Global Small Cap Strategy

Representative Commentary — 1Q24

Performance

	1Q24	1YR	Annualized 3YR	5YR	Since Inception (1/1/2018)
Global Small Cap Composite (Gross)	5.34%	11.26%	-0.04%	6.50%	4.88%
Global Small Cap Composite (Net)	5.13%	10.30%	-0.92%	5.55%	3.95%
MSCI World Small Cap (Net) Index	4.39%	15.87%	1.27%	7.89%	5.92%

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.

- Developed Markets, especially Large Cap Growth stocks in the U.S. led other styles and geographies, though the Magnificent Seven accounted for half that gain (even among those seven, the returns were driven by NVIDIA Corporation's 82% gain as technology capital expenditures to fuel GenAI fever remained a market focus).
- 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 global small cap universe, the Americas, Japan, and the Middle East were the best performing regions while Asia Pacific ex Japan finished the quarter flat.

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:

- Across **Technology** and related services, cybersecurity and Generative AI (GenAI) continue to be front and center. We expect corporate spending to continue to invest in data warehousing, real time streaming, cybersecurity, and search. Beyond the technology benefits, we see the emergence of a broader thematic as countries with aging populations and declining birth rates are increasingly turning to AI and other automation solutions to boost efficiency and address demographic challenges.
- Shifts in energy requirements are driving implicit **energy transitions** globally. These moves will necessitate significant investments across the value chain, from production to distribution. Additionally, we have observed greater interest surrounding energy production, procurement, and transmission for power-hungry data centers. This user segment is expected to account for a steadily growing proportion of overall energy consumption.
- **Reshoring** remains a major trend, driven by either geopolitical concerns in the technology industry or consumer weakness leading to a preference for cheaper domestic products.

The Global Small Cap Portfolio outperformed the MSCI World Small Cap benchmark during the first quarter of 2024 with relative strength across most regions.

Regional Performance: The Americas

Many of our Industrials positions provide necessary business-to-business operational services, highly technical components, automation & efficiency improvements, or essential infrastructure services. Here was the 63% gain from

EMCOR Group, which provides construction and operational services for mechanical and electrical systems to a broad range of commercial, industrial, utility, and institutional customers. EMCOR's revenues, earnings, and forward guidance all outstripped expectations. In addition to record-high backlog levels, EMCOR's margins improved as the company sees high demand and the ability to select the most profitable opportunities. **Regal Rexnord** manufactures electric motors, electrical motion controls, power generation, and power transmission products. Its shares gained 22% despite reporting mixed fourth quarter results, with revenues slightly below expectation and better earnings. **ESAB**, a fabrication technology and gas control solutions provider, jumped 28%. Its products include welding equipment, consumables, gas control equipment, digital solutions, and robotics. The company reported another quarter of better-than-expected results, with organic growth in organic sales and an expanding profit margin. Initial 2024 guidance appears to be conservative from our perspective. We added to our position in manufacturer of wood-alternative decking, railing, trim, and moulding, **AZEK Company,** which rallied 30%. Earnings and profits surpassed projections due to improved factory utilization and lower raw materials costs. Management boosted forward guidance well above sell- side estimates.

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. **JFrog**, which offers a comprehensive development operations platform that powers and controls the software supply chain, leapt 28%. They reported strong results that were highlighted by a solid acceleration in cloud revenue growth. JFrog is seeing a nice adoption of its entire platform which is fueling large deals. Their large customer count virtually doubled in the quarter. Going forward, the company believes their new security offerings will drive increased deal sizes and customer upgrades. Moving in the other direction with a -12% decline was **Universal Display Corporation**, the developer of organic light emitting diode (OLED) technologies for use in mobile devices, flat panel displays, and solid-state lighting. Recent revenues were less than expected, though better margins led to higher-than-anticipated earnings. OLED penetration in smartphones has moved past 50% as that technology is used in mid-priced devices, and that segment expects a sales recovery later this year. OLED adoption is in the nascent stages for PCs, tablets, and other displays—so even slight increases have the potential to drive meaningful growth for Universal. **Synaptics**, a developer of human interface semiconductor solutions for electronic devices and products, sold off by -15%. The revenue picture for the fiscal second quarter was mixed with a strong rebound in mobile offsetting declines in Internet-of-Things as well as enterprise & auto. Earnings were better than expected due to strong operating expense control. **Workiva** supplies cloud-based compliance and regulatory reporting solutions. Its fourth quarter was solid with total revenue, subscription revenues, operating income, and billings all surpassing estimates. However, management's 2024 guidance factored in macroeconomic uncertainty and that was viewed as underwhelming by investors as its shares fell by -17%.

