

Global Small Cap Strategy

Representative Commentary — 3Q24

Performance	3Q24	1YR	3YR	5YR	Annualized
					Since Inception (1/1/2018)
Global Small Cap Composite (Gross)	8.77%	21.34%	-1.00%	5.78%	5.07%
Global Small Cap Composite (Net)	8.56%	20.36%	-1.86%	4.85%	4.15%
MSCI World Small Cap (Net) Index	9.39%	24.87%	2.20%	8.99%	6.43%

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.

Within equities, developed markets showered greater rewards on smaller or value-oriented stocks, while the reverse was true in emerging markets. After a weak first half in 2024, beta was one of the strongest factors in global equities this quarter.

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:

- As the U.S. Federal Reserve began to ease rates, companies gained greater certainty about the future costs of capital.
 - That seems particularly beneficial for **Information Technology**, as many corporations begin to set their IT budgets for 2025. AI remains a dominant trend with many companies seeing greater risks of underspending and being left behind rivals.
 - We do not see that happening widely yet for **Industrials**, where many companies also want to see the results of the presidential election before planning increased spending on capacity or automation. For instance, short-cycle industrial markets showed recent deterioration while longer-cycle markets linked to public infrastructure spending or various secular trends remained strong.
- In **Japan**, perhaps the most crucial short- to mid-term factors to consider is the interest rate set by Bank of Japan (BOJ) and its impact on the Yen:
 - While the BOJ is not ignoring imported inflation (energy, food, raw materials, etc.), they view it as highly transitory. Domestic inflation (wages) is seen as more permanent.
 - The recent rate hike led to a Yen appreciation, which allows the BOJ to assess how consumers are doing post recent wage increases.
- In **Europe**, the start of wage inflation and the ongoing reshoring/shift away from China and Russia are creating additional inflationary pressure.
 - Within IT Services, we saw profit warnings throughout the second and third quarters. Many large projects were delayed, leading to cost-cutting measures.
 - Among Industrials, strength persisted in longer-cycle end markets such as electrification, aerospace and defense, and infrastructure.
- The investment exodus from **China** continues, driven by economic or political considerations. We witness:

- Companies and investors shift more of their focus to other Asian markets with better forecasted growth or stability.
- Corporations move more production capacity closer to home.
- China's domestic stimulus plans aim to counteract some of that, though it is focused on internal activities.
- In a market with slower growth and fewer severe macroeconomic or thematic disruptions, companies with strong internal structures that can generate growth independently of GDP are more likely to be rewarded.

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

Regional Performance: The Americas

Negative contribution from the region was mostly driven by the underweight position, particularly in the United States, and stock selections in Canada.

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. **JFrog**, a provider of systems to manage and speed the release of software updates from developers to users, reported results in line with earlier projections but reduced its guidance for the remainder of 2024. The caution arose from longer sales cycles among clients, who grew more concerned about the macroeconomic environment. After speaking with the company's management, we were encouraged by the underlying business strength. While there were delays in signing new contracts, those were not cancellations. Nevertheless, JFrog's shares retreated by -23%. **Synaptics**, a developer of human interface semiconductor solutions for electronic devices, experienced a -12% decline in its share price. Despite reporting better-than-feared quarterly results, with revenues slightly above the consensus and earnings significantly exceeding expectations due to good cost control. Management indicated that the lingering inventory digestion is largely over. However, the end market recovery has been slower than anticipated.

Our preferences in the Consumer-oriented sectors lean toward value-oriented or specialty retailers, franchise models, premium brands, or support services for other consumer companies. Detracting from results was **Topgolf Callaway Brands**, which manufactures golf equipment and accessories, as well as operates entertainment venues. Although recent channel checks indicated that TopGolf activity trends were improving, that softened later in the quarter. Overall revenues and earnings were less than anticipated, which led management to lower its guidance for the rest of the year. The company's Callaway equipment and apparel business was more stable, though management also discussed a strategic review of the entertainment business. Subsequently, the company announced the planned spinoff of TopGolf in 2025. While we agreed with the rationale, the timing was at a point of weakness, and we exited the position that was down -31% during the quarter. **Performance Food Group (PFGC)**, a food products distributor operating through Foodservice and Vistar segments, reported results that exceeded market expectations, easing investor concerns about slowing restaurant traffic and weak convenience store sales. For fiscal year 2025, management provided guidance for in-line sales figures but above-expectations EBITDA, reflecting confidence in improved gross profit across segments. These positive developments led to a 19% increase in PFGC's share price.

