TIMESSQUARE CAPITAL MANAGEMENT, LLC

U.S. Small Cap Growth Strategy

Representative Commentary — 1Q24

Performance

			Annualized			
	1Q24	**1YR**	**3YR**	**5YR**	**7YR**	**10YR**
U.S. Small Cap Growth Composite (Gross)	6.03%	15.12%	-0.48%	7.95%	10.50%	9.19%
U.S. Small Cap Growth Composite (Net)	5.77%	13.99%	-1.47%	6.88%	9.41%	8.11%
Russell 2000® Growth Index	7.58%	20.35%	-2.68%	7.37%	8.39%	7.89%

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).
  - There was a similar distortion within the Russell 2000® Growth Index where "small cap" Super Micro ($56bn market capitalization) and MicroStrategy ($29bn) accounted for more than half of that index's return this quarter.
- 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, indicating to us that this quarter's rally was not driven by company fundamentals.

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 cybersecurity and GenAI seemed to matter. Corporate spending and equity markets remained uninterested in anything else.
  - 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).
  - Also, we have seen greater interest surrounding energy production, procurement, and transmission for power-hungry data centers. That user segment is expected to account for a steadily growing proportion of overall energy consumption.
- 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.
- Payment processer reports showed that **Consumer** spending improved.
  - The backdrop of stable economic data seems to have bolstered levels of consumer confidence.

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 underperformed the Russell 2000® Growth Index in the first quarter in large part by not owning Super Micro and MicroStrategy. Both of these $25bn+ market capitalization stocks will move out of the small cap indexes as part of the June rebalancing.

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 Holding Corp.** 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 and 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 up-sell and cross-sell opportunities among this cohort. **IAC Inc.** is engaged in media and Internet businesses including ANGI and Dotdash Meredith (DDM). DDM provides digital and print publishing services. ANGI Homeservices offers repair, remodel, cleaning, and landscaping services through their marketplace. Its shares edged forward 2% on solid fourth quarter results and better forward guidance. DDM's digital advertising business saw significant improvement, while ANGI made incremental improvements. New to the Communications sector this quarter was **MediaAlpha Inc.**, a marketing technology company that helps auto and health insurance carriers and distributors target and acquire customers through technology and data science.

Our preferences in the Consumer-oriented sectors lean toward value-oriented or specialty retailers, franchise models, or premium brands. **Boot Barn Holdings Inc.**, a retail store operator of western and work-related footwear, apparel, and accessories, climbed 24% despite mixed fiscal third quarter results. While sales were impacted by unfavorable weather conditions in the northern and eastern parts of the country, lower freight costs translated into better operating margins and higher earnings. **Wingstop Inc.**, a franchisor and operator of restaurants focused on chicken wings, rose 10%. We decided to sell out of the position after it had a strong run and hit up against our price target. Other considerations included a trend of rising chicken wing costs that could impact operating margins as well as signs of increased competition. **BJ's Wholesale Club Holdings Inc.** operates membership warehouse clubs. Its shares gained 14% after they reported better-than-expected comparable sales growth along with in-line revenues and earnings for their fiscal fourth quarter. Highlights of the quarter were increased membership and customer traffic. **Adtalem Global Education Inc.** offers post-secondary education services across a variety of disciplines. Its shares fell -17% due to concerns related to enrollment and graduation trends. These considerations led us to liquidate the position. **Simply Good Foods Co.** is a consumer-packaged food and beverage company focused on nutritional food and snacking products. We anticipated decelerating trends across their Quest and Atkins brands, so we sold out of the position. Its stock was down -9% for the time it was held in the quarter. New to the Consumer portion of the portfolio is **Freshpet Inc.**, a producer of fresh refrigerated dog and cat food that is distributed to stores in the U.S., Canada, and Europe.

