

U.S. Small Cap Growth Strategy

Representative Commentary — 2Q24

Performance	Annualized					
	2Q24	1YR	3YR	5YR	7YR	10YR
U.S. Small Cap Growth Composite (Gross)	-1.59%	10.26%	-2.59%	6.60%	9.49%	9.12%
U.S. Small Cap Growth Composite (Net)	-1.83%	9.18%	-3.55%	5.55%	8.41%	8.05%
Russell 2000® Growth Index	-2.92%	9.14%	-4.86%	6.16%	7.28%	7.38%

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.

Against this backdrop, the portfolio outperformed the Russell 2000® Growth Index in the second quarter.

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. **MediaAlpha Inc.** operates a leading insurance customer acquisition platform. They reported revenues, transaction value, and profits materially above consensus expectations and issued favorable guidance for the second quarter. Its shares initially fell on news of a secondary offering in early May. A further decline was attributable to a short report alleging improprieties with MediaAlpha's healthcare lead generation activities. The company has been cooperating with a civil investigative demand from the FTC since February and believes its marketing complies with best practices. Despite having previously disclosed the FTC investigation, the stock price still declined -35% in reaction to the short report. Notwithstanding the scrutiny of MediaAlpha's healthcare business, we see significant opportunity within its property & casualty segment. As auto insurance pricing has sharply risen and underwriting profitability has improved, insurers are increasing customer acquisition spending. We view MediaAlpha as particularly well positioned to benefit from rising marketing budgets and an acceleration in the pursuit of new business growth by insurers.

IAC Inc. operates as a media and internet company worldwide. Its largest segments are Dotdash Meredith (DDM) and Angi. DDM provides digital and print publishing services. Angi Homeservices offers referrals to repairing, remodeling, cleaning, and landscaping services. Both businesses reported first quarter results that surpassed expectations. Management is bullish on the outlook for DDM and announced this entity will partner with Open AI to bring DDM content and links to ChatGPT's generative search results. Forward revenue projections for Angi were less confident, causing the stock price to recede by -12%.

Our preferences in the Consumer-oriented sectors lean toward value-oriented or specialty retailers, franchise models, or premium brands. **Boot Barn Holdings Inc.** operates retail stores offering western and work-related footwear, apparel, and accessories. Their fiscal fourth quarter results included a modest beat to same store sales estimates. That spurred a 36% gain in its share price, and we trimmed the position on this strength. **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. **Savers Value Village Inc.**, a retailer of second-hand merchandise, tumbled -37%. First quarter profits were modestly below expectations, primarily due to macroeconomic pressures in its Canadian business. Same store comparison trends were healthier in their U.S. operations. Management announced its recently completed acquisition of Two Peaches, a small thrift chain in the southern U.S., which adds seven new stores to its mix. Looking ahead, management maintained full-year sales guidance. **European Wax Center Inc.** is a franchisor and operator of personal waxing centers. Results from the first quarter were mixed with same store sales comparisons below estimates and profits above. Softer comps were due to adverse weather conditions as well as slower traffic from non-Wax Pass (club) customers. That caused its shares to slide by -24%. Membership warehouse club operator **BJ's Wholesale Club Holdings Inc.** was up 16% for the quarter. The company reported a strong fiscal first quarter that was led by growth in membership fees. Management noted healthy unit growth in consumables offset slight weakness in general merchandise.

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.** operates as an asset management company. During the quarter, the company announced a memorandum of understanding to acquire the U.S. asset management operations of Amundi in exchange for a 26% economic interest in Victory and a 15-year distribution partnership agreement. Amundi brings \$104 billion of assets under management and the distribution partnership will broaden Victory's international ambitions. This deal, which is expected to close at the end of 2024, was well received by the market as its stock price was lifted by 13%. **Hamilton Lane Inc.** offers private market investment solutions. The company's stock gained 10% after posting strong quarterly results, driven by performance fees, asset management fees, and fundraising efforts. **MVB Financial Corp.** provides financial services to individuals and corporate clients. Its first quarter earnings fell short of expectations and that caused its stock to pull back by -16%. Management has been focusing on de-risking the balance sheet and more profitable growth, which led to declining loan balances. Non-interest expenses were above forecasts, driven by continued investment in its back office and infrastructure. Of note, asset quality remains solid and deposit growth was strong.

Our preferences among Health Care stocks are those companies providing novel therapies for unmet needs that deserve premium pricing, or specialized service providers. **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. **Certara Inc.** provides products and technology-enabled services to its customers for bio simulation in drug discovery, clinical research, and regulatory submission. First quarter revenues outpaced estimates, driven by better-than-expected performance in both software and services. Bookings however fell short and that led to a -22% selloff. Biotech funding and clinical trial starts have continued to improve. Thus, we decided to add to the position on weakness. **AtriCure Inc.** develops and manufactures devices for surgical ablation of cardiac tissue. We decided to exit the position due to Medtronic's new product that is a direct competitor to AtriCure's AtriClip device. Its shares declined by -23% while held in the quarter. **Addus HomeCare Corp.** administers personal care and hospice services to elderly and disabled patients. Its share price improved 13% on solid results, which included a modest revenue beat driven by improved sequential volumes and better expense controls, leading to a profit margin that was ahead of expectations. **Silk Road Medical Inc.** is a medical device company focused on developing products to treat carotid artery disease. In late June, Boston Scientific announced plans to acquire Silk Road Medical to expand their cardiology portfolio and that news boosted the stock by 46%. A new addition this quarter is **Merus**, a clinical-stage immune-oncology biotechnology company. Their pipeline consists of several programs targeting solid tumors with various bispecific antibodies.

