

U.S. Mid Cap Growth Strategy

Representative Commentary — 3Q24

Performance	Annualized					
	3Q24	1YR	3YR	5YR	7YR	10YR
U.S. Mid Cap Growth Composite (Gross)	4.96%	27.54%	5.30%	13.62%	13.87%	12.72%
U.S. Mid Cap Growth Composite (Net)	4.75%	26.55%	4.46%	12.72%	12.98%	11.84%
Russell Midcap® Growth Index	6.54%	29.33%	2.31%	11.47%	11.87%	11.29%

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 clarity about the future costs of capital.
 - This could affect next year's **Information Technology** budget setting cycle, which is getting underway as we approach the year end. With more certainty around the cost of capital, companies may feel more confident about their spending plans for 2025. In addition, AI investments by large public cloud providers continues unabated as they see greater risks of underspending and being left behind by 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.
- 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 aiming to counteract some of that, though it is focused on internal activities.
- The stabilizing U.S. economy with rising home prices and wage growth and low unemployment claims, coupled with lower inflation, bolstered **Consumer spending**.
 - Although activity remains choppy and selective across sub-categories.

Amidst this environment, the portfolio underperformed the Russell Midcap® Growth Index in the third 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. **Pinterest Inc.** is an image-based social media company. In late July, the company reported solid second-quarter results, though with softer than expected third quarter guidance. Revenues were up nicely, benefiting from an increase in monthly active users. Strength for the quarter was broad-based across several verticals including retail, technology, autos, and financial services. However, food and beverage vertical which has been soft since fourth quarter of 2023, down ticked further which resulted in softer than expected third quarter guidance. This caused Pinterest stock to slide by -7%. Moving in the other direction was **IAC Inc.** with its 15% gain. This media and Internet conglomerate includes Dotdash Meredith (DDM) and Angi HomeServices. DDM provides digital and print publishing services. Angi offers referrals for repairs, remodels, cleaning, and landscaping. DDM continued its run of strong performance in the second quarter, while Angi's focus on profitable growth and improved customer experience is gaining traction.

Our preferences in the Consumer-oriented sectors lean toward value-oriented or specialty retailers, franchise models, or premium brands. **DoorDash Inc.**, an online food delivery platform and logistics provider, climbed 31%. We had begun building our initial position in DoorDash in May-June timeframe and ramped up the position size prior to the second quarter earnings report that was released in August. DoorDash delivered broad-based positive results versus street expectations. **Floor & Decor Holdings Inc.** is a specialty retailer of hard surface flooring and accessories. The company posted mixed results for the second quarter. While earnings and gross margins exceeded consensus estimates, revenues and same store sales fell short. Despite its struggles on the residential side, Floor & Decor is making great progress with professional customers by generating record sales in its Spartan commercial division. Management has decided to temporarily reduce their store growth ambitions due to the interest rate environment. Investors reacted positively to these developments as the stock price lifted by 25%. **O'Reilly Automotive Inc.**, a specialty retailer of aftermarket auto parts and accessories, rose 9%. The company reported weaker-than-expected second quarter results, which management attributed to a soft demand environment. Wet spring weather and budget-conscious consumers impacted the do-it-yourself segment. However, their professional mechanic/do-it-for-me business was stable and in line with Street estimates. O'Reilly has reduced variable costs without sacrificing service levels. **Tractor Supply Co.** is engaged in the retail of farm and ranch products. Mixed second quarter results included a miss to same store sales and in-line earnings. We used that share price weakness as an opportunity to add to the position for this differentiated business. Its share price recovered later in the third quarter with an overall 8% gain on news that management plans to open 80 new stores this year and 90 in fiscal 2025. **Ross Stores Inc.**, an off-price retailer of apparel and home accessories, received a 4% markup to its stock price, though lagged the benchmark sector average gain of 8%. Their second quarter came in nicely above the consensus. Ross' value proposition and upgraded branded offerings are resonating with consumers. **BJ's Wholesale Club Holdings Inc.** is a membership warehouse operator. The company posted a high quality second quarter beat on merchandise sales and higher same store sales. Member metrics continue to impress. However, the market reacted negatively to disappointing forward guidance, causing the share price to pull back by -6%. Management is making near-term investments to generate future growth.