We often see the ebb and flow of the Energy sector tied to underlying commodity prices. In this area, we seek low-cost exploration & production companies with high-yielding acreage or specialized service providers. **Matador Resources Co.** is an exploration and production company with operations in the Delaware Basin of Southeast New Mexico and West Texas. Its shares were boosted 18% by a solid fourth quarter with higher-than-expected production volume and lower operating expenses. **Cactus Inc.**, a manufacturer of wellhead and pressure control equipment used in various stages of energy production, surged ahead by 11%. Fourth quarter revenues and profits outpaced Street estimates. We trimmed the position in recognition that the rig count is expected to be down for the year due to industry consolidation and a weaker natural gas market.

In the Financials sector we tend to avoid banks that face credit deterioration or rising deposit costs, preferring asset managers, niche insurance companies, and niche fintech providers. **Victory Capital Holdings Inc.** is a diversified firm that combines boutique investment managers with the benefits of a centralized operating and distribution platform. The combination of inline fourth quarter earnings and higher profits lifted their stock price by 24%. Based on management's comments, it seems likely there will be an acquisition at some point during 2024 as they look to enhance their product offerings. **Safety Insurance Group Inc.**, a supplier of property & casualty insurance products inclusive of commercial vehicles and fleets, gained 9%. Their latest results demonstrated growth in the policy count along with pricing improvement. We added to our position. **ProAssurance Corp.** provides professional liability and workers' compensation insurance. Mixed fourth quarter business line results caused its earnings to fall short of Street projections and led to a -7% pullback. Professional liability results surpassed projections as the accident year loss ratio was lower than expected, while workers' compensation experienced an increase in average claim costs and lower net earned premium. We reduced the position with plans to liquidate. Completely exiting the Financials sector was **Flywire Corp.,** a payments enablement and software company. Their technology is embedded within accounts receivable workflows across the education, health care, travel, and business-to-business industries. We decided to sell out of the position for a multitude of reasons. These included a secondary equity offering without a deal in hand, the CFO announced he was leaving the company, insiders continued to sell shares, and we did not gain comfort that last quarter's shortcomings were only temporary. That stock was down -12% while held during the quarter.

Our preferences among Health Care stocks are those companies providing novel therapies for unmet needs that deserve premium pricing, or specialized service providers. **Shockwave Medical Inc.** is a medical device developer of intravascular lithotripsy technology for treating calcified plaque in patients with heart valve diseases. Fourth quarter revenues exceeded estimates on strong coronary sales. Management noted the pre-authorization headwind for peripheral patients has stabilized. Shares of Shockwave rallied 71% on news that Johnson & Johnson is considering an acquisition of the company - that deal was officially announced in the first week of April. **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. **HealthEquity Inc.** is a provider of technology-enabled platforms for managing health benefits and wellness plans such as health savings and flexible spending accounts. Its shares rose 23% on a better-than-expected sales outlook. Additionally, management expects more than 30% of its health savings account assets to move into their enhanced yield product thereby benefiting custodial revenues. **Krystal Biotech Inc**., a gene therapy company, soared 42% and we trimmed the position. Their fourth quarter sales surpassed Street estimates by a wide margin. Of note, there is now a reduced time for getting approval for Vyjuvek to treat eye lesions in patients suffering from dystrophic epidermolysis bullosa (blistering of skin). **RAPT Therapeutics Inc.** operates as a clinical-stage immunology-based biopharmaceutical company focused on the discovery and development of small molecule therapies for oncology and inflammatory diseases. During the quarter, the company announced that two studies (atopic dermatitis and asthma) for its zelnecirnon therapy were put on clinical hold following a complication experienced by one dermatitis patient in the study. We decided to liquidate the position on this development, with its shares tumbling -64% for the time it was held this quarter. **AtriCure Inc.** develops and manufactures devices for the surgical ablation of cardiac tissue. Fourth quarter revenues outpaced the consensus with broad-based strength across geographies. Despite these positives, the stock declined -15% on news that another company had launched a product to compete against its AtriClip device; that consideration led to us decrease the position.

