TimesSquare Capital Management, LLC

Global Small Cap Strategy

Representative Commentary — 4Q24

Performance

	4Q24	1YR	3YR (Annualized)	5YR (Annualized)	7YR (Annualized)	Since Inception (1/1/2018) (Annualized)
Global Small Cap Composite (Gross)	-1.01%	8.10%	-2.00%	3.41%	4.73%	4.73%
Global Small Cap Composite (Net)	-1.20%	7.24%	-2.84%	2.51%	3.82%	3.82%
MSCI World Small Cap (Net) Index	-2.58%	8.15%	0.57%	6.42%	5.80%	5.80%

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 our investment team meets with companies, reviews recent earnings reports, and surveys the global landscape, they note several investment dynamics that inform our positioning:

- In the **U.S.**,
    - The sweep by Trump's Republican party created expectations for a pro-business, lower regulatory environment with protectionist tariffs. Sentiment across consumers, CEOs, CFOs, and small businesses spiked after the election.
    - While **Consumer** sentiment improved and spending was stable, inflation seems to have bottomed out with some companies concerned about it accelerating. That and the threat of future tariffs led to higher near-term purchasing.
    - This was also evident in the **Industrial** sector, with increased levels of new orders for manufacturers. However, concerns about high prices and potential retaliatory tariffs from trading partners have weighed on some areas. A continued bright spot was the construction segment, either in advance of reshoring activities or plans to build more data centers.
    - The apparent insatiable appetite for all things AI continues to bolster the **Technology** sector broadly. Global spending on related infrastructure benefited an ecosystem of semiconductors, capital equipment, construction, and power companies. More importantly, we began to see wider adoption and use cases for AI across a variety of industries including retail, advertising, and financial services.
    - A more accommodating regulatory environment should benefit the **Financials** sector and capital markets firms, especially if the new Federal Trade Commission shows greater deference when reviewing proposed mergers. At the other end of the spectrum, the IPO pipeline appears well populated for new public companies in 2025.
    - Uncertainty increased, however, across parts of the **Health Care** sector. Proposed regulators have very mixed views on health care, and the market is concerned about the near term.
- In **Europe**,
    - Wage inflation, relatively low unemployment, and ongoing reshoring efforts (shifting away from China and Russia) are contributing to inflationary pressures. This could limit the European Central Bank's (ECB) ability to cut interest rates, even as the region's economic growth remains weak.

- Within Technology, profit warnings were prevalent during the second and third quarters, as many large projects faced delays, prompting cost-cutting measures. We anticipate this trend will subside by mid-2025.
- Within Industrials, there is continued strength in long-cycle end markets such as electrification, aerospace and defense, and infrastructure. However, a significant cyclical recovery has yet to materialize.

- In **Japan**,
  - During 2024, large cap stocks outperformed their small cap peers, but their USD returns were less impressive. Quality growth stocks persistently underperformed the broader market.
  - Local investors, who favor deep value and dividends in the domestic market, seek growth exposure abroad, particularly in the U.S. They have directed significant funds (over half of NISA flows) towards U.S. equities, drawn by the strong USD and resulting high returns. This outflow, exacerbated by the strong greenback, is unlikely to reverse in the near term, prompting an underweight stance on Japanese equities.
  - The Bank of Japan kept interest rates unchanged in December, sending the yen tumbling as hopes for a rate hike faded.
- In the **Emerging Markets**:
  - 2024 was a year marked by the stronger impact of politics across several major emerging markets, especially as this was a busy election year for many of them.
  - Trump's election has boosted US equities, but also resulted in higher inflation expectations (leading to higher longer term interest rate expectations), and a stronger US dollar. Despite general headwinds for Emerging Markets, opportunities remain for companies and economies that are well-aligned with US geopolitical interests and possess strong export capabilities.

The Global Small Cap portfolio outperformed the MSCI EAFE Small Cap benchmark during the final quarter of 2024 while slightly underperforming the benchmark for the full year.

Regional Performance: The Americas
The Americas was the portfolio's top regional contributor, driven by positive stock selections.

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. Contributing a 39% return was the leading cloud-based compliance and regulatory reporting platform, **Workiva Inc**. Recent billings and revenues were better than anticipated and Workiva's backlog increased with significant growth in new customers. We expect that growth to continue as the new European Union Corporate Sustainability Reporting Directive (CSRD) drives more demand for Workiva's CSRD reporting feature. Even better was **Astera Labs**, which designs semiconductor components for data centers that provide greater connectivity bandwidth at faster speeds. The company reported revenues and earnings that outstripped expectations. Its core products continued to post strong sales, and newer components saw faster adoption than expected. That, coupled with the unending demand for new or faster data centers from hyperscalers, led Astera's management to meaningfully increase its forward guidance. As its shares climbed by 154%, we trimmed our position. **Universal Display** develops and commercializes organic light emitting diode technologies and materials for use in display and solid-state lighting applications. Results for the latest quarter were mixed as revenues came in below estimates while earnings were above, aided by an upside gross margins and operating expense control. Its shares sold off by -24% on a reduction to revenue guidance as display manufacturers lowered their materials demand. We decided to exit the position and redeploy the proceeds into more favorable growth prospects. Another blemish in this sector was **Onto Innovation,** which develops inspection technologies for use across the entire semiconductor fabrication process. Its revenues and earnings were better than anticipated, though forward guidance only met expectations because of customer delays on lithography tool orders. Onto's other areas increased and are projected to enjoy multi-year growth, such as advanced packaging and Chip on Wafer on Substrate with silicon interposer (CoWoSo). Both platform types are used for ultrahigh performance computing, such as in GenAI data centers, and Taiwan Semiconductor plans significant increases in CoWoSo capacity. As Onto's shares declined by -20%, we added to our position.

