

## Emerging Markets Small Cap Strategy

Representative Commentary — 3Q24

Performance	Annualized					
	3Q24	1YR	3YR	5YR	7YR	Since Inception (1/1/2017)
Emerging Markets Small Cap Composite (Gross)	6.26%	19.87%	4.33%	11.93%	8.34%	10.32%
Emerging Markets Small Cap Composite (Net)	5.98%	18.58%	3.19%	10.73%	7.16%	9.12%
MSCI Emerging Small Cap (Net) Index	5.48%	23.01%	5.13%	12.20%	7.04%	9.17%

*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 third quarter was even handed for global markets, with most equity or credit markets posting mid-to-high single digit returns. Measures of economic activity were stable, and energy prices receded, although heightened tensions in the Middle East began reversing that recently. Most central banks either began (U.S., U.K., Switzerland) or continued (EU) cutting their policy rates, with the notable exception of Japan—though rates there remain a rounding error away from zero.

As we look across our markets, the below items are top of mind:

- **The anticipated recent Fed cut has given emerging markets (EM) economies additional breathing room:**
  - While the Fed’s most recent cut was widely anticipated, once announced it was still a source of relief for several EM economies around the world. Several central banks, including Mexico and Indonesia, quickly followed suit with their own rate cuts. Most other major EM central banks, such as Korea, signaled a willingness to consider rate cuts soon.
  - For investors, this implies: 1) less chance of a US “hard landing” scenario; and 2) a general shift by most EM central banks from fighting inflation to promoting growth, which should provide a generally supportive backdrop for EM equities.
  - The Fed cut also gave China room to finally begin significant stimulus measures, as it relieved pressure on RMB depreciation. China announced several measures aimed at boosting its stock market and domestic consumption, while also continuing efforts to stabilize the property market. While it remains to be seen whether these measures will be accompanied by significant fiscal stimulus (as anticipated by the market) as well as more structural reforms, the recent rally in Chinese markets so far highlighted the opportunity for a significant re-rating of Chinese equities given such light investor positioning. Beyond Chinese equities, we are mindful of the potential beneficial impact across other EM economies from rebounding Chinese consumption.
- **The most important election in the world:**
  - The current U.S. Presidential election process has the world’s attention, as the future implications for trade and tariffs and geopolitical security issues are significant. While we certainly hope that both candidates are ultimately more practical and rational than portrayed, we believe that even if the U.S. pursued a policy of *de facto* America-first isolationism, trade between the EM countries themselves as well as the rest of the developed countries is already flourishing.
  - Beyond the potential chilling effects of a trade slowdown, we are concerned that the current conflicts in the Middle East and Ukraine could escalate into a much wider conflict with devastating global consequences. The overall markets do not seem to be pricing in such a scenario, and hopefully, they are correct.

The Emerging Markets Small Cap Portfolio outperformed the MSCI Emerging Markets Small Cap benchmark during the third quarter of 2024.

### **Regional Performance: Asia**

Asia was the portfolio's largest regional contributor, with India and the Philippines leading the way while holdings in Thailand and Taiwan detracted.

South Korea was home to one of the portfolio's top performers, **PharmaResearch**, a leading Korean medical and beauty company known for its "Rejuran" brand. The stock continued its upward trend, surging 36%. The company's second quarter results showcased not only strong domestic performance in Korea but also significant sales growth overseas. It is important to note that this company is still in the early stages of international expansion, which presents additional growth opportunities. On the other end was **NEXTIN**, which was down -18% over concerns about the timing of future investment by Korean chipmakers. NEXTIN is the only domestic Korean company that produces equipment that inspects for defects in the front-end process of semiconductor manufacturing using state of the art optical technology.

In neighboring China, stocks enjoyed a broad rally boosted by the stimulus set out by the authorities. **Jinxin Fertility Group**, the country's largest private assisted reproduction service (ARS) provider, saw a 42% jump in its share price. As of August, 19 regions in China had implemented reimbursement schemes on ARS, while the regions covered by Jinxin (e.g. Hubei, Yunnan, Guangdong, and Sichuan) had not yet enacted their policies. Out of these four regions, Sichuan and Guangdong released drafted policies for public comments, indicating potential implementation in the near future. This led to patients delaying treatments in anticipation of reimbursement. Despite these delays, the company reported in-line results for the first half of 2024.

We exited our position in Hong Kong's noodle restaurant chain, **Tam Jai International**, which lost – 23% while it was held in the portfolio this quarter. Despite the attractive valuation and unit economics, the highly price competitive environment and weak consumer sentiment in Tam Jai's key markets are unlikely to turn around quickly, and so we decided to re-allocate the funds to other more attractive opportunities.