Many of our Industrial positions provide necessary business-to-business operational services, highly technical components, automation & efficiency improvements, or essential infrastructure services. **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. **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 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. **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. **AZEK Co.** designs and manufactures wood alternative building products for predominantly residential applications. A beat and raise quarter was eclipsed by news of an accounting restatement stemming from erroneous inventory accounting errors by a former employee. The misstatements overstated inventory values and understated costs of goods sold. Notably, there was no impact on revenues or cash. In addition, a negative update in June from a major distributor of pool supplies and equipment pressured stocks tied to high-ticket outdoor living. Together, these headwinds sent the stock down by -16%. **Driven Brands Holdings Inc.** provides automotive services including paint, collision, glass, repair, car wash, oil change, and maintenance services. Their first quarter profits and earnings beat consensus estimates while revenues on slowing same store comparisons in the car wash and glass business. These results were overshadowed by the sudden news of their CFO leaving the company for an opportunity with a private enterprise that is based closer to his family home in Colorado. We decided to liquidate Driven Brands, which lost -29% from its share price during the quarter. **Hexcel Corp.** develops and manufactures composites for use in commercial aerospace, space, defense, and industrial applications. Early in the quarter, the company announced its long-time CEO would retire and the recent CEO of Spirit AeroSystems would take his place. We are not enthusiastic about the selection and have a negative view of his tenure at Spirit. Therefore, we decided to sell out of our position which tumbled -12% while held in the quarter. **Tetra Tech Inc.** provides consulting and engineering services. Its stock price rose 11% after they reported fiscal second quarter revenues that surpassed Street estimates and increased forward guidance. A key development in the quarter was an FDA ruling imposing a very strict contamination limit on polyfluoroalkyl (PFAS) chemicals in drinking water. We believe PFAS analysis, monitoring and remediation can be an important business driver for Tetra Tech for several years. **Exponent Inc.** is an engineering and scientific consulting firm. Its stock climbed 15% on the heels of profits and earnings that surpassed Street projections. Demand for failure analysis and dispute-related engagements was robust across industries including transportation, life sciences, and energy. On the other side, weakness in consumer electronics demand continued to represent an offset to top line growth. New to the portfolio this quarter is **Loar Holdings Inc.**, a designer and manufacturer of aerospace and defense components for

aircraft. We purchased this stock as part of its Initial Public Offering early in the quarter. This company encompasses 16 brands they have acquired over the past 12 years.

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. **Credo Technology Group Holding Ltd.**, a supplier of high-speed connectivity solutions, surged ahead by 51%. The company reported inline April quarter results and management's July quarter guidance met expectations; AI spending is a growth driver. **FormFactor Inc.** offers probe cards to test semiconductors. Its shares jumped 33% on the combination of a solid quarter along with second quarter guidance well ahead of Street projections. This stems from high bandwidth memory (HBM) and as well as foundry & logic demand for probe cards. HBM is fueled by AI spending while foundry & logic is tied to new microprocessor design ramps. **Vertex Inc.** provides enterprise tax technology solutions for retail trade, wholesale trade, and manufacturing industries. Its stock gained 14% after reporting solid results, with revenues and profits ahead of estimates as their customer success and cross-selling efforts are paying dividends. Management maintained full-year guidance. **Smartsheet Inc.** offers an enterprise platform to plan, capture, manage, automate, and report on work for teams and organizations. They reported a strong quarter with upsides to revenues, subscriptions, and free cash flow. Smartsheet is simplifying its pricing model by collapsing creator and editor license types into a singular member license. Product innovation appears to be gaining traction with new user interfaces and Generative AI tools. These positive developments served to lift Smartsheet by 14%. **HashiCorp Inc.** provides multi-cloud infrastructure automation solutions worldwide. During the quarter, IBM entered into an agreement to acquire HashiCorp in an all-cash deal and that boosted its shares by 24%. **JFrog Ltd.** supplies end-to-end hybrid software supply chain services. We initially trimmed the position in advance of its first quarter earnings report due to elevated Street expectations. We then used its -15% share price weakness as an opportunity to add back somewhat to JFrog. **Sprout Social Inc.** designs, develops, and operates a web-based social media management platform. The combination of lackluster first quarter results and lower forward guidance disappointed investors. We decided to liquidate the position which suffered a -53% decline while held during the quarter. **Workiva Inc.** supplies cloud-based reporting solutions. First quarter revenues outstripped sell-side projections due to higher subscription and support levels. Billings, however, fell short in a seasonally slower quarter. Their productivity focus and thoughtful hiring are driving margin improvement. Generative AI capabilities have been well received by customers. Management is optimistic about better bookings performance for the remainder of the year. Its shares dropped by -14% and we added to the position on weakness.

We have one holding in the Real Estate sector. **National Storage Affiliates Trust** is a real estate investment trust focused on the ownership, operation, and acquisition of self-storage properties. During the quarter, NSA announced that it will be internalizing its participating regional operating (PRO) structure. PROs currently manage 32% of NSA's 1,050 properties. This development was well received by the market as its stock price was lifted by 7%.

One of our strategy's purchase rules is based on the range of market capitalizations in the Russell 2000 Growth Index following its annual reconstitution. After the reconstitution at quarter end, the largest stock in the index had a market capitalization of \$10.5 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 \$7.9 billion based on the new benchmark—so we will raise our limit to \$7.5 billion from the current level of \$5 billion. The lower end of the purchase range moves from a market capitalization of \$44 million to \$18 million, 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. 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.

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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 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@tscmlc.com.

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