International Small Cap Strategy

Representative Commentary — 4Q24

Performance

			Annualized			
	4Q24	**1YR**	**3YR**	**5YR**	**7YR**	**10YR**
International Small Cap Composite (Gross)	-9.39%	2.74%	-5.71%	-0.49%	-0.37%	4.87%
International Small Cap Composite (Net)	-9.62%	1.72%	-6.65%	-1.47%	-1.35%	3.84%
MSCI EAFE® Small Cap (Net) Index	-8.36%	1.82%	-3.24%	2.30%	2.01%	5.52%

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 **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 the Nippon Individual Savings Account 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 International Small Cap Portfolio underperformed the MSCI EAFE Small Cap benchmark during the final quarter of 2024 while outperforming the benchmark for the full year.

Regional Performance: Europe
The portfolio's holdings in Europe slightly underperformed the benchmark's regional return. There was relative strength in the UK and Sweden and relative weakness in Germany and Finland.

As we look forward to 2025, US trade policy towards Europe will also be a key factor shaping the region's overall outlook. The upcoming German elections could revitalize the outlook for the region's largest economy, while France may emerge from its current political deadlock, and peripheral economies continue to demonstrate resilience. Our European holdings offer a balanced exposure to both local structural growth drivers and global niche dominators, which, while more sensitive to the global economy than the region itself, are currently trading at depressed European valuations.

In the Nordic region, Denmark-based **Ringkjobing Landbobank** offers both traditional banking services and financial advisory services. The company is among the most efficient banks in the world based on cost/income ratio. We trimmed our position while the share price of Ringkjobing appreciated 6%. After rallying ~110% over the last twelve months, **Konecranes** gave back some of those gains with its -16% retreat this quarter. This Finland-based manufacturer and service provider of industrial and port cranes reported solid third quarter results on better-than-expected order volumes in Port Solutions and upside margin surprise on both Equipment and Port Solutions. Another stock that came under pressure in the quarter was Finnish-based software company **QT Group**. They are focused on providing software tools and a platform for engineers to create user interfaces for in infotainment and instrument cluster displays for the automotive, aerospace, consumer electronics and medtech industries. The company reported disappointing third-quarter results, citing softness in consultancy sales as clients implemented cost-cutting measures on their long-term development projects. QT Group's stock price declined -33% as a result, and we have been reducing our position due to this uncertainty.

French company **Technip Energies,** one of only a handful of companies that can build liquefied natural gas (LNG) plants, saw its share price increase 10% on the back of better-than-expected third quarter results and increased 2024 revenue guidance. In neighboring Switzerland, the share price of contract development and manufacturing organization **Siegfried Holding** traded down by -19%. In November, we reduced our position after its year-to-date outperformance of the market. Later in the quarter, the combination of a sell-side analyst initiating coverage with a sell recommendation and uncertainty over the U.S.'s Biosecure Act negatively impacting the share price. In response to these developments, we engaged with the CFO in late December and became more confident in Siegfried's year-ahead growth opportunities, leading us to add to our position at year-end.

The United Kingdom, the region's top performer, also contained some of our largest contributors and detractors. **UNITE Group,** a U.K.-based and listed PBSA (Purpose Built Student Accommodation) real estate company, has a long track record in this niche market and is expanding methodically into adjacent areas like Build-to-Rent targeting recent university graduates. Despite a decline in overseas student visa applications, demand in UNITE's operational locations remains strong. While the company reported moderate rental growth, it confirmed FY24 EPS guidance at the top of its previous range. However, given current headwinds and a -20% share price decline, we reduced our position. Two of the portfolio's top contributors were **Games Workshop** and **St. James's Place**, which gained 16% and 10%, respectively. Since re-introducing **St. James's Place** to the portfolio in the second quarter, we have been steadily increasing our position in this U.K. wealth manager. With regulation challenges resolved and a slight net flow beat in the third quarter, St. Jame's is on a path to recovery. **Games Workshop,** a global leader for tabletop miniature gaming, delivered an impressive first half performance despite the currency headwind.

Regional Performance: Japan
Japan was the portfolio's worst performing region due to stock selection and foreign exchange headwinds. Persistent 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 25%.

We re-initiated a position in **Food & Life Companies**, Japan's leading quick-service sushi chain. We exited this position in 2022 due to management's reluctance to raise prices amid significant food inflation and poorly executed promotions that negatively impacted consumer sentiment toward its Sushiro brand. Since then, price increases in Japan have proven effective, and the company has expanded successfully into higher-margin Southeast Asian markets. Furthermore, its increased use of farmed fish has improved both its environmental impact and margins.

Within the Industrials sector, **DMG MORI**, a leading global manufacturer of high-end Computer Numerical Control (CNC) machines, was one of the portfolio's largest detractors. 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 third quarter operating profit fell 48% year-over-year, and management lowered their guidance on weaker demand. While the worst might be behind us, we reduced our position for portfolio risk control as the stock slid -22%. **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: 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 portfolio's best performing region. **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. **Accton Technology**, a leading Taiwan-based manufacturer of white-box network devices, was the portfolio's top contributor. 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. As a result, Accton's share price jumped 40%. Another strong performer was **HD Hyundai Marine Solution**, 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.

General Disclosure:

The holdings discussed represent a particular point in time. It should not be assumed that the securities continue to be held, and/or continue to be held in the same percentage, and/or were held continuously throughout the period. In addition, the holdings of a particular client account may differ from the information provided. Securities discussed do not represent the entire portfolio and, in aggregate, may represent only a small percentage of a portfolio's holdings. Information is subject to change without notice. It should not be assumed that any of the securities discussed were or will prove to be profitable. Past performance does not guarantee future results.

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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@tscmllc.com.

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