Many of our Industrial positions provide necessary business-to-business operational services, highly technical components, automation & efficiency improvements, or essential infrastructure services. **EMCOR Group Inc.** supplies electrical, mechanical, and facilities services. The company's strong results fueled a 62% increase in the stock price. Highlights from the quarter included improved margins and a record level of backlog. We trimmed the position on this strength. **ESAB Corp.**, a fabrication technology and gas control solutions provider, jumped 28% and we trimmed on this strength. 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 sales and an expanding profit margin. Initial 2024 guidance appears to be conservative from our perspective. **Regal Rexnord Corp.** 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. Notable strength was found in Aerospace & Defense, Data Centers, Medical, and Energy. **WNS Holdings Limited** is a business process management company supplying data, voice, analytical, and business transformation services worldwide. After a downtick in September earnings, WNS topped revenue and earnings estimates in the latest quarter. They signed eight new clients and expanded relationships with several current customers. Then in February, WNS was notified that a large customer will be terminating mid-2024. We learned this a health care services client and the pending close isn't related to any dissatisfaction with WNS' services. Rather, that client is moving these functions to a private vendor in which they invested a sizable stake. Nevertheless, WNS fell -20% on this development and we trimmed back the position. **Exponent Inc.** is an engineering and scientific consulting company. The company fell short of estimates for the fourth quarter, causing a -7% selloff in its shares and we reduced this holding.

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 Ltd.**, 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. **Vertex Inc.** supplies tax technology solutions for retail, communications, leasing, retail trade, technology, and manufacturing industries. This company reported strong fourth quarter results with total revenues, cloud subscription revenue, annualized recurring revenues, and profits ahead of Street projections. Full year 2024 guidance was also well ahead of expectations. These factors boosted its shares by 18%. **Onto Innovation Inc.** designs, develops, and produces high-performance control metrology, defect inspection, lithography, and data analysis systems used by microelectronics device manufacturers. The company generated better-than-expected fourth quarter results that were driven by specialty devices and advanced packaging as customers continued with investments in AI and power semiconductors. This led to an 18% advance and we trimmed the position on this strength. **Smartsheet Inc.** offers a cloud-based platform for work management. The company reported solid fourth quarter results that beat the Street across revenues, operating income, free cash flow, and earnings. Gross revenue retention remained stable at 96%. While Smartsheet is still in the early day of ramping their AI offerings, management noted strong initial feedback on their first two features. Initial fiscal 2025 guidance was mixed. While earnings and free cash flow are projected to rise, management is conservatively embedding a worsening outlook for its small-to-mid-sized business customers and that caused a -19% slide in its stock. **Synaptics Inc.**, a developer of human interface semiconductor solutions for electronic devices and products, sold off by -14%. 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 Inc.** 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 -16%. **Clearwater Analytics Holdings Inc.** provides web-based investment portfolio accounting, reporting, and reconciliation services. Its fourth quarter results were slightly higher than Street expectations. The company continues to see healthy and broad-based pipeline activity. Its stock price decline of -12% is tied to a mixed outlook inclusive of lower revenues with higher profits.

Within Materials, we seek well positioned companies that are less susceptible to swings in commodity prices. The portfolio currently has one stock in this sector. **Avient Corp.**, a specialized polymer materials producer, edged forward by 5%. Earnings for the latest quarter beat consensus estimates and were driven by higher revenues. An added benefit to profits came from a reduction in raw material costs for the third straight quarter.

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. From October 1, 2000 to November 18, 2004, the performance is that of the TimesSquare Inc. small cap composite. From November 19, 2004, the performance is that of the TimesSquare small cap composite which consists of all small cap accounts managed by the team at TimesSquare and TimesSquare Inc. There has been no change in the investment management responsibility or strategy from the prior firm.

This composite invests in stocks with market capitalizations at time of purchase generally within the range of capitalizations of stocks in the Russell 2000 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 54% per year. Composite inclusion threshold $5mm. Fee basis is 100 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 small cap market as represented by the Russell 2000® 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 June 2012, TimesSquare had modified its purchase capitalization range to match the changes in the small cap market as represented by the Russell 2000® Growth Index at that time, with a change from $50 million to $1.5 billion at time of purchase to $50 million to $2 billion.

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 2000® Growth – a market capitalization-weighted index that measures the performance of those Russell 2000® companies with higher price-to-book ratios and higher forecasted growth rates. All indexes, including the Russell 2000® 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.