Across the Taiwan strait, our Information Technology holdings experienced mixed 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 shares decline by -16%. The company reported better-than-expected second-quarter results and management reaffirmed its growth outlook. However, uncertainty surrounding Intel's long-term strategy and its implication on Gaudi 3, an expected major contributor to the Alchip's sales in 2025, weighed on the stock. **AP Memory Technology**, a Taiwanese IC design company that focuses on memory products for IOT devices, declined by -18%. The company's newer business units focus on AI and High Performance Computing (HPC) including the Very High Bandwidth Memory (VHM) unit and the Integrated Passive Devices (IPD) unit. While the company posted slightly better-than-expected results, its AI sales declined mainly due to a delayed shipment of wafers used for the next-gen mining machines. **WinWay**, a leading provider of semiconductor testing interfaces with a particular focus on higher-end interfaces, gained 20%. 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. Winway reported another strong quarter driven by stronger-than-expected coaxial socket and VPC pull-in orders, improved product mix, and better operating leverage.

India housed some of the portfolio's largest contributors. Global consumer specialty company **LT Foods** is renowned in India for its "Daawat" branded basmati rice and "Royal" branded rice in the U.S. Beyond geographic expansion, the company's new venture in the Ready to Eat / Ready to Cook segment continued to gain momentum. Shares of LT Foods surged 55% during the quarter. With a significant portion of its revenue tied to fees charged on assets under management, India's leading registry and transfer agent (RTA) **Kfin** benefits from the robust growth of the domestic mutual fund industry. The company is also expanding into new adjacent businesses beyond its RTA operations and exploring new geographies. India remains in the early stages of household penetration of public equity ownership, providing a long runway for Kfin's future growth. During the quarter, textile and clothing company **Raymond Limited** spun off its lifestyle business, **Raymond Lifestyle**. As a shareholder of Raymond, the portfolio received shares in Raymond Lifestyle.

The portfolio's largest contributor is **Converge Information & Communications Technology Solutions (CNVRG)**, the largest highspeed broadband operator in the Philippines. The company delivered an impressive quarter, fueled by robust

growth in revenues from its residential segment. CNVRG subsequently announced its first dividend payout, ahead of the previously anticipated 2025 distribution. Shares of CNVRG surged by 50%, driven by these positive developments.

### **Regional Performance: EMEA, Frontier, and Latin America**

Holdings in EMEA, Frontier, and Latin America detracted from overall portfolio performance.

In Turkey, **Coca-Cola Icecek**, a leading consolidator in the non-alcoholic ready-to-drink market across the Commonwealth of Independent States, Turkey, and Pakistan, reported mixed second quarter results and lowered its 2024 guidance. Shares of Coca-Cola Icecek declined -32% as a result.

**Despegar.com**, a leading Argentinian online travel agency with a strong presence in Latin America, faced headwinds due to stronger-than-expected foreign exchange (fluctuations in the region. This uncertainty led us to trim our position in the company, as the stock price declined by -6%.

In Mexico, since the Presidential election in early June, we had been concerned that the supermajority in the Parliament would enable Constitutional reforms that might hinder investments. The recent passage of the Judicial reform act, shortly after the new Parliament took office, reinforced these concerns. **Grupo Traxion**, a leading logistics and transportation company, reported revenue that exceeded expectations but fell short on EBITDA. This led to a -30% decline in its stock price. Given recent developments, we significantly reduced our position and continue to closely monitor the situation in Mexico.

**Embraer (ERJ)**, Brazil's leading global aircraft manufacturing company, delivered strong performance. Operating in commercial aviation, executive jets, and defense and security, ERJ's second-quarter results exceeded consensus estimates on both revenue and earnings. Weakness at Boeing and the subsequent announcement of Virgin Australia's purchase of E190-2 jets contributed to the strong momentum, propelling ERJ's shares up by 40% during the quarter. Given industry-wide challenges in aircraft deliveries and ERJ's already record-high backlog, we trimmed our position amidst this price strength.

### **Conclusion**

Heading into the last quarter of 2024, with most central banks now entering an easing cycle, the next questions are “how far?” and “how fast?”. Equally front of mind is the outcome of November’s U.S. presidential election, which will reverberate across domestic and non-U.S. economies. With that dynamic economic backdrop, our focus remains on projecting growth potential for our investments relative to their valuations and finding where those meaningfully differ from market expectations. 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](mailto:info@tscmlc.com).*

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