

## Emerging Markets Small Cap Strategy

Representative Commentary — 4Q24

Performance	Annualized					
	4Q24	1YR	3YR	5YR	7YR	Since Inception (1/1/2017)
Emerging Markets Small Cap Composite (Gross)	-2.08%	7.57%	3.63%	9.63%	6.49%	9.69%
Emerging Markets Small Cap Composite (Net)	-2.35%	6.41%	2.50%	8.44%	5.34%	8.50%
MSCI Emerging Small Cap (Net) Index	-7.19%	4.79%	2.10%	8.55%	4.58%	7.86%

*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.*

Heading into 2024, elections and central bank decisions were expected to significantly impact global markets, and they did, especially in the fourth quarter. U.S. equities rallied strongly in November, offsetting weaker October and December returns. Non-U.S. markets declined in the fourth quarter, partly due to concerns about future U.S. trade policies. Both the MSCI EAFE and MSCI Emerging Markets indexes fell by -8% in the quarter, with emerging markets finishing the year up 8% compared to a 4% gain for non-U.S. developed markets (large and small caps had similar quarterly performance, though large caps outperformed for the year).

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

- **Trump is already impacting global markets and geopolitics - even before he takes office:**
  - Despite general headwinds for Emerging Markets due to higher inflation expectations and a stronger U.S. Dollar, opportunities remain for companies and economies that are well-aligned with U.S. geopolitical interests and possess strong export capabilities, such as Taiwan and Korea.
  - Trump's pronouncements on trade and foreign policy, with proposed blanket tariffs that impact even close allies but also seemingly conciliatory gestures toward China, has increased investor uncertainty.
- **Throughout Emerging Markets, there was greater than expected political turbulence:**
  - Major Latin American markets such as Mexico and Brazil were both negatively impacted by populist and leftist leaders whose economic policies seem to indicate less fiscal discipline (particularly in the case of Brazil), or whose proposed reforms seem to indicate less checks and balances in government (in the case of Mexico).
  - Modi's BJP party fell short of the wide mandate expected by the markets. New allegations against the politically connected Adani Group companies also raised concerns.
  - Korean markets were rocked by the short-lived declaration of martial law by the now-impeached President Yoon, whose decision to pursue such a drastic action likely stemmed from losing majority control of the Korean legislative assembly this year.
- **Chinese policy stimulus – vague on details but clear on direction:**
  - In late September, the Chinese government made a clear shift in direction, signaling explicit intent to stop its economy from deteriorating any further. While this initially led to a strong rally in Chinese equities, much of these gains since dissipated.
  - Nonetheless, the Chinese government has implemented measures that seem to have slowed or reversed the slide in property prices nationwide and have been communicating much more actively to the market than in the past few years about the need to stabilize the economy.

The Emerging Markets Small Cap Portfolio outperformed the MSCI Emerging Markets Small Cap benchmark for the fourth quarter of 2024, as well as for the full year. Our investment team, through its ongoing engagement with companies, review of earnings reports, and analysis of the global landscape, has identified several investment areas offering greater visibility:

- Beneficiaries of the reshoring of supply chains and the upgrading of related infrastructure globally, particularly companies who are exposed to US-focused capital investment.
- AI and technology-related investment, particularly at the leading edge.
- Rebounding Chinese domestic consumption, with a focus on domestic brands and value-for-money, as targeted stimulus and property stabilization measures continue.
- The rise of EM-based brands that are finding market traction across both developed markets as well as other EM's.

### **Regional Performance: Asia**

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

Although Indian markets were one of the best relative performing markets globally, Indian stocks experienced volatility against heightened political turbulence, particularly against a backdrop of high valuations and decelerating growth in some sectors. **Allcargo Logistics**, one of the world's largest less-than-containerload logistics providers, was the portfolio's largest detractor, declining -56%. Despite showing year-over-year and sequential improvement in its latest results, investor concerns about the potential impact of a Trump presidency on global trade weighed on the stock. **CarTrade Tech**, a leading online and offline auto platform in India, provides advertising services for manufacturers and lead generation for auto dealers. The company reported solid second-quarter results with inline revenue and better-than-expected earnings margins. Benefiting from rising vehicle inventory at dealerships, CarTrade's share price jumped 45%. With a significant portion of its revenue tied to fees charged on assets under management, **Kfin Technologies**, a leading Indian registry & transfer agent (RTA), benefits from the robust growth of the Indian mutual fund industry. The company is also expanding into new adjacent businesses beyond its RTA operations and exploring new geographies. As a result, Kfin's share price increased by 41%.

