

Emerging Markets Small Cap Strategy

Representative Commentary — 2Q24

Performance	Annualized					
	2Q24	1YR	3YR	5YR	7YR	Since Inception (1/1/2017)
Emerging Markets Small Cap Composite (Gross)	3.67%	13.94%	-0.84%	10.38%	8.34%	9.79%
Emerging Markets Small Cap Composite (Net)	3.39%	12.71%	-1.92%	9.18%	7.16%	8.60%
MSCI Emerging Small Cap (Net) Index	5.93%	20.04%	2.53%	9.98%	7.07%	8.71%

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.

The second quarter was good for the equity markets—provided one only owned a handful of the largest, most growthy, U.S. stocks (i.e., the Magnificent Seven).

- While the S&P 500 climbed 4%, the equal-weighted version of the index declined by -3%. That lagged the flat 0% return for non-U.S. developed markets (MSCI EAFE) and a 5% gain from MSCI Emerging Markets.
- Momentum continued to be the dominant global market factor, though Profitability was positive this quarter after negative or neutral results in prior quarters.
- Specific to the Emerging Markets small cap universe, Asia and EMEA enjoyed positive performance 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:

- **U.S. economic and political developments continue to have an outsize influence on markets globally.**
 - Foreign market participants, ranging from retail investors to central bankers, continue to track U.S. data points closely. This includes everything from the strength of the dollar to U.S. inflation and unemployment figures, and even to offhand comments by the Presidential candidates. If anything, this highlights that the world is still very much globalized and interconnected, though probably messier and more volatile.
- **Global Elections are proving to be referenda on global dissatisfaction.**
 - Recent elections around the world are starting to reflect widespread dissatisfaction with the uneven distribution of economic benefits and the impact of inflation. Populist anger has been a major factor in South Africa and Europe and has also been a major issue in the current US Presidential elections. Even in India and Mexico, two countries that are benefiting economically from shifts in supply chains, election results have sent a message to market watchers that voters are demanding more action from their governments.
 - In some instances, this might result in new focus areas for potential investment (such as more infrastructure spending and manufacturing incentives in India), but in other instances may present risks (such as the potential for erosion of government checks and balances in Mexico or the introduction of a new round of US import tariffs).
- **China is still a wild card.**
 - China's economic indicators still present a mixed picture; while it does not seem to be collapsing and there are bright spots (such as exports and improving outbound tourism), there does not seem to be much to inspire confidence either.

- Even if its domestic consumption figures were to improve, investors are still confronted with worries over whether relations with its neighbors and major export markets such as U.S. and Europe worsen, and how the outcome of the U.S. elections could further negatively impact the country.
- **Inspiration from Japan's stock market.**
 - Japan's recent corporate reform push and the positive impact it's had on the Japanese stock market has not escaped notice from its neighbors.
 - Korea, for instance, is looking to promote its own set of reforms called the "Value Up" program to address what it views as the "Korea discount."
 - China is also looking to advance its moribund stock market, and recent steps such as boosting dividend payouts and frequency and using ROEs as a key metric for its state-owned companies seem to have been inspired from the Japanese playbook. While it is too soon to tell whether any of these reforms will prove sustainable and effective in the long term (even for Japan), this increased focus on addressing shareholder value creation is a positive step forward.

The Emerging Markets Small Cap Portfolio underperformed the MSCI Emerging Markets Small Cap benchmark during the second quarter of 2024.

Regional Performance: Asia

Within Asia, the portfolio's performance varied, with holdings in Korea and Malaysia contributing to returns, while those in China and India detracted.

South Korea housed some of the portfolio's top performers. **Jeisys Medical**, a manufacturer of non-invasive aesthetic devices used by dermatologists, announced its planned acquisition by a French PE firm. We sold our shares as they rose 55% during the quarter. **PharmaResearch**, a leading Korean medical and beauty company known for its "Rejuran" brand, saw its share price rise 44%. We trimmed our position after this strong run-up. We exited our position in **BioPlus**, a manufacturer of market leading cosmeceutical products due to an abrupt sales team restructuring and likely need for a capital raise. In communication services, leading carrier-neutral Internet Data Center (IDC) provider **KINX** declined by -17% due to its new data center's start date being pushed back to October from this summer. Leading semiconductor testing socket manufacturer, **ISC Co.**, which is the top global supplier of silicon rubber test sockets used for advanced chips, saw a -35% drop in their share price. We took advantage of this drop to add to our position. In a positive development, we initiated a position in **HD Hyundai Marine Solution**, the maintenance and repair unit of South Korea's biggest shipbuilding conglomerate. Shares of HD Hyundai Marine have surged 65% since we added them to the portfolio this quarter during its IPO.

