

U.S. Mid Cap Growth Strategy

Representative Commentary — 1Q24

Performance	Annualized					
	1Q24	1YR	3YR	5YR	7YR	10YR
U.S. Mid Cap Growth Composite (Gross)	10.16%	28.91%	8.42%	15.25%	15.00%	12.61%
U.S. Mid Cap Growth Composite (Net)	9.95%	27.91%	7.56%	14.34%	14.10%	11.72%
Russell Midcap® Growth Index	9.50%	26.28%	4.61%	11.81%	12.86%	11.34%

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.

- Large Cap Growth stocks in the U.S. led other styles and geographies, though the Magnificent Seven accounted for half of 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.
- While growth equity indexes outshone value, Growth and Profitability had negative returns among global risk factors. Momentum was the dominant factor 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:

- Across **Technology** and related services, only GenAI seemed to matter. Equity markets rewarded those stocks associated with the boom in capital expenditures supporting GenAI.
 - Though the capital expenditures for technology infrastructure (hardware and tools) should continue through 2024, we expect a gradual shift toward preparing corporate data for GenAI applications (data warehousing, real time streaming, cybersecurity, and search).
 - In addition, GenAI's insatiable energy needs drive greater interest surrounding energy production, procurement, and transmission for power-hungry data centers. According to industry experts, those data centers could account for as much as 20% to 25% of U.S. power demand, up from 4% or less today.
- Current limitations on existing electrical grids should drive more activity among **Industrials**, especially equipment suppliers and engineering contractors.
 - Also propelling that activity will be moves toward regional or local energy self-sufficiency.
- Thus far in 2024, **Health Care** utilization rates have been strong, broadening interest in this sector beyond last year's GLP-1 obesity drug theme.
 - That should benefit commercial drug companies and device manufacturers.
- The outlook for **Consumer** spending is mixed.
 - Overall spending levels have been firm, though we have seen the effects of consumers being more value conscious and selective.
 - A range of consumer companies recently highlighted lower spending trends despite stable employment data.

Specific to U.S. small to mid cap stocks in the first quarter, performance was barbelled. There were leading rewards for stocks with the highest quality (return on equity) or low valuations (price/earnings). Though also leading were higher risk (beta) or stocks with hyper growth expectations. Amidst this environment, the portfolio outperformed the Russell Midcap® Growth Index in the first quarter.

Our preferences in the Consumer-oriented sectors lean toward value-oriented or specialty retailers, franchise models, or premium brands. Contributing to performance was **O'Reilly Automotive**, a specialty retailer and supplier of auto parts, tools, supplies, and accessories. There were positive indications early in the quarter for sales growth within O'Reilly's professional segment (do-it-for-me or DIFM). Mid-quarter concerns that the DIFM business might be weaker than expected because of poor weather, later cleared. O'Reilly's shares gained 19% and we trimmed our position. Slipping by -15% was **Five Below**, a discount retailer focused on teens and pre-teens with most goods priced less than \$5. Though revenues were in line with expectations, earnings were below as the company needed to increase expenses to offset in-store losses. Those efforts to mitigate that shrinkage should provide longer-term benefits, though it may not be until later in the year that Five Below's shares reflect that. At the beginning of the year, we sold our shares in **Aptiv PLC**, which supplies automotive electronic technology for safety and entertainment systems. The company had expected significant growth from its EV components, though that segment saw much slower growth recently. With no line of sight for a rebound, we exited our position.

In the Financials sector we tend to avoid banks that face credit deterioration or rising deposit costs, preferring either asset managers or specialized insurance companies. This quarter that included the reinsurer **RenaissanceRe Holdings**. Its earnings outstripped expectations as RenRe showed better rates of underwriting, higher fee income, and increased investment income—all of which also exceeded levels of industry peers. Pricing also appeared to remain strong for this year and into 2025, and the result lifted RenRe's shares by 20%. Climbing by 35% was **Interactive Brokers Group** which offers automated, low-cost securities brokerage services for global retail investors. The company reported steady growth in the number of clients, daily average revenue trades, and asset levels for client margins or credit accounts. Interactive Brokers also benefited from the view that interest rates might not fall as quickly as previously expected (and thus provide better interest spreads for the company), and we trimmed our position as it rose.

