TimesSquare Capital Management, LLC

U.S. Mid Cap Growth Strategy

Representative Commentary — 2Q24

Performance

			Annualized			
	2Q24	**1YR**	**3YR**	**5YR**	**7YR**	**10YR**
U.S. Mid Cap Growth Composite (Gross)	-2.94%	16.76%	4.07%	12.69%	13.82%	11.98%
U.S. Mid Cap Growth Composite (Net)	-3.14%	15.84%	3.25%	11.80%	12.93%	11.09%
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.

Our preferences in the Consumer-oriented sectors lean toward value-oriented or specialty retailers, franchise models, or premium brands. Here there was a 16% gain from warehouse club operator **BJ's Wholesale Club**. Its revenues and earnings were better than expected, and BJ's showed accelerating growth from membership fee income. During the quarter we sold out of **Five Below**, the discount retailer focused on teens and pre-teens with most goods priced less than $5. Five Below's revenues, earnings, and guidance all fell short of expectations, which already had been tempered by prior quarterly weakness. We had expected some indications that Five Below's business had passed through the worst of the macroeconomic influences, but it became apparent that was still to come. Without that clarity, we exited the position, which was down -37% during the time we owned it this quarter. New to the strategy was the online food delivery platform and logistics provider **DoorDash, Inc**. Since its IPO in 2021, the company's scale has grown to entrench it with customers and consumers, though we have been cautious about its high valuation. Recently, the company reported lower-than-expected guidance for future margins and that caused its shares to sell off. In our view, DoorDash was appropriately investing for future growth and absorbing recent increased wage costs. Believing this short-term price dislocation made for an attractive entry price, we began buying, and DoorDash was up 2% through the end of the quarter.

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. Detracting from results was **WEX Inc**., which provides payment processing and information services to the U.S. commercial and government vehicle fleet industry. Early in the quarter, WEX reported inline revenues though lower-than-expected earnings. It seemed that some investors were overly optimistic regarding the benefits WEX enjoyed from higher rates and fuel prices. WEX also noted that a recent contract renewal with Bookings.com saw some services taken in-house, which caused market fears that Expedia might follow suit when its contract is renewed. We believe those concerns were overly negative—while Bookings.com owns a bank, no similar travel agencies do—and the revenue impact was less than other investors projected. Hence as WEX's shares retreated by -25%, we added to our position. At the start of the year, we reinitiated a position in the payment processor **Global Payments**. We viewed positively the installation of a new CEO who was its CFO and is well regarded by us. Global renewed its focus on merchant acquisition and card issuance, and its valuation became more attractive. However, we misjudged the lingering effects of a weaker macroeconomic environment on some of Global's lower margin operations, which delayed the expected business pivot to merchant activities. With a lack of clarity about where the bottom might be, and its shares trading below where we projected a potential downside, we exited the position that was down -26% while held during the quarter. One contributor this quarter was **Interactive Brokers Group**, which offers automated, low-cost securities brokerage services for global retail investors. The company's revenues and earnings edged ahead of forecasts. Interactive's volume of daily average revenue trades increased each month during the quarter, its margins remained high—benefiting from the sustained high interest rate environment, and its management increased the company's dividend. Combined, that gave its shares a 10% lift.

Our preferences among Health Care stocks are those companies providing novel therapies for unmet needs that deserve premium pricing, or specialized service providers. One example was **argenx SE**, a biotechnology developer of antibody treatments for autoimmune disorders. This quarter the company received unrestricted approval from the FDA for its VYVGART Hytrulo to treat chronic inflammatory demyelinating polyneuropathy (CIDP). Not only did that extend argenx's VYVGART treatment to a new indication—CIDP causes swelling and inflammation of peripheral nerves that leads to a loss of strength or sensations in arms and legs, but this new use has significantly higher pricing for argenx. That gave its shares a 9% lift this quarter. Declining by -43% was **Stevanato Group**, which manufactures glass packaging for syringes, autoinjectors, and other pharmaceutical needs. Stevanato's results were lower than anticipated with some additional glass vial destocking by customers weighing on results. That also led management to reduce its guidance for the rest of the year. Other areas, such as syringes, showed better growth. 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%.

Many of our Industrials positions provide necessary business-to-business operational services, highly technical components, automation & efficiency improvements, or essential infrastructure services. Here there was a -25% showing from **Regal Rexnord Corporation**, which specializes in motion control systems, climate solutions, and similar

mechanical components for a variety of end markets. There were ongoing pressures on its Power Efficiency and Automation & Motion Control segments that related to destocking in the automation or HVAC end markets. Meanwhile the soon-to-be-divested Industrial Powertrain operations showed better-than-expected results, and the net results were inline revenues and earnings, though lower guidance to adjust for the divestiture. Regal's management expects a recovery in orders later in 2024 and in the meanwhile will reduce its debt levels, so we added to our position. 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. Shares in **GFL Environmental** picked up by 13%. Late in the quarter, an activist investor renewed its call for a strategic review of all options, including a private sale for this handler of non-hazardous waste, soil remediation, and other environmental services. In our discussions with GFL's management, we believe such a transaction is unrealistic, though we did trim our position following that price run.

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 closely tie to increasing shares of corporate IT budgets. In April, several semiconductor companies—notably the industry bellwether Taiwan Semiconductor—lowered their outlook given the weakness in the automotive end markets. That pressured the broader semiconductor ecosystem, including **Monolithic Power Systems**, which designs, develops, and markets high-performance power management semiconductors. Because we continue to see long-term opportunities for Monolithic, we used that weakness to add to our position. Its shares later recovered, and subsequently Monolithic reported better-than-expected revenues and earnings. The company saw order increases related to data center spending, market share gains, and a large pipeline of new designs. That led Monolithic to increase its forward guidance and its shares climbed by 21%. We witnessed shares in **NICE Ltd**. slide by -34%. A cloud-based contact center software and compliance systems provider, NICE reported better-than-expected results. While earnings guidance was increased, projections for revenues were maintained. The market's reaction seemed tied to overall weakness among software companies and NICE's announcement that its CEO for the past decade plans to step down at the end of 2024. We see NICE benefiting from continued adoption of its new services, including AI-enabled ones, though want more information on the future CEO before rebuilding the position. There was a 25% gain from **HashiCorp, Inc**., which provides a suite of cloud infrastructure tools for development, automation, connectivity, and security. During the quarter, the company agreed to a cash acquisition offer from IBM. 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%.

One of our strategy's purchase rules is based on the range of market capitalizations in the Russell Midcap Growth Index following its annual reconstitution. After that occurred at quarter end, the largest stock in the index had a market capitalization of $59.1 billion. The strategy's guideline limits new positions outside the benchmark at the time of initial purchase to less than 75% of the largest name in the benchmark—or $44.3 billion based on the new benchmark—so we will raise our limit to $44 billion from the current level of $37 billion. The lower end of the purchase range moves from a market capitalization of $1.1 billion to $2.0 billion, which matches the smallest stock in the benchmark (after excluding a notable outlier).

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 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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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 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@tscmllc.com.

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