Global Small Cap Strategy

Representative Commentary — 2Q24

Performance

	2Q24	1YR	Annualized 3YR	5YR	Since Inception (1/1/2018)
Global Small Cap Composite (Gross)	-4.70%	6.73%	-3.29%	4.30%	3.92%
Global Small Cap Composite (Net)	-4.89%	5.84%	-4.14%	3.38%	3.00%
MSCI World Small Cap (Net) Index	-2.78%	9.14%	-1.29%	6.87%	5.23%

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.
- Specific to the international small cap universe, Europe was the only positive region while Japan and the Middle East saw the large declines.

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:

- Upcoming **Interest Rates** decisions vary from region to region.
  - **Europe:** The ECB faces challenges significantly lowering interest rates in 2024. Unfavorable demographics with stagnant productivity may keep wages rising faster than expected in a low-growth environment. Meanwhile, the ongoing shift away from China's reliance creates additional inflationary pressure.
  - **Japan:** The weak yen has boosted inflation, raising the likelihood of a rate hike by the BOJ. However, the BOJ remains cautious, fearing a rate hike could stifle economic growth.
- 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.
  - Demand recovery in the semiconductor industry is still in an early stage, with AI leading the way while consumer electronics and auto/industrial sectors play catch-up.
- Among **Industrials**, strength persisted for longer-cycle end markets such as electrification, aerospace and defense, and infrastructure. Reshoring trends continue to drive capital investment.

- Shifts in energy requirements continue to drive implicit **energy transitions** globally. These moves will necessitate significant investments across the value chain, from production to distribution. The recent election results in the U.K. and Europe are also supportive of continued investment in this area.

The Global Small Cap Portfolio underperformed the MSCI World Small Cap benchmark during the second quarter of 2024.

Regional Performance: The Americas
The portfolio's holdings in the Americas detracted from relative performance.

Treace Medical Concepts Inc. designs and manufactures medical devices offering an innovative approach to corrective bunion surgery. While the first quarter earnings were solid, they surprised investors by reducing forward revenue guidance due to competitive dynamics driven by knock-off medical devices. This disappointed us and other investors. We decided to exit the position which lost -60% while held during the quarter. **Regal Rexnord Corp.** manufactures industrial powertrain solutions, power transmission components, electric motors, and air moving products. We reduced the position ahead of first quarter earnings, which were largely in line with expectations. Strength in Industrial Power Solutions offset weakness in Power Efficiency Solutions that was primarily driven by destocking-related residential HVAC softness. Management's forward guidance was updated to include the sale of its Industrial Systems business and subsequent debt paydown. Nevertheless, Regal Rexnord fell by -25% over the quarter in sync with other short-cycle industrial stocks. **Brunswick Corp.** manufactures recreational marine products. Its boat brands include Sea Ray, Boston Whaler, Lund, Crestliner, Cypress, and Princecraft. Engines are under the Mercury brand. First quarter results were largely in line with expectations. The demand environment remains constrained with consumers dealing with higher interest rates and boat dealers who are reluctant to take on more inventory. These factors weighed on the stock as it dropped by -24%. Management reaffirmed 2024 guidance. **WillScot Mobile Mini Holdings** provides modular workspace and portable storage solutions. Despite beating first quarter consensus estimates, its shares sold off by -19% due to the uncertainty associated with the FTC's review of WillScot's proposed acquisition of McGrath RentCorp. We added to the position on weakness. **ESAB Corp.** is engaged in the formulation, development, manufacture, and supply of consumables and equipment for cutting, joining, and welding metals. The first quarter was solid with revenues, margins, and earnings all ahead of Street projections. ESAB also outperformed its welding peers in terms of volume and pricing. Its -15% pullback was largely related to the negative second quarter preannouncement of a more North American-focused competitor with larger automotive and machinery exposure that we believe is less applicable to ESAB. **Onto Innovation Inc.** designs, develops, and produces high-performance control metrology, defect inspection, and lithography for microelectronics manufacturers. They reported a solid quarter that was driven by growth in advanced packaging stemming from AI demand. Looking ahead, guidance for both revenues and earnings are ahead of the consensus. That served to lift the share price of Onto Innovation by 22%. **Universal Display Corp.** is engaged in the development and commercialization of light emitting diode technologies. Its shares gained 25% after they reported strong first quarter results. The company raised 2024 revenue guidance. **Warby Parker Inc.**, a specialty retailer of eyewear products, rose 18%. Its first quarter results surpassed expectations with strength in single-vision glasses and a return to growth in its digital channel due to recent marketing efforts. Additionally, forward revenue and profits expectations were increased. **MACOM Technology Solutions Holdings** designs, develops, and manufactures semiconductors and modules. Fiscal second quarter revenues were ahead of projections and that resulted in a 17% surge in the stock. price. Defense orders continued to be strong, Data Centers declined, while Telecommunications improved sharply. Management highlighted a sizable new contract win during the quarter with a major satellite manufacturer.

