TimesSquare Capital Management, LLC

U.S. Small Cap Growth Strategy

Representative Commentary — 4Q24

Performance

			Annualized			
	4Q24	**1YR**	**3YR**	**5YR**	**7YR**	**10YR**
U.S. Small Cap Growth Composite (Gross)	4.60%	16.24%	0.52%	8.29%	9.42%	9.86%
U.S. Small Cap Growth Composite (Net)	4.35%	15.11%	-0.47%	7.23%	8.34%	8.78%
Russell 2000® Growth Index	1.70%	15.15%	0.21%	6.85%	7.16%	8.08%

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.

Entering 2024, expectations were that elections and central banks dramatically would affect prices and sentiment in global markets. Each did, especially in the fourth quarter.

Government lending rates eased:

- Notably that began with the European Central Bank in the spring, and two cuts this quarter.
- The Bank of England followed suit in the late summer, with another cut in the fall.
- After reaching post-pandemic peaks over a year ago, the U.S. Federal Reserve cut rates three times this quarter.
- The one major exception was the Bank of Japan. After increasing from negative levels earlier in 2024, the BoJ left interest rates unchanged in the quarter, which hurt the Yen.

Elections dominated the news, especially Trump in the U.S.

- Incumbents and their policies fared poorly. In addition to the U.S., that was seen in the U.K., Japan, France, India, and South Korea where either leadership changed, or incumbents saw meaningful setbacks.
- Incoming administrations generally promoted populist and domestically focused agendas.

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.

Across equity markets, the U.S. climbed sharply in November, offsetting weaker returns in October and December.

- The Russell 1000 Index's 3% performance in the fourth quarter added to significant prior gains, capping a 25% calendar year showing (large caps bested small and mid caps for the quarter and year).
- Non-U.S. markets retreated in the fourth quarter—in part on concerns of adverse future U.S. trade policies. The MSCI EAFE and MSCI Emerging Markets indexes each pulled back by -8%, with emerging markets ending the year up 8% vs. non-U.S. developed markets up 4% (ex-U.S., large and small caps were similar for the quarter, though large cap had the edge 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:

- 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, worries 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 future regulators have very mixed views on health care, and the market is concerned about the near term (globally, the Health Care sector fell -11% within the MSCI World Index this quarter).

Among U.S. small to mid cap growth stocks in the fourth quarter, the best returns were found among those with the highest risk (beta or volatility), lowest quality (return on equity), or highest valuation (P/E). Amidst this environment, the portfolio outperformed the Russell 2000® Growth Index in the fourth quarter, which led to outperformance for the year.

Our preferences in the Consumer-oriented sectors lean toward value-oriented or specialty retailers, franchise models, premium brands, or support services for other consumer companies. Booking a 29% gain was **Wyndham Hotels & Resorts**, one of the world's largest hotel franchising companies with a variety of midscale or economy brands and partners. An addition to the strategy during the summer, Wyndham recently reported inline results. More importantly, its management noted that revenue per available room (RevPAR) trends have stabilized and was optimistic about future RevPAR growth. As its price rose, we trimmed our position. Following the election results, there were various projections on the potential impacts of lower federal funding on different industries. That weighed on **Bright Horizons Family Solutions**, which provides employer-onsite childcare, early education and other family support services. Bright Horizons showed better-than-expected revenues and earnings, however, there was also some weakness with enrollment growth. We added to our Bright Horizons position as its shares retreated by -21%. 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. New to the strategy was **Chef's Warehouse**, a distributor of specialty food products to restaurants and caterers. While this segment saw macroeconomic pressures from shifting consumer activities, Chef's has done a better job than peers by adding new customers and expanding offerings to existing ones. Focused on higher-end dining, one of Chef's competitive advantages is providing high levels of customized service with salespeople who have culinary backgrounds.

Our preferences among Health Care stocks are those companies providing novel therapies for unmet needs that deserve premium pricing, or specialized service providers. This quarter, one contributor was **Intra-Cellular Therapies**, which develops small molecule treatments for neurological disorders. The company's results were as anticipated, with increased sales guidance for Caplyta. More importantly, Intra-Cellular noted it received positive feedback from the FDA regarding its supplemental application for Caplyta to treat additional indications of Major Depressive Disorder. That gave its shares a 14% lift. In September we started a position in **Vaxcyte, Inc**., a biotechnology developer of vaccines, when its lead pneumococcal vaccine candidate reported positive clinical data across a wider range of pneumonia types than current treatments. That created significant potential for Vaxcyte to take share within a multi-billion-dollar market. Concerns arose this quarter that the new administration's health care leadership would be hostile to vaccines, and Vaxcyte's shares traded down by -28%. We believe that Vaxcyte's products have proven their efficacy and expect the upcoming results from its clinical study on infants will confirm that. Thus, we added to our position on its weakness. Better was the 30% showing from **Vericel Corporation**, a biopharma developer of cellular products for tissue repair. Recent revenues and earnings each exceeded expectations as Vericel booked the highest quarterly sales yet for its Epicel procedure that creates skin grafts grown from a patient's own skin (typically for burn care). The company also expects approval in 2025 to expand its MACI therapy—currently used for knee cartilage—to other joints. Returning to the strategy was **Inspire Medical Systems**, which develops medical equipment to treat obstructive sleep apnea. Previously owned, we sold Inspire in August 2023 on concerns that the then-new obesity GLP-1 drugs would shrink the population of sleep apnea patients. We continued to

