

## Global Small Cap Strategy

### Representative Commentary — 1Q25

Performance	Annualized					
	1Q25	1YR	3YR	5YR	7YR	Since Inception (1/1/2018)
Global Small Cap Composite (Gross)	-1.50%	1.08%	1.94%	10.03%	4.37%	4.35%
Global Small Cap Composite (Net)	-1.70%	0.28%	1.07%	9.08%	3.46%	3.44%
MSCI World Small Cap (Net) Index	-3.73%	-0.26%	1.55%	13.44%	5.31%	5.04%

*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.*

Expectations for businesses and markets were broadly positive as 2025 began. Hopes for a pro-business, lighter regulatory environment lifted global markets in January. However, delays and uncertainties regarding U.S. policies tempered markets in February and the U.S. pulled back sharply in March (to say nothing about the early part of April).

- In the first quarter, broad-based weakness of U.S. equities (-5% return for the Russell 3000 Index) lagged overseas markets (7% for the MSCI EAFE Index and 3% for the MSCI Emerging Markets Index).
- Even before the market's tariff tantrum at the start of April, there were inflationary pressures. Global Purchasing Manager Indices (PMIs) showed moderating New Order rates and higher Prices Paid/Output for manufacturing and service activities.
- While value indices outperformed growth, both Growth and Value had positive returns among global risk factors. It was the negative showing from Beta that overwhelmed everything else.

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.:
  - **Information Technology:** Reverberations remained from January's announcement that China's DeepSeek AI model could produce competitive results at a lower cost. Among corporate IT buyers, budget surveys pointed to more moderate spending (though with resilience expected for AI and cybersecurity).
  - Spending also slowed for **Consumers**, initially from creeping inflation and then March's level of U.S. Consumer Confidence fell to a four-year low.
  - The new regulatory environment in the U.S. was expected to support more activity among **Financial Services** companies. Instead, we have seen corporate America delay M&A activity or other large financing projects until there is more clarity regarding the fiscal budget, interest rates, and (most recently) trade policies.
  - The earlier noted weakness in PMIs led to pullbacks within the **Industrials** sector. Some longer-cycle areas or those with high degrees of recurring revenues have held up better. Companies that previously expected demand to recover in the second half of 2025, saw their hopes fade.
- In Europe:
  - **Inflation:** Relatively low unemployment and ongoing decoupling efforts (shifting away from China, Russia, and the U.S.) are contributing to inflationary pressures, which may restrict the ECB's ability to cut rates despite the region's long term weak economic growth.
  - **Technology:** Ongoing delays in large projects continue to limit visibility. We anticipate a more constructive second half of 2025 for the sector.
  - **Industrials:** While there is continued strength in long-cycle end markets such as electrification, aerospace and defense, and infrastructure, the broader Industrials sector is still awaiting a significant cyclical recovery.

- **In Japan:**

- **Interest Rates:** Banks have performed well due to increased expectations of Bank of Japan (BOJ) rate hikes. While we anticipate further rate increases, we believe the pace will be slower than market expectations.
- **Tourism & Consumer:** While export-oriented industries face headwinds from tariff uncertainties, Japan's robust tourism sector is providing significant support to retailers, restaurants, and hoteliers.
- **Electrical grid industry:** Following significant investor focus on the electrical grid ecosystem (utilities, components, installation) in early 2024, although we agreed with the underlying interest, we initially viewed the strong share price increases as unwarranted in relation to the economic reality. However, since then, share prices have moderated to more attractive levels.
- **Real Estate:** Despite our earlier expectation that the new NISA accounts would drive retail investor appetite for the sector's strong dividend yields, flows predominantly went into U.S. equities. With the Magnificent 7 losing momentum, the domestic real estate sector is beginning to attract renewed attention.

The Global Small Cap Portfolio outperformed the MSCI World Small Cap benchmark in the first quarter of 2025. This outperformance was supported by positive allocation effect across most regions. Strong stock selections in Europe and Japan also more than offset relative weakness in the Americas.