Our preferences among Health Care stocks are those companies providing novel therapies for unmet needs that deserve premium pricing, or specialized service providers. Here there was a 24% gain from **Encompass Health Corporation**, one of the largest U.S. providers of post-acute services, such as rehabilitation. Revenues and earnings exceeded expectations with notable patient volume growth across all Encompass's regions. The company's management expects recently opened centers to provide an additional tailwind in the coming years. However, later we sharply trimmed the position on concerns that upcoming government rules might accelerate transferring patients out of inpatient rehabilitation facilities, such as those Encompass runs. Pulling back by -7% was **Legend Biotech**, a biotechnology developer of cell therapies to treat blood cancers such as multiple myeloma and leukemia. The European Union approved the use of Legend's Carvykti treatment of multiple myeloma and later the FDA followed suit. Some investors may have been concerned about possible delays as Legend ramps up production. Though with a long-standing agreement with Johnson & Johnson and a new partnership with Novartis, we see a long runway of growth ahead, so we added to our position. Gaining 71% was **Shockwave Medical**, which develops intravascular devices for calcified cardiovascular diseases. Early in the quarter, there were some concerns that pre-authorizations would be necessary for peripheral arterial disease (PAD) procedures. Thus far, only one health management organization required that, and Shockwave's management noted the pre-authorization headwind for PAD patients was manageable, which gave a lift to its shares. In late March, Shockwave's price rose on speculation that it might be an acquisition candidate for Johnson & Johnson—that deal was officially announced in the first week of April.

Many of our Industrials positions provide necessary business-to-business operational services, highly technical components, automation & efficiency improvements, or essential infrastructure services. Adding value to the strategy was **Waste Connections**, which collects, transfers, recycles, and disposes of waste for municipalities and businesses in the U.S. and Canada. Revenues and earnings topped expectations, as did management's initial guidance for 2024. The company projects near-term growth in volumes and pricing, which recent acquisitions should make more than likely. As Waste Connection's shares climbed 15%, we trimmed our holdings. There was some price weakness for **Verisk Analytics**, which provides risk information and analysis for the property/casualty insurance industry. Its revenues and earnings were in line with expectations, though its guidance was more conservative. More notable from our perspective, pricing for auto insurance was strong, which bodes well for Verisk's near-term growth prospects, so as its shares pulled

back by -1% this quarter we added to our holdings. **Hexcel Corporation** also saw a -1% return, though here we trimmed our position. Hexcel manufactures composite materials for aerospace, commercial and industrial uses worldwide; this quarter its revenues and earnings fell short of expectations. There was weakness from its largest segment, Commercial Aerospace, which felt the near-term issues surrounding Boeing's lower production levels. When Hexcel's shares rebounded after the market's initial negative reaction, we trimmed our position because we want to see stronger order growth later in 2024 before making it larger in the strategy. Better 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.

Among the wide variety of Information Technology companies, we prefer critical system providers, specialized component designers, systems that improve productivity or efficiency for their clients, and others that are closely tied to increasing shares of corporate IT budgets. The cloud-based contact center software and compliance systems provider **NICE Ltd.** 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 adoption of its GenAI tools among its customers. The high demand for cybersecurity systems is unlikely to abate, which benefited **CrowdStrike Holdings**. The company's expansion beyond endpoint security to offering security on all cloud workloads, along with its growing product suite in areas such as identity and security information & event management, is driving strong demand for its platform among customers amidst a very active cyberthreat environment. That lifted its shares by 26% this quarter and made it the strategy's top contributor. This sector was also home to the strategy's greatest detractor—**Smartsheet, Inc.** and its -19% return. A cloud-based collaborative platform for process and project management across all a company's functional areas, Smartsheet's revenues were in line with expectations though its projections for the new fiscal year were very conservative. Digging into the numbers, we saw that Smartsheet was not considering potential upsides from several recently launched initiatives, including its AI offerings, and believe the market was overly punitive to Smartsheet's shares. Pulling back by -11% was **Elastic NV**, which develops enterprise-wide search and analytical services for a diverse set of uses. While Elastic's revenues and earnings exceeded expectations, the recent sales growth for its cloud-based offerings missed elevated expectations. That segment can vary quarter to quarter, and its search tools are being adopted for building AI applications. Returning to the positives, **CyberArk Software**'s shares rose 21%. A global leader in Privileged Access Management (PAM)—protecting access to critical enterprise applications and data on internal networks—CyberArk announced revenues and earnings far better than forecasted. The company benefited from its expanding platform with steady subscription renewals and new product sales to existing clients.

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.

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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.

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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 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@tscmlc.com.

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