Amid the short-lived declaration of martial law by the now-impeached President Yoon, Korean institutions and citizens demonstrated the resilience of the country's democratic process. Though investors might worry about a Korea less aligned with the U.S. against China, and whose left-leaning government is viewed as less business-friendly. Nonetheless, Korea remained one of the portfolio's top country contributors for the quarter. **HD Hyundai Marine Solution** is the maintenance and repair unit of South Korea's largest shipbuilding conglomerate, HD Hyundai Heavy Group. The company reported better-than-expected quarterly results, with strong growth in most of its business segments, which pushed its stock price up by 38%. Higher-than-forecasted earnings margins, combined with a healthy and growing backlog and additional opportunities for its shipping retrofit business arising from the new EU requirement for maritime fuel greenhouse gas emission intensity, provide strong support for future growth. Korean AI medical imaging company **Lunit**, whose screening solutions improve cancer identification and treatment for providers and other stakeholders, announced a strategic collaboration with AstraZeneca this quarter. The partnership will utilize Lunit's AI-powered pathology analysis solution, Lunit SCOPE Genotype Predictor, to develop a rapid AI screening tool for non-small cell lung cancer mutations. This announcement, combined with a forecast for achieving profitability this year, drove a 32% increase in Lunit's share price. Leading semiconductor testing socket manufacturer **ISC Co.** reported weaker-than-expected results this quarter, initially causing its stock price to decline. We used this opportunity to increase our position, as the weakness stemmed from slower growth in its non-advanced business segment. The share price subsequently recovered, ending the quarter with an 11% gain. **HPSP**, a Korean manufacturer of semiconductor equipment, produces the only high-pressure hydrogen annealing product in the market. The company successfully resolved a patent dispute with a competitor, thereby preserving its exclusive market position. Despite this positive development, the company's stock price declined -25% during the quarter, primarily driven by concerns related to downstream investment trends and the potential implications of the Trump victory for the broader industry landscape. We exited our position in **NanoTim**, a manufacturer of thermal materials that provide heat management solutions or act as fire retardants. The company, whose materials have been used in Hyundai and Kia EVs, was negatively impacted by weakening EV sales, particularly Korean EVs. Share price was down -42% while the stock was held in the portfolio during the quarter.

China housed some of the portfolio's largest detractors. **Jinxin Fertility Group**, the country's largest private assisted reproduction service (ARS) provider, saw a -26% decline in its share price. Recently, 27 regions in China had implemented reimbursement schemes on ARS, while the rollout in regions covered by Jinxin (e.g. Hubei, Yunnan, Guangdong, and Sichuan) were relatively slower. Management noted a slowdown in the third quarter as patients delayed the treatment in anticipation of reimbursement. The Chinese baijiu sector is undergoing consolidation, creating opportunities for new entrants offering more affordable prices and distinct flavors to appeal to a younger demographic. However, **ZJLD**, a leading baijiu brand, saw its shares decline -29% as management lowered 2024 sales guidance in response to macroeconomic weakness.

Across the Taiwan strait, our Information Technology holdings delivered strong results during the quarter. **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 rising 60%. Alchip continues to benefit from the surge in ASIC demand and has won business with major players like Amazon and Intel. **Accton Technology**, a leading Taiwan-based manufacturer of white-box network device, also saw significant gains, with its share price jumping 40%. The market finally began to recognize Accton's advantageous position to benefit from increased AI capex, which was supported by the company's impressive third-quarter results. **Elite Material (EMC)**, a leading Copper Clad Laminate provider for High-Density Interconnect components used in smartphones and increasingly AI servers, has successfully extended its presence in datacenter, networking, and automotive in recent years. With a dominant position in AI servers and continued market share gains in non-AI servers/switches, EMC shares climbed 33%.

Southeast Asia was a weak spot within the region. **PT Samator Indo Gas**, Indonesia's largest industrial gas company with the country's largest distribution network, underperformed expectations in the third quarter of 2024. Revenue grew only 1%, while profitability declined approximately -31% due to higher-than-expected selling and administrative expenses, resulting in a -25% share price decline.

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

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

**Maharah Human Resources**, a Saudi Arabian provider of human resources and labor sourcing services across sectors like medical, industrial, and hospitality, reported mixed results; while headline earnings growth was strong, weaker-than-expected gross margin and a lack of income from associate Saudi Medical Systems contributed to a -13% share price decline. In Latin America, **Arcos Dorados**, the largest independent McDonald's franchisee with over 2,000 restaurants across 20 Latin American and Caribbean countries, reported generally inline quarterly results. However, concerns about its Master Franchise Agreement (MFA) and currency headwinds in key markets like Argentina, Mexico, and Brazil led to a -16% drop in stock price. The company subsequently announced a 20-year MFA renewal. We exited our position in **Despegar.com**, a leading Argentinian online travel agency with a strong presence in Latin America, whose share price notably jumped 55% while held in the portfolio during the quarter as the company is being acquired by Prosus.

#### **Conclusion**

Global markets will likely begin 2025 finding their footings when adapting to new governments, rate environments, and other geopolitical turbulence. While the U.S. Federal Reserve recently indicated it was finished easing for the near term, the new administration's activities may change that in either direction. While much remains uncertain (though when are the markets ever certain?), we are steadfast on the fundamentals: finding well-run business models with improving economics, long runways of growth, and attractive valuations. For the New Year, we remain dedicated to adding value to the assets you have entrusted to us and look forward to working with you throughout 2025. As always, please feel free to contact us if you have any questions.

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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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