

International Small Cap Strategy

Representative Commentary — 1Q24

Performance	Annualized					
	1Q24	1YR	3YR	5YR	7YR	10YR
International Small Cap Composite (Gross)	6.27%	8.82%	-3.88%	2.96%	3.49%	5.04%
International Small Cap Composite (Net)	6.01%	7.75%	-0.32%	-4.84%	1.94%	2.47%
MSCI EAFE® Small Cap (Net) Index	2.40%	10.45%	-1.36%	4.93%	5.18%	4.70%

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 international small cap universe, 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 International Small Cap Portfolio outperformed the MSCI EAFE Small Cap benchmark during the first quarter of 2024 with relative strength across most regions.

Regional Performance: Europe

Driven by strong stock selections, Europe was the portfolio's top regional contributor. Relative strength in France, Germany, and Sweden far offset relative weakness in the UK.

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 are **Saab** and **Hensoldt**. Swedish defense equipment manufacturer **Saab** 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. Germany-based **Hensoldt** is a pure-play, platform-agnostic defense electronics company. Their sensors/radar and Optronics (precision vision guidance systems) are critical to military hardware. The company issued a positive outlook for 2024 which helped lift its shares by 74%. During the quarter we participated in the IPO of **RENK Group**, a global leader in mission-critical drive technology in two major defense markets: land and naval drivetrain solutions. The company's civilian products are used in applications related to marine, industrial, and the energy transition. Shares of RENK surged 134% since they were added to the portfolio during the quarter.

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. With the stock down -23%, we significantly reduced our stake while waiting for the industry outlook to improve. **Safestore Holdings**, the UK's largest self-storage group, declined -14% due to a weak macro environment. Occupancy rates drifted lower, prompting us to trim during the quarter and then fully liquidate our position in the company shortly after the quarter.

SPIE, a leading European independent provider of multi-technical services in the energy and communications industries, ascended 20%. A beneficiary of the European Union's focus on energy transition, SPIE reported better-than-expected fiscal year results, driven by continued strong organic growth.

Regional Performance: Japan

The significant stylistic headwind we faced in 2023 seems to have dissipated in Japan. Positive selection effect helped offset the negative allocation effect from our underweight position.

We reduced our position in Japanese medical platform **CareNet** on near-term earnings concerns. CareNet provides education to its medical professional community and provides pharmaceutical companies with access to this network to help educate doctors about their products. While CareNet's quarterly results met expectations, its share price lost -44% as investors were disappointed with profit guidance stemming from higher upfront investments.

Within the Consumer sectors, discount supermarket chain **Kobe Bussan**, which had performed strongly in Q4, traded down -16% despite reporting an inline first quarter. We added to our position as sales remained solid, while management implements a flexible pricing approach. **Lawson** is one of the leading convenience store operators with stores in both Japan and China. During the quarter, Japanese telecommunications operator KDDI announced their plan to acquire 50% stake in Lawson, which would make Lawson an equity-method affiliate of both KDDI and Mitsubishi Corp (which currently owns 50% of Lawson). After a thorough evaluation, we tendered our shares and booked a 31% gain for the quarter. Japan's online travel agency **Adventure**, which owns the leading flight booking app Skyticket, benefitted from Japan's reopening but faces near-term headwinds from difficult comparisons to the previous year's strong performance, weak consumer sentiment, and competition from global online travel agencies (OTAs). Losing -39% during the quarter, we exited the position shortly after.

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. Ascending 40% is **DMG MORI**, one of the world's leading manufacturers of high-end Computer Numerical Control (CNC) machines. CNC machines are used to control complex grinders, lathes, and mills that cut and shape a range of different parts (such as critical airplane and automobile parts). DMG MORI revised its guidance upwards, indicating minimal effect from a recent downward revision at one of its subsidiaries. Despite challenging macroeconomic conditions, the company managed to capture relatively stable demand.

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. **Socionext**, a leading Japanese fabless semiconductor IC design company, bounced back with a 55% gain. This growth is fueled by the rise of artificial intelligence, which has increased demand for customized application-specific integrated circuits (ASICs). The construction of Japan-based semiconductor foundries by TSMC (the world's largest fab foundry) and the desire among customers for IC design talent outside of mainland China should also benefit Socionext. We reduced our position on the price strength.

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.

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.

This commentary is intended for institutional use only and should not be provided by the recipient to any other parties.

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. Certain information contained herein has been provided by third party sources and although believed to be reliable; it has not been independently verified and its accuracy or completeness cannot be guaranteed and should not be relied upon as such.

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.

This document, which is being provided on a confidential basis, shall not constitute an offer to sell or the solicitation of any offer to buy which may only be made at the time a qualified offeree receives a confidential private offering memorandum ("CPOM"), which contains important information (including investment objective, policies, risk factors, fees, tax implications and relevant qualifications), and only in those jurisdictions where permitted by law. In the case of any inconsistency between the descriptions or terms in this document and the CPOM, the CPOM shall control. These securities shall not be offered or sold in any jurisdiction in which such offer, solicitation or sale would be unlawful until the requirements of the laws of such jurisdiction have been satisfied. This document is not intended for public use or distribution. While all the information prepared in this document is believed to be accurate, TimesSquare Capital Management, LLC, makes no express warranty as to the completeness or accuracy, nor can it accept responsibility for errors, appearing in the document.

TimesSquare Capital Management, LLC claims compliance with the Global Investment Performance Standards (GIPS®).

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 non-US stocks with market capitalizations at time of purchase generally within the range of capitalizations of stocks in the MSCI EAFE Small Cap Net Index. Portfolios will hold approximately 70-75 securities. The process is fundamental research driven. Primary selection criteria include quality management, distinct competitive advantage, and strong, sustainable growth. Historical turnover has averaged 37% per year. Composite inclusion threshold \$500,000. Fee basis is 100 points. The composite creation and inception date is April 1, 2012.

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.

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 EAFE Small Cap (Net) Index. MSCI EAFE Small Cap (Net) Index is a trade or service mark of MSCI Inc. The MSCI EAFE Small Cap (Net) Index is an unmanaged, market-weighted index of small companies in developed markets, excluding the U.S. and Canada. 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 EAFE 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 1.00% 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. 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.

GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.



75 Rockefeller Plaza, 30th Floor New York, NY 10019
www.TSCMLLC.com