



International Small Cap Strategy

Representative Commentary — 3Q24

Performance	Annualized					
	3Q24	1YR	3YR	5YR	7YR	10YR
International Small Cap Composite (Gross)	8.27%	24.11%	-3.19%	3.89%	1.80%	5.95%
International Small Cap Composite (Net)	8.01%	22.90%	-4.15%	2.86%	0.80%	4.91%
MSCI EAFE® Small Cap (Net) Index	10.54%	23.48%	-0.36%	6.39%	4.16%	6.20%

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 International Small Cap Portfolio underperformed the MSCI EAFE Small Cap benchmark during the third quarter of 2024.

Regional Performance: Europe

The portfolio's holdings in Europe performed in line with the benchmark's regional return. There was relative strength in Finland and France and relative weakness in Spain and Italy. The portfolio's underweight position in Norway also added to the relative return.

In the Nordic region, Denmark-based **Ringjobing 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 Ringjobing declined -6%. We continued to build up our position in **Konecranes**, which jumped 33% this quarter. This Finland-based manufacturer of Industrial and Port Cranes and provider of services to both reported stellar second quarter results, reflecting the strong operational momentum and outlook across several verticals that Konecranes serves.

In Switzerland, contract development and manufacturing organization **Siegfried Holding** added to gains from the prior quarter. Its two key businesses are: 1) Drug Substances, the ingredients used in drug therapies and 2) Drug Products, manufacturing drugs for pharmaceutical customers. The company announced positive 2H24 results and its share price rallied 30%.

The challenging environment for the steel market negatively impacted **Danieli & C. Officine Meccaniche**, a major global plant and equipment supplier to the steel industry. The company's FY24 results fell short of expectations due to weakness in its steel-making division. However, its plant-making division continued to perform well, with strong margin expansion and a good order intake. Shares of Danieli fell -18%. 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.

Regional Performance: Asia Pacific ex Japan and The Americas

Asia Pacific ex Japan was the portfolio's largest regional detractor due to the underweight position and stock selections. Holdings in the Americas, specifically Canada, also lagged the portfolio's overall performance.

In Hong Kong, we exited our position in the world's largest luggage maker, **Samsonite**, which declined -26% while it was held in the portfolio this quarter. The company's second quarter results were lackluster due to soft demand, leading to a downward revision of guidance. In Canada, **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.

Regional Performance: Japan

Japan was the portfolio's best performing region helped by strong stock selections.

Within the Financials sector, **Integral Corporation**, an independent private equity management company and **Rakuten Bank**, Japan's leading digital bank, often exhibit inverse short-term price movements. While Integral's shares declined by -12%, Rakuten Bank's stock rose by 24%. Rakuten 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. Conversely, higher interest rates are perceived to increase the cost of funding for a private equity firm like Integral, which tends to use leverage more than average. Although Integral Corporation's leverage is lower in reality, the share price was negatively impacted. We added to our position in Integral during this period of price weakness.

Within Information Technology, we continued to increase our position in **Appier**, a software-as-a-service (SaaS) company that utilizes artificial intelligence (AI) to power business decision-making. Appier's share price surged by 64% following the company's strong results, which included robust revenue and operating profit growth. On the other hand, we 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%.

Within the Industrials sector, **DMG MORI**, a leading global manufacturer of high-end Computer Numerical Control (CNC) machines, was the portfolio's largest detractor. CNC machines are used to control complex grinders, lathes, and mills that cut and shape a range of different parts, including critical airplane and automobile components. The company's operating profits fell slightly short of expectations, due to delayed shipments of finished machinery caused by the time required to obtain German export permits. Although management raised the full-year order guidance, its stock price slid -19%. **Daiei Kankyo**, a leading Japanese waste management company that offers a one-stop waste management service encompassing collection, intermediate treatment, recycling, and final disposal, was one of the top contributors to the portfolio. The company reported higher-than-expected net income and completed a share buyback, which boosted its share price by 29%.

Elsewhere, 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%. Shares of **Internet Initiative Japan**, Japan's oldest and largest Internet Service Provider (ISP), rallied 44%. In the previous quarter, VMWare announced a significant price hike (3x-7x). Although IJ indicated that they would pass the price increase to customers, there was uncertainty regarding potential delays. However, IJ successfully implemented the price increase, resulting in better-than-expected outcomes. Management also raised guidance for the remainder of the year.

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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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 non-US stocks with market capitalizations at time of purchase generally within the range of capitalizations of stocks in the MSCI EAFE Small Cap Net Index. Portfolios will hold approximately 70-75 securities. The process is fundamental research driven. Primary selection criteria include quality management, distinct competitive advantage, and strong, sustainable growth. Historical turnover has averaged 37% per year. Composite inclusion threshold \$500,000. Fee basis is 100 points. The composite creation and inception date is April 1, 2012.

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.

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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 EAFE Small Cap (Net) Index. MSCI EAFE Small Cap (Net) Index is a trade or service mark of MSCI Inc. The MSCI EAFE Small Cap (Net) Index is an unmanaged, market-weighted index of small companies in developed markets, excluding the U.S. and Canada. 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 EAFE 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 1.00% 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. 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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