We often see the ebb and flow of the Energy sector tied to underlying commodity prices. In this area, we seek low-cost exploration & production companies with high-yielding acreage or specialized service providers. **Permian Resources Corp.**, an exploration and production company with operations in the Delaware Basin of West Texas, slipped by -15%. While second quarter profits and free cash flow were above sell-side projection, oil production and capital expenditures were only in line. Of note, oil prices fell by roughly -16% during the third quarter. Management continues to drive drilling and completion efficiencies, the bulk of which are associated with faster drilling and completion times. **Cheniere Energy Inc.** operates liquefied natural gas terminals in New Orleans and Corpus Christi. Second quarter results were largely as expected and forward guidance was increased. Management's comments featured the timely completion of maintenance at both facilities as well as optimization efficiencies. That boosted the stock by 3%.

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. **TPG Inc.** is an alternative asset management firm. The company enjoyed healthy results in the second quarter, with catch-up fees from several deal closings driving management fee upside. Expense controls were also a positive catalyst. The quarter also featured strong fundraising at Angelo Gordon. These developments lifted TPG by 40%. **RenaissanceRe Holdings Ltd.**, a provider of reinsurance and insurance services, surged ahead by 22%. Solid second quarter results were generated by favorable reserve releases in the Catastrophe, Casualty, and Specialty segments. There were also lower than anticipated losses in their Total Property business. Net investment income and share buybacks also exceeded projections. New to the portfolio this quarter is **Allstate Corp.**, a

property and casualty insurer. A pullback in its stock price gave us an opportunity to add this position to the portfolio that has been on our radar for some time. Auto and homeowners' insurance renewal ratios have stabilized. Several key states have given approval for auto insurance price increases and Allstate tactically reduced its coastal homeowners' coverage.

Our preferences among Health Care stocks are those companies providing novel therapies for unmet needs that deserve premium pricing, or specialized service providers. **argenx SE** is a global immunology company focused on developing of antibody treatments for autoimmune disorders. Sales of its Vyvgart therapeutic, used to treat Myasthenia Gravis, were ahead of expectations and argenx is on a path to profitability. We added to the position on increased conviction, which improved by 26% during the quarter. **Veeva Systems Inc.** supplies industry cloud solutions for the global life sciences industry. Its stock gained 15% after they reported solid fiscal second quarter results and raised the mid-point of fiscal 2025 revenue guidance in recognition of greater pipeline visibility and improved sales cycle progression. **Repligen Corp.** develops and commercializes bioprocessing technologies and systems for use in the biological drug manufacturing process. The company's stock rallied 18% during the quarter, aided by inline second quarter results, with a pickup in pharmaceutical orders as well as improving contract development and manufacturing demand. **Cencora Inc.**, a pharmaceutical products distributor, had a flat return due to uneven fiscal third quarter results. US health care revenues grew for the quarter, however, international fell short. Gross margins deteriorated due to a higher mix of GLP-1s. **ICON plc** is a clinical research organization providing outsourced development services to the biopharmaceutical industry. Second quarter results were essentially in line with Street estimates; however, revenue guidance was lowered due to Covid drug trial delays. News that pharmaceutical companies are reducing costs along with an unclear picture on the biotech development funding environment caused us to lower our weight in ICON, which dropped by -8%.