In neighboring China, leading Chinese baijiu (clear distilled liquor) brand **ZJLD** declined -24%. The Chinese baijiu sector is consolidating, and these new baijiu brands offer not only more affordable prices, but also unique flavors have an opportunity to appeal to a younger set of customers. ZJLD's share price (and those of its peers) were recently impacted by distributors destocking of premium brand baijiu such as Moutai, a situation which has since stabilized after Kweichow Moutai proactively cut back production to control supply in the market.

Across the strait in Taiwan, our Information Technology holdings exhibited contrasting performance. **Alchip**, a manufacturer of application specific IC (ASIC) and system on a chip (SoC) for complex, high-growth applications such as AI and higher performance computing, saw its share price decline -27% after they reported mixed first quarter 2024 results. Its first quarter showed significant revenue growth but a lower gross margin, and management issued a conservative growth outlook due to tech migration in 2025 for one of its key chips while expecting robust growth in 2026. One of its key customers, Amazon, acquired shares in the company as a sign of commitment. **WinWay**, a leading provider of semiconductor testing interfaces with a particular focus on higher-end interfaces, on the other hand, surged 44%. The company's strong position in the TSMC ecosystem has allowed it to benefit from more complex chipsets which require increasingly customized solutions, particularly for AI, high performance computing (HPC), and graphic processing applications. Management indicated strong growth momentum into the second half of the year. In Health Care, shares of contract development and manufacturing company **Bora Pharmaceuticals** rose 25%. The company benefits from not only increased outsourced development and manufacturing demand from global pharmaceutical companies but also the continued re-shifting of pharmaceutical supply chains away from China.

India holds some of the portfolio's largest contributors. Leaping ahead by 62% is clothing retailer **Raymond**. They reported a strong quarter, beating expectations on both topline and margins. The company's planned de-merger of its main businesses into separate listed entities will highlight the strong value of its Mumbai-centered real estate business and its well-regarded asset-light cash-rich lifestyle apparel business. **Prudent Corporate Advisory** ("Prudent") is a leading distributor of mutual fund products in India. The company benefits from the growth of investment into mutual funds overall and benefits from being an aggregator of mutual fund products. We trimmed our position after a 51% gain in the quarter.

Regional Performance: Latin America

Latin America saw challenges during the quarter. **Arcos Dorados**, the world's largest McDonald's independent franchise in Latin America and the Caribbean, reported solid operating performance despite challenges in Argentina. However, weakening Latam currencies combined with concerns about future royalties under a new franchise renegotiation in August caused shares of Arcos Dorados to decline -18%. Previously known as Locaweb, **LWSA** is one of Brazil's leading business-to-business solutions providers and an e-commerce enabler. Its stock traded down by -37% after the company reported a mixed quarter. LWSA's long term strategy is to build an ecosystem with the tools their clients will need for their e-commerce journey. **Grupo Traxion** is the leading logistics and transportation company in Mexico. The company's first quarter 2024 fell short of the fiscal year guidance, but uncertainty over future policies of new President-elect Claudia Sheinbaum also contributed to driving Traxion's share price down by -20%. We are closely following developments post the Presidential elections to reassess the opportunities and risks in Mexico.

Conclusion

At the midway point of 2024, as expected, fields of vision were occupied by central banks and election booths. Several European banks and the ECB began loosening their monetary policies. Global elections thus far saw some parties removed from power (England) or their majority standing curtailed (India). During the recent earnings reporting season, aside from pockets of technology or industrial infrastructure spending, companies were especially cautious about the near term, though many projected rebounds later in 2024. In our bottom-up evaluations, we look for those businesses where fundamentals either appear approaching positive inflection points, or ones with continued growth trajectories ahead. With that approach, 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 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.

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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@tscmlc.com.

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