### **Regional Performance: The Americas**

The Americas was the largest regional detractor of both the portfolio and benchmark. Our underweight position in the region helped offset stock specific impact.

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. **JFrog Ltd.** provides a supply chain platform that enables organizations to store, update, and manage their software packages. Its shares rose 8% after they reported better than expected results across all key metrics. The combination of a growing partner ecosystem and comprehensive platform embedding security within a centralized hub for managing software has created a powerful value proposition for selling into large enterprises looking to consolidate development operations. The unwinding of the global AI trade negatively impacted **Astera Lab**, which designs semiconductor components for data centers that provide greater connectivity bandwidth at faster speeds. Valuation of Astera has come down significantly, with its share price tumbling -54%. However, we believe the fundamentals of the company remains strong. **Workiva**, a leading cloud-based compliance and regulatory reporting platform, delivered solid fourth-quarter results and guidance. Despite potential changes to the EU's CSRD reporting guidelines, management does not expect a material impact on Workiva's opportunities in the region. Despite this positive development, Workiva's share price declined -31%.

Many of our Industrial positions provide necessary business-to-business operational services, highly technical components, equipment enabling automation & efficiency improvements, or essential infrastructure services. **Tetra Tech Inc.** offers consulting and engineering services. Fiscal first quarter results topped Street projections. Revenue growth was highlighted by its state and local business, which surged on disaster response and water infrastructure projects. Despite these positives, forward guidance was only in line with the sell-side and that disappointed investors with the stock selling off by -23%. The newly established Department of Government Efficiency has created uncertainty for U.S. federal government work. On a positive note, Tetra Tech has been called upon to assist in disaster response work from the California wildfires. **ACV Auctions** offers a digital marketplace for wholesale vehicle transactions and data services. They reported a strong quarter with a beat to revenues. Underlying metrics including units and pricing were healthy. These demonstrate continued share gains. Despite these positives, ACV pulled back by -35% due to initial 2025 guidance that fell short of Street estimates. Management, which has a history of being conservative, is making incremental investments in technology and personnel. **Regal Rexnord Corp.** is engaged in engineering and manufacturing of factory automation subsystems, industrial powertrain solutions, mechanical power transmission components, and air moving products. Its shares dropped -26% after fourth quarter results came up short of estimates. Forward guidance factors in macroeconomic uncertainties, including tariffs and regulations. During the quarter, we initiated a position in **Karman Holdings**, which specializes in the upfront design, testing, manufacturing, and sale of mission-critical systems for existing and emerging missile and defense, and space programs. The company's broad program presence and customer base puts it in a unique position to benefit from the secular growth within space launch. Share price of Karman ascended 32% since it was added to the portfolio this quarter. Pulling back by -19% was **EMCOR Group**, which provides construction and operational services for mechanical and electrical systems to a broad range of commercial, industrial, utility, and

institutional customers. Although revenues were less than expected, earnings were better, and the company increased earnings guidance along with its share repurchase authorization for 2025. The underlying business trends remained strong, though there were some market concerns that EMCOR's activities tied to data center construction would slow. Previously, we had trimmed our position somewhat, seeing early signals of that sentiment shift, though as EMCOR's price fell, we began adding back given the strong demand the company saw.

### **Regional Performance: Europe**

Europe was the best performing region in the portfolio with positive contribution from Germany and Sweden and relative weakness in the United Kingdom.

A growing awareness in Europe points towards the need to decouple from foreign influences across various sectors. Following past discussions on energy independence and more recently on defense independence, concerns about tariffs are now highlighting the need for trade decoupling. Looking ahead, we anticipate a medium-term objective of greater European technology independence, viewing infrastructure like the cloud as strategic assets. As the quarter closes, the urgency to accelerate this decoupling trend in Europe appears to be growing significantly.

