TimesSquare Capital Management, LLC

Emerging Markets Small Cap Strategy

Representative Commentary — 1Q24

Performance

			Annualized			
	1Q24	**1YR**	**3YR**	**5YR**	**7YR**	**Since Inception (1/1/2017)**
Emerging Markets Small Cap Composite (Gross)	-0.28%	20.17%	2.43%	9.42%	8.25%	9.60%
Emerging Markets Small Cap Composite (Net)	-0.55%	18.88%	4.24%	1.32%	8.24%	7.08%
MSCI Emerging Small Cap (Net) Index	1.05%	20.56%	4.22%	8.51%	6.58%	8.16%

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.

Although many equity markets slipped in January, they recovered over the next two months for a strong first quarter of 2024.

- Global economic activity measures for manufacturing and services each climbed into expansion territory for the first time in over a year.
- Volatility remained low for the quarter. While growth equity indexes outshone value, Growth and Profitability had negative returns among global risk factors. Momentum was the dominant factor this quarter, indicating to us that this quarter's rally was not entirely driven by company fundamentals.
- Specific to the Emerging small cap universe, EMEA outperformed other regions while Latin America lagged.

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:

- **AI as an investment theme continues to attract investor attention throughout EM,** with particular attention being paid now to its intensive hardware and infrastructure needs. Although many semiconductor hardware and capital equipment companies have not fully recovered from the post-COVID hangover, they are already seeing intense interest as investors anticipate which companies will benefit from the special needs of manufacturing large quantities of AI-related chips and servers. Investors have further extrapolated this into the need for more thermal cooling equipment, which in turn requires much more electricity, spilling over into investor interest in grid and electrical equipment beneficiaries as well.
- Global investors are paying close attention to **U.S. economic and (geo)political developments**, especially interest rates and upcoming elections. Many EM central banks are particularly watchful, as U.S. rate changes can impact their borrowing costs and currencies. Additionally, both EM investors and countries are eyeing the potential geopolitical shifts that could result from a re-elected Trump or Biden.
- **China appears to have passed peak pessimism** despite the near-constant stream of negative headlines surrounding U.S.-China geopolitical tensions and downbeat assessments on its economy. The decline in China's stock market appears to have halted, and its property and manufacturing sectors are showing signs of stabilization. More recent measures of consumer health, such as travel spending during recent Chinese holidays, also suggest that Chinese consumption is not doing as poorly as many investors and economists have assumed, so far without a large-scale debt-fueled stimulus.

The Emerging Markets Small Cap Portfolio underperformed the MSCI Emerging Markets Small Cap benchmark during the first quarter of 2024. Relative strength in the Frontier markets partially offset relative weakness in other regions.

Regional Performance: Asia
Within Asia, the portfolio's performance varied, with holdings in Korea, Indonesia, and Thailand contributing to returns, while those in China, India, and Taiwan detracted.

South Korea, for instance, housed some of the portfolio's biggest contributors but also some of the largest detractors. **Jeisys Medical**, a manufacturer of non-invasive aesthetic devices used by dermatologists and physicians, reported inline sales results but missed on operating profit due to one-off costs and uncertainty related to its US-based distribution partner being acquired by a competitor. This led to a -27% decline. **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 -21%. On the positive side, **LIG Nex1,** a developer of defense technology and security products, gained 30%. LIG's product line includes anti-submarine guided missiles, harbor underwater surveillance systems, and electronic warfare platforms. We believe the company is well-positioned to capitalize on rising Korean defense exports and future trends in warfare, such as increased usage of drones and missiles. Investors are also positive about LIG's recent acquisition of Ghost Robotics Corporation. Korean aerospace and defense firm **Hanwha Aerospace** also benefitted from this trend. During the quarter, Hanwha posted better-than-expected earnings driven by significant growth in its land defense system in both domestic and international markets. This performance led to a 57% increase in their share price.

Within this region, there was relative weakness in the portfolio's Information Technology holdings. In China, **Chinasoft International**, a major IT services provider, saw its stock decline -21% after reporting declining revenue and net profit for 2023 as it decided to exit lower margin service contracts. Across the strait, Taiwan's **eCloudvalley Digital Technology** is the largest Amazon Web Services (AWS) Managed Service provider in Greater China. The stock declined -20%, though the company continues to drive expansion through cloud and AWS growth, and the addition of new markets and competencies. A bright spot and ascending 27% was **M31 Technology**, a supplier of 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. While M31's quarterly results missed expectations due to currency impact, we believe their increased R&D investment will support long-term growth.

The portfolio's holdings in India delivered mixed performance. A weak spot was **One 97 Communications**, better known as **Paytm**, which provides payment solutions and financial services to consumers and merchants. At the end of January, the Reserve Bank of India imposed severe disciplinary actions on Paytm's subsidiary bank, directing it to discontinue most services. This regulatory action prompted us to swiftly exit the position, booking a -31% loss for the time it was held during the quarter. Delivering better results was **PB Fintech**, an online insurance and lending product platform. The company achieved profitability with strong premium growth and healthy margins, leading to a 41% increase in its share price.

Regional Performance: EMEA
During the quarter, we continued to build up our position in leading Saudi insurance group, **Company for Cooperative Insurance** (**Tawuniya**). The company continues to benefit from increasing penetration of auto insurance in Saudi due to government enforcement actions, as well as higher interest rates driving better portfolio returns. The stock rose 23% during the quarter.

Headquartered in Poland, **Text S.A.** (previously known as LiveChat) provides chatbot and customer communication services to businesses globally. The stock fell -22% for the quarter as investors worried about slowing growth and potential competition from AI chat applications, which we do not believe to be a threat given the amount of training and data that Text already possesses.

Regional Performance: Latin America
Latin America was the portfolio's largest regional detractor. **CM Hospitalar,** a leading distributor of drugs, medical supplies, and materials in Brazil, reported negative fiscal quarterly results, reflecting a tough competitive environment in the country. We exited the name at a -35% loss in the quarter to avoid further downside.

Rising 27% was Argentina's online travel agency, **Despegar.com**. Despite a challenging currency environment, the company exceeded expectations with its fiscal quarterly results and provided guidance above analyst estimates. Despegar.com continues to benefit from strong execution and solid demand across the region.

Conclusion

Looking further into 2024, markets will keep a close eye on central banks and the election booths. Many central banks telegraphed plans for easing rates—with the notable exception of Japan where the BOJ recently ended its negative interest rate policy, though remained dovish by continuing to buy government bonds. 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 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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