Our preferences in the Consumer-oriented sectors lean toward value-oriented or specialty retailers, franchise models, or premium brands. **Brunswick**, a manufacturer of recreational marine products including boats and engines, sold off by -22%. Continued weakness in the marine market was reflected in soft third quarter results. The company cut boat production to lower inventory levels in the channel. We reduced the Brunswick position. There was a strong showing from the online eyewear retailer **Warby Parker.** Revenues and earnings edged above expectations, and Warby's management increased its guidance for the remaining quarter based on early signs that the sales growth was continuing. As its shares increased by 48%, we trimmed our position.

In the Financials sector we tend to avoid banks that face credit deterioration or rising deposit costs. However, through our bottom-up research process, we identified **Webster Financial Corp.** (the holding company for Webster Bank) as a high-quality bank candidate that is suitable for this portfolio. The bank reported another better-than-expected quarter, resulting in a 19% share price increase. The market reacted positively to better-than-feared net interest income (NII), stable credit trends, and a stronger balance sheet. **Bowhead Specialty Holdings**, a specialty property and casualty insurer, contributed a 26% gain. The company delivered strong premium growth with double-digit increases across all divisions. Its combined ratio continued to improve, driven by lower expense and loss ratios. The "higher for longer" interest rate environment negatively impacted **National Storage Affiliates (NSA),** a U.S. self-storage facility operator. Despite exceeding consensus estimates and reaffirming full-year guidance, NSA's share price declined -20%.

Regional Performance: Japan
The portfolio's holdings in Japan slightly detracted from overall portfolio performance due to allocation effect. Continued weakness in the Japanese Yen was driven by a confluence of factors: ongoing market share losses in the auto industry, a projected decline in key exports like semiconductor materials and capital equipment, persistent import dependence (particularly for resources and USD-denominated services), and the Bank of Japan's limited capacity for monetary policy tightening. As a result, areas of economic strength, and thus our investment interest, include consumer discretionary businesses benefiting from record tourist numbers, companies addressing high energy costs and grid improvements, and those involved in the development of local data centers and semiconductor foundries.

Within the Financials sector, **Rakuten Bank**, Japan's leading digital bank, reported better-than-expected results, driven by faster-than-anticipated business expansion, the impact of the July BOJ rate hike, and lower-than-expected restructuring costs. The bank subsequently raised its full-year net profit guidance by 22%, boosting its share price by 24%.

Within the Industrials sector, **Daiei Kankyo,** a leading Japanese waste management company that offers a one-stop waste management service encompassing collection, intermediate treatment, recycling, and final disposal, reported a beat for their first half results; however, management did not raise its fiscal year guidance, which led to a -15% decline in the stock price. Management confirmed that it saw no reason for margin compression and was simply being cautious.

Elsewhere, **Rohto Pharmaceutical**, Japan's leading manufacturer of over the counter (OTC) health care products, reported a weak second quarter due to slowing Chinese demand and increased R&D expenses. Concerns over brand diversification and increased competition also contributed to the -27% drop in the stock price.

Regional Performance: Europe and the Middle East
The portfolio's holdings in Europe outperformed the benchmark's regional return. One of the portfolio's top contributors was **Games Workshop**, which gained 16%. A global leader for tabletop miniature gaming, **Games Workshop,** delivered an impressive first half performance despite the currency headwind.

CyberArk Software, a leading global provider of Privileged Access Management based in Israel, saw its stock rise 14% after exceeding quarterly revenue and earnings expectations. The company also significantly increased its guidance for the remainder of 2024, reported meaningful growth in annual recurring revenue, and expects a recent acquisition to boost growth in 2025. While the CFO announced their retirement after 12 years, the incoming deputy CFO is highly regarded.

Regional Performance: Asia Pacific ex Japan and Emerging Markets
Holdings in Asia Pacific ex Japan detracted from performance due to stock selection. **Ventia Services Group** is leading infrastructure services provider in Australia and New Zealand, focusing on the operation, maintenance, and management of critical public and private assets across various industries. During the quarter, the Australian Competition and Consumer Commission (ACCC) launched federal court proceedings against a group of companies, including Ventia, for alleged price-fixing. These ACCC price-fixing proceedings occurred in the context of outstanding defense contract renewals, which account for approximately 20% of Ventia's business. Despite recovering some ground late in the year on the back of new contract wins, Ventia shares ultimately finished the quarter down -30%.

Emerging Markets was the best performing region this quarter. **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% stock price drop. The company subsequently announced a 20-year MFA renewal. In Korea, **HD Hyundai Marine Solution** is the maintenance and repair unit of South Korea's largest shipbuilding conglomerate, HD Hyundai 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 EBIT 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 (GHG) emission intensity, provide strong support for future growth.

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. Meanwhile, Canada and Germany will have elections, which may alter the policies of two other G7 countries. 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.

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 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.

The opinions and information expressed and provided are for general information only and are not intended to provide specific advice or recommendations but rather, a basis from which strategies can be built, taking into account the specific objectives of each portfolio, in terms of return, time horizon, and risk constraints, as well as diverging investment perspectives and assumptions. All material has been obtained from sources believed to be reliable, but its accuracy and completeness are not guaranteed.

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@tscmllc.com.