Case in point is the portfolio's top contributor, **RENK Group**, with its 150% surge. This German company is a global leader in mission-critical drive technology for land and naval defense applications, with civilian products used in marine, industrial, and energy transition sectors. The company reported a Marine order intake of almost €50M, and the Vehicle Mobility Solutions (VMS) segment secured three major orders worth over €400M. During the quarter, RENK Group was promoted to the MDAX index of the Frankfurt Stock Exchange from the SDAX segment, which further signified its growing market presence. Swedish defense manufacturer **Saab** also benefited from increased military spending and Europe's shift away from U.S. reliance, with its share price rising 85% this quarter. We trimmed our positions in both Saab and RENK Group due to their strong price performance.

The United Kingdom housed some of the portfolio's largest contributors and detractors. U.K. wealth manager **St. James's Place** continued on its path to recovery. The company reported solid inflows for the fourth quarter, and management confirmed its investment outlook. We trimmed our position as the stock gained 16% during the quarter. We reduced our position in food Ingredients company **Tate & Lyle**, which declined -16% during the quarter. Management lowered the earnings estimates as they were still experiencing pricing pressure and not yet seeing evidence of volume recovery.

### **Regional Performance: Japan**

Our Japanese holdings delivered performance in line with the benchmark's Japan return. We hold a balanced mix of leading businesses across various sectors of the Japanese economy. This makes our portfolio less sensitive, though not immune to macroeconomic factors such as FX, interest rates, and tariffs.

The expectation of rising BOJ interest rates drove strong performance in banks this quarter, highlighted by **Rakuten Bank's** 52% gain. However, while we expect the BOJ to continue raising rates, we believe the pace will be slower than market expectations. We have therefore pared our positions in Rakuten Bank and are currently slightly underweight Japanese banks. In contrast, **Integral**, Japan's only listed independent private equity firm, saw its shares drop -29% as the market anticipated a significant cost increase from rising rates. While the actual cost impact on Integral wasn't as severe as the market projected, we still decreased our position because the rising interest rates did lead to increased costs for the firm.

With tariff worries weighing on export related sectors, the portfolio was relatively shielded as the main export exposure is inbound tourism. **Food & Life Companies**, Japan's leading quick-service sushi chain, was a beneficiary of the strong growth in inbound traffic. The company announced first quarter results that surpassed both guidance and consensus estimates by a wide margin and drove its share price 40% higher.

### **Regional Performance: Emerging Markets**

Our Emerging Markets exposure was another source of strength. Brazil's **Embraer SA** designs and manufactures aircraft and parts for commercial, defense, and executive aviation sectors. Its shares surged 26% on the heels of an impressive fourth quarter highlighted by a beat to earnings, better commercial revenues, and impressive defense & security margins. The company delivered thirty-one commercial aircraft and forty-four executive jets during the quarter. We trimmed the position on this strength. We continue to increase our position in **Piraeus Financial Holdings S.A.**, the parent company

of Piraeus Bank S.A, a leading bank in Greece. The bank offers a comprehensive range of financial services to individuals and businesses. We are attracted to Piraeus's almost entirely domestic customer base, its best-in-class operations and product mix (a leader in fee/commission-generating products), and its compelling valuation relative to its peers. Share price of Piraeus leaped 37% during the quarter.

## **Conclusion**

To note that the global trade outlook and its ramifications across economies are “fluid” (the operative term for many current evaluations), seems an understatement. We see companies girding for greater turbulence before the waters calm. Hence when they incorporated the weakness from the first quarter and the “shock and awe” inflicted in early April, the U.S. Federal Reserve and the OECD lowered their projections for U.S. and global GDP growth. All of this has created significant price swings recently. In a few instances, we may find stocks that have so dramatically oversold that they warrant us adding to those positions. At the same time, we recognize the potential for additional rapid changes in government policies, so we are cautious about overreacting. As long-term investors, our portfolios have historically been more resilient to these types of market upheavals, and that investment approach has not changed. 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 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.*

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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 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@tscmlc.com](mailto:info@tscmlc.com).*

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