TIMESSQUARE CAPITAL MANAGEMENT, LLC

U.S. FOCUS Growth Strategy

Representative Commentary — 2Q24

Performance

			Annualized			
	2Q24	**1YR**	**3YR**	**5YR**	**7YR**	**10YR**
FOCUS Growth Equity Composite (Gross)	0.08%	25.82%	10.13%	16.41%	16.65%	13.04%
FOCUS Growth Equity Composite (Net)	-0.13%	24.68%	9.07%	15.29%	15.52%	11.93%
Russell Midcap® Growth Index	-3.21%	15.05%	-0.08%	9.92%	11.68%	10.51%

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.
- Distinctions between growth and value were overshadowed among large caps given the outperformance of the Magnificent Seven. Beyond that there was little differentiation by style among mid caps, small caps, or outside the U.S.

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:

- **Consumer** spending remains tight, which also affects other sectors.
  - The personal savings rates this year are below the long-term averages, depleting the cushions many built during the pandemic.
  - We note that U.S. retail sales have been flat or down in recent months, and many national retailers saw either reduced customer demand or shifts to lower-priced items. Some retailers successfully navigated the environment offering better values or private-label options.
- Among **Industrials**, we see a greater bifurcation between companies serving customers in short-cycle markets versus those focused on longer secular trends.
  - There have been numerous disappointing corporate forecasts from short-cycle industrial suppliers & distributors. That includes heavy manufacturing and certain high-priced, consumer-facing areas.
  - Strength persisted for longer-cycle end markets such as electrical construction, commercial aerospace, and infrastructure. Reshoring trends continue to drive capital investment.
- The narrative for **Technology** and related services continues with its GenAI headlines.
  - Though deeper in that story, we observe that enterprises remain in the early stages of determining what their GenAI uses might be, and how to implement them.
  - Corporate IT spending on software has been muted thus far in 2024 compared with the same period in 2023 (even allowing for the typical seasonality that sees spending increase late in the calendar year).
  - Data center capital expenditures remain strong, boosting semiconductors and related companies. Globally, capex spending in the cloud is projected to be nearly 40% higher in 2024 than 2023.

Amidst this environment, the portfolio outperformed the Russell Midcap® Growth Index in the second quarter.

Pulling back by -27% was **Legend Biotech**, a biotechnology developer of cell therapies to treat blood cancers such as multiple myeloma and leukemia. Recently both the European Union and the FDA approved the use of Legend's Carvykti treatment of multiple myeloma. Some investors may have been concerned about possible supply delays as Legend ramps up production. Though with a long-standing agreement with Johnson & Johnson and a new partnership with Novartis for increasing production capacity, we see a long runway of growth ahead. Later in the quarter, there were concerns surrounding potential negative impacts from Congress's draft BIOSECURE Act, which would bar certain Chinese-controlled biotechnology companies from U.S. government contracts. Our initial view is that Legend may not fall under the scope of the Act, though in our discussions with Legend's management they seem ready to take steps to avoid possible negative outcomes from the Act. However, with that potential risk we removed the position from our concentrated strategy.

Elsewhere there was a -7% retreat from **Cencora, Inc**., which distributes pharmaceutical and medical products to pharmacies, hospitals, and other health care providers. While Cencora's earnings exceeded expectations, and management increased its guidance for the balance of the fiscal year, recent revenues were less than anticipated. That dynamic came from temporary supply constraints on the GLP-1 anti-obesity drugs, which should pass soon.

Showing a -21% share weakness was **Veeva Systems**, which provides cloud-based systems for the life sciences industries, from R&D to commercialization. In April, Veeva announced the departure of its CFO and the interim appointment of its former CFO and current board member. As they search for a permanent replacement who has a software background, we are comfortable that the company is in good hands with the interim CFO who had been in that role from 2010-2020. Toward the end of the quarter, Veeva reported higher-than-anticipated revenues and earnings. However, Veeva slightly reduced its projections for the rest of the fiscal year because some recent client contracts will delay their starts until later in the year. There were no indications that Veeva was not closing deals nor that clients were cancelling.

There was also weakness from **Chemed Corporation**, primarily a provider of hospice and palliative care services, as well as the operator of Roto-Rooter franchises for plumbing and related maintenance. Overall revenues and earnings were below expectations with the Roto-Rooter business weighing on results. In our follow-up discussions with Chemed, management noted it had seen lower call volumes for emergency work, which also was affected by consumers delaying spending. While Chemed plans initiatives to drive higher activity levels, we trimmed the position as it slipped by -15%.

On the positive side, we saw a 15% gain from **Verisk Analytics**, which provides risk information and analysis for the property/casualty insurance industry. The company's revenues and earnings bested expectations. Organic revenue growth was solid, margins improved, and Verisk's management was optimistic on the profitability for the overall insurance industry.

Adding to that trend, **Amphenol Corporation** reported better-than-expected results. The producer of electrical, electronic and fiber optic cables, and connectors showed steady organic revenue growth and enhanced its margins—especially in areas such as data communications, military applications, and commercial aerospace. Guidance for the next fiscal quarter was higher than expected, and Amphenol's shares responded with a 17% gain.

Our cybersecurity holdings were also beneficial to the strategy this quarter. That included the 20% gain from **CrowdStrike Holdings**, a cloud-based network security service provider that supports a range of devices, endpoints, and cloud environments. CrowdStrike's revenues and earnings exceeded expectations, with 33% growth in annual recurring revenue. CrowdStrike continues to see growing momentum in emerging areas such as Cloud Security, Identity, and Security Information & Event Management where it is displacing legacy providers. That led CrowdStrike's management to increase its guidance for revenues and earnings for the balance of its fiscal year. Next, the global provider of network and cloud-based cybersecurity systems, **Palo Alto Networks**, chipped in with a 19% return. Its revenues and earnings were higher than anticipated as Palo Alto shifted its marketing strategy to emphasize larger platform contracts.

One holding that seems to have reached a positive inflection point for earnings was **Teradyne, Inc**., a leading producer of testing and measurement equipment for semiconductors and other complex electronic systems. Teradyne's revenues and earnings outpaced forecasts, driven by higher volumes of semiconductor testing equipment, especially for high-bandwidth memory chips. Management's guidance for the rest of 2024 was higher than expected, which increased our confidence that Teradyne can continue growing into 2025. For this quarter, its shares gained 31%.

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 to be 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 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 15 stocks. Historical turnover has averaged 73% per year. Composite inclusion threshold $500,000. From January 1, 2007 to April 30, 2010 the fee is 150 basis points. From May 1, 2010 the fee is 100 basis points. The composite creation and inception date is September 1, 2005.

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.

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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. From January 1, 2007 to April 30, 2010 the applied standard fee was 150 basis points. From May 1, 2010 through present the applied standard fee is 100 basis points. 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. TimesSquare's fee schedule is available upon request and may also be found in Part 2A of our Form ADV.

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.

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