Many of our Industrial positions provide necessary business-to-business operational services, highly technical components, automation & efficiency improvements, or essential infrastructure services. **EMCOR Group**, a provider of electrical, mechanical, construction, and facilities services, saw its shares rise by 18%. The combination of strong results and a substantial new business backlog reinforced our positive outlook for EMCOR, leading us to increase our position. **Regal Rexnord**, specializing in motion control systems, climate solutions, and mechanical components, experienced a 23% increase in its share price despite mixed earnings. While the second quarter was strong, management lowered guidance to account for a softer second-half ramp in the Automation & Motion Control segment. The company's prospects in aerospace, data center, and medical markets remain solid. Canada-based **Pason Systems**, a designer and producer of sensors, instrumentation and data management systems used for drilling land rigs for oil and gas production, saw its share price decline by -26% following an inline second quarter. We anticipate the North American land drilling will remain near current levels in the remainder of 2024 before increasing in 2025 and beyond, with completions activity following a similar trajectory.

National Storage Affiliates Trust (NSA), a real estate investment trust focused on self-storage properties, benefited from the Federal Reserve's decision to lower interest rates. While new consumer demand remains soft, fundamentals started to

improve with the limited new construction of self-storage facilities in the past two years and the absorption of excess supply. NSA's share price increased by 18%.

Regional Performance: Europe

Europe was the portfolio's largest regional contributor. There was relative strength in France and the United Kingdom and relative weakness in Denmark and Italy.

In Italy, shares of **Amplifon**, a leading global hearing aid distributor, pulled back -19%. They reported a slower-than-expected recovery in the European market and accelerated conversion of U.S. franchisees. Management also highlighted expansion opportunities in the U.S. and China. Denmark-based **Ringkjøbing Landbobank** offers both traditional banking services and financial advisory services. The company is among the most efficient banks in the world based on its cost/income ratio. Concerns arose about the negative impact on net income from declining interest rates, along with management revising down their original FY2024 soft guidance during the year. The share price of Ringkjøbing declined -6% and we added to our position on this price weakness. In the United Kingdom, wealth manager **St. James's Place** announced a strong beat to consensus estimates driven by robust inflows and a subsequent share buyback. The company also implemented a new cost-cutting program to align with the changing regulatory environment and its cost base. With the regulatory hurdle now cleared, shares of St. James's Place surged 40% during the quarter.

Regional Performance: Japan

Japan was another area of strength.

Rakuten Bank, Japan's leading digital bank, once again reported impressive results, with significant account gains. Although our investment thesis for Rakuten Bank does not include a rate hike by the Bank of Japan, higher interest rates have positively impacted the bank. Rakuten Bank's stock rose by 24%. Discount supermarket **Kobe Bussan** reported a minor miss in its Q3 results but continued to see strong demand. Logistics costs are also improving due to increased efficiency. We trimmed our holdings as the stock rose 41%. We also reduced our position in **Simplex**, a leading systems developer and business consultant. The company reported mixed quarterly results, characterized by solid sales growth and a healthy backlog but a slower-than-expected start to earnings. Shares of Simplex declined by -4%.

During the quarter, we participated in the IPO of **Timee**, a Japanese job platform specializing in short-term job postings. Timee offers a unique and flexible solution for both job seekers and employers. The company's core operations center around its digital platform, which connects job seekers with employers seeking short-term and gig workers. With an average work length of four hours, Timee has established itself as a clear market leader by providing streamlined services that traditional HR companies have struggled to match efficiently.

Regional Performance: Asia Pacific ex Japan and Emerging Markets

Asia Pacific ex Japan was the portfolio's largest regional detractor due to the underweight position and stock selections. Australasia's largest insurance broker network, **Steadfast Group**, was negatively affected by an Australian news report involving Strata management companies, which included Steadfast as an extension. The report highlighted concerns about Strata operators, who are Steadfast's customers, not being transparent with underlying apartment owners about their dealing with insurance brokers. Due to regulatory uncertainty regarding the future of Strata management companies, we reduced our position in Steadfast, with a -4% decline in share price.

Though Emerging Markets lagged the portfolio's overall performance, the region holds one of the top contributors. **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 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 easing the lending rates 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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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.

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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 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@tscmlc.com.

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75 Rockefeller Plaza, 30th Floor New York, NY 10019
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