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. **Integral Ad Science** provides digital advertising verification services. The company reported a decent fourth quarter, with beats to sales and profit estimates. However, initial 2024 guidance was disappointing to investors as the stock retreated by -31%. Management disclosed they are offering more competitive pricing to strategic accounts. While near term revenues will be impacted, they believe there are significant upsell and cross sell opportunities among this cohort.

This quarter we established a position in **10x Genomics**, a life science company with dominant market shares in the single cell sequencing market. The company is poised to achieve similar market position in the nascent spatial proteomics market.

Regional Performance: Europe
Worldwide military expenditures had been on a long-term decline; however, the current geopolitical situation has led to a structural need in defense spending, particularly in Europe. Benefitting from this tailwind is Swedish defense equipment manufacturer, **Saab**. The company continued to post strong revenue growth and margin expansion. Share price improved 48% during the quarter as we trimmed our position on the price strength.

There were challenges in the portfolio's holdings in the United Kingdom. **Keywords Studios (KWS),** a provider of outsourced creative and technical services to the video game industry, was impacted by continued reduced spending from video game publishers following the pandemic gaming boom. This period of "digestion" before returning to long term trends in game development is taking longer than expected. Amid this unfavorable industry outlook, we exited the position with it down -20% while it was held in the portfolio.

Ascendis Pharma is a biopharmaceutical company engaged in the development of drug candidates. Their Skytrofa drug is commercially available and used to treat growth hormone deficiency in children. Sales of that therapy continue to exceed estimates. Ascendis has also developed TransCon PTH for treating adults with hypoparathyroidism. This is commercially available in Germany and Austria, with U.S. approval expected later this year. The share price of Ascendis Pharma improved by 20% and we trimmed the position on this strength.

Regional Performance: Japan

The significant stylistic headwind we faced in 2023 seems to have dissipated in Japan.

Within Industrials, **SMS**, a staffing agency specializing in healthcare, reported lower-than-expected operating profits due to increased hiring efforts to meet strong demand. The company's share price fell -16%. Despite the miss, they maintained their full-year guidance and announced a dividend hike. Japan's leading digital bank, **Rakuten Bank**, operates entirely online with no physical branches or ATMs. The bank reported better-than-expected fiscal quarter results and raised their guidance for the full year, leading to a 36% increase in share price.

Regional Performance: Middle East and Emerging Markets

The portfolio benefitted from holdings in the Middle East while holdings in Emerging Markets detracted from performance.

Uruguay-domiciled **Arcos Dorados** is the world's largest McDonald's independent franchise, operating or sub-franchising over 2,000 McDonald's restaurants in 20 countries and territories in Latin America and the Caribbean. The company delivered robust fourth quarter results but fell short of relatively high expectations. Revenues once again beat local inflation; however margins were slightly softer than expected. Despite the -12% stock price decline this quarter, we believe the margin pressure will be temporary and remain confident in the company's successful digital strategy.

In Israel, **CyberArk**, a global leader in Privileged Access Management (PAM), benefitted from recent high-profile data breaches that fueled strong demand for CyberArk's solutions. The company reported another strong quarter and raised their full year guidance. Share price ascended 21% as a result. The cloud-based contact center software and compliance systems provider **NICE** posted a 31% share price gain. NICE's revenues and earnings outstripped expectations and management's initial fiscal year guidance was also better than expected. The company was winning new business and seeing a reacceleration of its cloud-based services, which was heartening after a slower period during 2023.

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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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.

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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@tscmllc.com.