

Our preferences among Health Care stocks are those companies providing novel therapies for unmet needs that deserve premium pricing, or specialized service providers. 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. There was a -10% return from **Legend Biotech**, a biotechnology developer of cell therapies to treat blood cancers such as multiple myeloma and leukemia. Its results included increased estimates for Carvykti revenues treating multiple myeloma patients, while also noting that additional manufacturing capacity will commence during the first quarter of 2024 to address increased demand. Legend's price decline appeared tied to management's conservative guidance, and we added to our position. Skipping a beat was **AtriCure, Inc**., a medical device developer of instruments to treat atrial fibrillation. Its shares trended down -19% this quarter on concerns that anti-obesity drugs would obviate the need for these types of cardiovascular medical devices. Despite reporting better-than-expected results and an upbeat forecast by AtriCure's management, many of those market worries lingered. Not for us though, and we added to our position. We also began a position in **RAPT Therapeutics**, a developmental biotechnology company focused on inflammation and immunology therapies. RAPT's primary treatment, Zelnecirnon, is in late clinical trials to address moderate to severe atopic dermatitis (eczema) with a differentiated oral treatment compared with the current injectable therapies. Results from the current trial are expected in mid-2024, and early indications have been promising. Since our initial purchase, RAPT's shares rose 48% during the balance of the quarter.

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. Declining by -9% was **Paylocity Holding**, a provider of cloud-based payroll and human capital management software for medium-sized organizations. Revenues and earnings were above expectations, though Paylocity's management noted that employment levels among its clients were lower than expected and thus it atypically maintained its revenue guidance (instead of the usual increase). Some investors feared that employment cuts might continue, and that weighed on Paylocity's shares. Elsewhere, we sold our shares in **Zurn Elkay Water Solutions,** which specializes in water management products predominantly for institutional and commercial buildings. The stock price exceeded our target and what we believed to be full valuation.

Among the wide variety of Information Technology companies, we prefer critical system providers, specialized component designers, and systems that improve productivity or efficiency for their clients. Posting a 0% return—lagging the benchmark sector average of 13%—was **Workiva Inc.**, a leading cloud-based compliance and regulatory reporting platform. Workiva's revenues exceeded expectations, though its earnings were lower because of a one-time interest expense. The relative share price weakness stemmed from management's conservative guidance for its final fiscal quarter that incorporated the uncertain macroeconomic environment and Workiva shedding some low-margin businesses. Meanwhile, the company signed new customers and released updates to current financial reporting systems that should lead to better margins and further improve Workiva's profitability. This sector was also home to the strategy's greatest contributor, **CyberArk Software,** and its 34% gain. A global leader in Privileged Access Management (PAM), protecting access to critical enterprise applications and data on internal networks, CyberArk saw increased interest as more cyber breaches made headlines. One was MGM Resorts, which had delayed installing CyberArk's PAM software, then a security breach occurred, and now it was moving quickly to complete that process. Another strong contributor was the 36% gain from **JFrog Ltd**. Providing systems to manage and speed the release of software updates from developers to users, JFrog reported higher-than-anticipated revenues and earnings. Revenues from its cloud-based offerings accelerated, leading to improvements in subscriptions and annual recurring revenue. A rebound in the PC and smartphone markets benefited **Synaptics Incorporated**, the developer of human interface technologies for a variety of devices. Synaptics' 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. This quarter we sold our position in **Lattice Semiconductor**, which provides low-power, programmable integrated circuits. The company reported disappointing guidance for the next quarter, citing lower demand from its industrial, automotive, and communications infrastructure end markets. While we owned it during the quarter, Lattice's shares were down by -32%. New to the portfolio was **Teradyne, Inc**., which produces testing and measurement equipment for semiconductors and other complex electronic systems. Already a holding in our Mid Cap Growth Strategy, after providing lower-than-expected guidance for the final quarter of its fiscal year Teradyne's price fell, and its market cap entered the buy range for this strategy. We believed that its chip testing volumes reached a low point and were poised to recover. Since we started buying, Teradyne's shares rallied 30% for the remainder of the quarter.

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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This composite invests in stocks with market capitalizations at time of purchase generally within the range of capitalizations of stocks in the Russell 2500 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 90-120 stocks. Historical turnover has averaged 61% per year. Composite inclusion threshold $5mm. Fee basis is 100 basis points. The composite creation and inception date is November 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 small/mid cap market as represented by the Russell 2500™ Growth Index. The purchase range was amended to reflect a range bounded by $300 million 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.

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 2500™ Growth – a market capitalization-weighted index that measures the performance of those Russell 2500™ companies with higher price-to-book ratios and higher forecasted growth rates. All indexes, including the Russell 2500™ 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 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.

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.