Many of our Industrial positions provide necessary business-to-business operational services, highly technical components, equipment enabling automation & efficiency improvements, or essential infrastructure services. **Cintas Corp.** offers corporate identity uniforms and facilities services. Its shares climbed 18% after the company posted solid results and raised full year guidance. Despite seeing a modest pickup in unemployment over the past few months, that hasn't impacted customer behavior or the sales pipeline. Also rising 18% was **EMCOR Group Inc.**, a provider of electrical, mechanical, construction, and facilities services. The combination of strong results and a sizable new business backlog gave us increased confidence in the prospects for EMCOR, leading us to increase the position. **Regal Rexnord Corp.** specializes in motion control systems, climate solutions, and similar mechanical components for a variety of end markets. Their shares were up 23% despite a mixed earnings report. While their second quarter was strong, management lowered guidance to account for a softer second half ramp in the Automation & Motion Control segment, though that was generally expected by investors heading into the quarter. Aerospace, data center, and medical markets all remain solid. **Saia Inc.** is a transportation company providing less-than-truckload services. Its share price fell -8% after reporting disappointing second quarter earnings. Start-up costs associated with opening three new major facilities were higher than anticipated and a shift away from heavy industrial customers to large national account retailers impacted results. **Verisk Analytics Inc.** provides risk information and analysis for the property/casualty insurance industry. Second quarter overall revenues missed Street estimates. While subscription revenues grew nicely, transactional revenues declined in comparison to their last quarter. Part of this is explained by Verisk's ongoing efforts to convert more of their transaction-based business to subscriptions. Nevertheless, its shares were flat over the quarter thereby underperforming the index sector average of 13%.

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 are growing their shares of corporate IT budgets. **CrowdStrike Holdings Inc.** provides cybersecurity solutions. Its unified platform offers cloud-delivered protection of endpoints, cloud workloads, identity, and data. We trimmed the position as a risk reduction measure in mid-July due to the customer outage caused by a faulty content configuration update for the Windows sensor. The company subsequently delivered solid results that exceeded the high end of guidance across all metrics. While some new business negotiations slipped due to the outage, those are expected to wrap up in subsequent quarters. While CrowdStrike tumbled by -26%, we are encouraged to learn they have closed several large deals since the outage. Management is offering customers and prospects discounted modules and credits via its Flex program. **Microchip Technology Inc.** develops and produces smart, connected, and secure embedded control solutions. While its June quarter results were in line, guidance for the September quarter was lower than expected and that caused a -12% selloff. This semiconductor inventory correction has lasted longer than many expected. It is encouraging to learn the company has been generating solid design wins and that should bode well for future growth. **Elastic NV** is a data analytics supplier. Its shares dropped -33% for the month after they reported mixed fiscal first quarter results and lowered their revenue outlook

due to lower new customer commitments. Management views its salesforce reorganization as deserving part of the blame. **Synopsys Inc.** supplies electronic design automation software products used to design and test integrated circuits. Despite reporting solid fiscal third quarter earnings, management's continued conservative guidance caused its stock to slide by -13%. We decided to exit the position in recognition of its elevated market capitalization. **Smartsheet Inc.**, a designer and developer of a cloud-based platform for work management, jumped 26%. The company reported solid fiscal second quarter results with broad-based beats on key metrics, including annualized recurring revenues and operating margins. The company won new business and expanded its relationship with a large customer. At the end of the quarter, prior acquisition rumors were confirmed when Smartsheet agreed to be taken private. **OneStream Inc.** supplies corporate performance management software solutions primarily to perform financial statement consolidation, planning, and budgeting. We participated in the Initial Public Offering for this company. In our view, this is a high-quality subscription business with a superior product suite, compelling customer retention levels, and the opportunity for new business growth. Its share price appreciated by 38% over the quarter. **Samsara Inc.** develops Internet connected sensor systems. Strong results boosted the stock by 43%. The quarter was highlighted by new customer wins and revenue growth. Samsara's value proposition is their products create tangible return on investment. Its client space spans across construction, field services, utilities, transportation, and logistics.

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 while managing risks. As always, we are available for any questions you might have.

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Firm and Composite Information

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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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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@tscmlc.com.

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