Regional Performance: Europe
The recent election results in France have created uncertainty about forming a new government. This caused the equity and bond markets to sell off indiscriminately.

The portfolio's holdings in Europe slightly underperformed the benchmark's regional return. Denmark, the Netherlands, Sweden, and the UK outperformed, while France, Germany, and Switzerland lagged. Our lack of exposure to Norway also detracted from relative returns.

Leading insurance company **Topdanmark** rose 27% after reporting a strong quarter despite higher claims due to harsh winter weather. The company's use of technology continues to lower claims handling cost while improving retention rate. In June, Finnish Insurer Sampo agreed to buy Topdanmark in an offer that represented a significant premium per share to

Topdanmark's then price. U.K.'s online automotive platform **Auto Trader** reported strong annual results, with management indicating a 'robust' used car market continuing into fiscal year 2025. This positive outlook pushed the stock price 15% higher. **Nordnet AB** offers a digital platform for savings, loans, pensions, and investments. The company reported first quarter revenues above consensus estimates and that led to a 17% boost to its shares. The beat was driven by higher transaction income and better fund income.

KION Group AG offers forklift trucks, warehouse technology, and software solutions. A mixed first quarter caused its shares to tumble by -20%. While revenues and margins were favorable, orders fell short of expectations as customers hesitated to sign new contracts because of macroeconomic uncertainty. In the lead-up to the snap parliamentary election, political uncertainty weighed on French stocks, particularly those exposed to government spending. Losing -19% was France based **Sopra Steria Group**, which provides consulting, systems integration, software development, infrastructure management and business process services.

Regional Performance: Japan
The portfolio performed in line with the index in Japan.

Goldwin, a leading sportswear retailer with exclusive rights in Japan and Korea to brands like The North Face and Helly Hansen, reported better-than-expected results but lowered guidance, causing its stock to drop -16%. **Nippon Gas**, one of Japan's largest LPG suppliers, saw its share price decline -12% after fiscal year results fell short of expectations due to warm weather decreasing gas usage. We trimmed our position in **Internet Initiative Japan (IIJ)**, the country's largest ISP after VMWare announced a significant price hike (3x-7x). While IIJ indicated they would pass on the cost increase, the potential lag in when the price increase takes effect concerned us. Shares of IIJ traded down -21% during the quarter.

Independent private equity firm **Integral Corporation**, benefiting from Japan's nascent PE industry, jumped 26% on the back of strong quarterly results. Edging forward by 7% was **Rohto Pharmaceutical**, a leading Japanese manufacturer of OTC healthcare products. Rohto boasts domestic market-leading eyedrops alongside its skincare lines and other health-related consumer products. The company guided conservatively, but we believe their recent acquisition of a Chinese pharmacy chain holds significant potential for future growth.

Regional Performance: Asia Pacific ex Japan, Middle East, and Emerging Markets
The portfolio benefitted from holdings in Asia Pacific ex-Japan.

Shares of insurance broker **Steadfast Group Limited** advanced 8%. Forward guidance was raised as management pursues revenue and margin expansion opportunities. They are considering expansion in North American. **Ventia Services Group Limited** is an essential infrastructure services provider in Australia and New Zealand. Its business model is underpinned by long-term contracts. They currently serve over 100 clients including government and corporate entities. Their average contract tenure is over five years and has an 87% renewal rate. The company noted a positive outlook for the year ahead with a high-quality diversified portfolio of projects. Strong demand drivers are evidenced by a solid pipeline of opportunities. Ventia Services edged forward by 1%.

The Middle East was an area of relative weakness.

NICE Ltd. provides enterprise software solutions and services. Despite reporting strong first quarter results, its stock sold off by -34% due to the unexpected news of their CEO stepping down at year-end. A search for a successor is underway. **CyberArk Software Ltd.**, a developer and marketer of access security software solutions, rose 3%. First quarter results were solid with new net annualized recurring revenue beating Street estimates. CyberArk remains one of the fastest growing companies in security and software broadly, and continues to win new business.

The Emerging Markets was a slight negative for the portfolio.

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, non-cash FX charges and a higher royalty rate (due to strong sales) raised concerns about future royalties under a new franchise renegotiation in August. Shares of Arcos Dorados declined -19%. 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 68% since we added them to the portfolio this quarter.

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.

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 stocks with market capitalizations at time of purchase generally within the range of capitalizations of stocks in the MSCI World Small Cap 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 110 stocks. Composite inclusion threshold $500,000. Fee basis is 90 basis points. The composite creation and inception date is January 1, 2018.

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 World Small Cap (Net) Index. MSCI World Small Cap (Net) Index is a trade or service mark of MSCI Inc. The MSCI World Small Cap (Net) Index is an unmanaged, market-weighted index of small companies in developed 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 World 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 0.90% 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@tscmllc.com.

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