monitor the business, and Inspire's sale growth was steady with the company more recently improving its profitability. The GLP-1 impact was not as significant as many expected, and Inspire's new product launch in 2025 coincides with the 10-year replacement cycle for its initial system.

Many of our Industrials positions provide necessary business-to-business operational services, highly technical components, equipment enabling automation & efficiency improvements, or essential infrastructure services. One example was the leading global welding company **ESAB Corporation** with its 13% gain. ESAB surpassed expectations for revenues and earnings with growth from higher volumes and better pricing despite the challenging environment. The company continues to outperform peers with a robust new product offering and exposure to higher-growth end markets. Detracting from our results was **ICF International**, a government consulting firm with specialties for Energy, Health, Education, and Environment agencies. Because more of its exposure is to civilian agencies, and some of those programs are now targeted for budget reductions under the incoming administration, the market shaved off -29% from ICF's stock price. That was even though no single ICF contract was more than 2% of revenues and much of its work centers on IT modernization, which will be a focus for future efficiencies. From our subsequent discussions with ICF's management and its peers, we believe those concerns are excessive though we also think that uncertainty surrounding ICF's outlook will persist for the next year, so we exited our position. Better was **MYR Group Inc**., a leading specialty contractor serving the electric utility infrastructure, commercial, and industrial construction markets. Its revenues and earnings were higher than anticipated, with notable improvements in commercial and industrial margins as many of the problematic projects from previous quarters neared completion and MYR's backlog continued to rise. As its price climbed by 45%, we sold some of the shares that we had bought during the stock price's weakness in the late summer.

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. Leading off was **Credo Technology** and its 119% gain. Developing high-speed connectivity components for data infrastructure, demand steadily increased for Credo's highspeed Active Electrical Cables (AECs). As data center speed and complexity increase, AECs have displaced legacy copper connections and optical cables as the preferred component type. Then the company reported revenues and earnings that outpaced expectations, with a significant increase in its forward guidance. Many of the hyperscalers, such as Microsoft and Amazon, notably increased their use of AECs. With a significant price move, driven in part by current market sentiment, we trimmed our position. Offsetting that somewhat was the -3% showing from **FormFactor, Inc**., which manufactures consumable interfaces between semiconductors and testing equipment. Its revenues and earnings both exceeded expectations, though guidance for the remainder of the year was less than projected. We anticipated that FormFactor's management would reset short-term expectations, and we remain confident in its prospects for 2025. The company expects increased demand for its high bandwidth memory (HBM) products, which we also observe in the higher volume projections from those HBM manufacturers. Elsewhere, there was a 39% gain from **Vertex, Inc**., an end-to-end tax compliance software for large businesses. Vertex's revenues and earnings bested expectations, with increased guidance levels. Demand improved with an increase in annual recurring revenues as Vertex continues to gain enterprise-level clients who are modernizing their systems. We trimmed our position late in the quarter. 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 151%, we trimmed our position. Separately, we added **ServiceTitan, Inc**., a cloud-based software platform serving plumbing, electrical, HVAC, and related trade industries. We met with management earlier in 2024, prior to its announced plans to become a public company. ServiceTitan's end-to-end, vertically integrated system provides significant advantages to its customers, with limited current competition. We began buying with its December IPO and continued building the position subsequently.

Global markets likely will 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.

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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. From October 1, 2000 to November 18, 2004, the performance is that of the TimesSquare Inc. small cap composite. From November 19, 2004, the performance is that of the TimesSquare small cap composite which consists of all small cap accounts managed by the team at TimesSquare and TimesSquare Inc. There has been no change in the investment management responsibility or strategy from the prior firm.

This composite invests in stocks with market capitalizations at time of purchase generally within the range of capitalizations of stocks in the Russell 2000 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 90-120 stocks. Historical turnover has averaged 54% per year. Composite inclusion threshold $5mm. Fee basis is 100 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 small cap market as represented by the Russell 2000® 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 June 2012, TimesSquare had modified its purchase capitalization range to match the changes in the small cap market as represented by the Russell 2000® Growth Index at that time, with a change from $50 million to $1.5 billion at time of purchase to $50 million to $2 billion.

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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 Russell 2000® Growth – a market capitalization-weighted index that measures the performance of those Russell 2000® companies with higher price-to-book ratios and higher forecasted growth rates. All indexes, including the Russell 2000® 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 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.

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@tscmllc.com.

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