

International Small Cap Strategy

Representative Commentary — 1Q25

Performance	Annualized					
	1Q25	1YR	3YR	5YR	7YR	10YR
International Small Cap Composite (Gross)	5.54%	2.03%	1.13%	7.54%	-0.07%	4.77%
International Small Cap Composite (Net)	5.32%	1.06%	0.14%	6.49%	-1.05%	3.74%
MSCI EAFE® Small Cap (Net) Index	3.69%	3.10%	0.88%	9.89%	2.50%	5.33%

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 in April, there were inflationary pressures. Global PMIs showed moderating New Order rates and higher Prices Paid/Output for manufacturing and service activities.
- While value indices outperformed growth, both styles 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 Europe:**
 - **Inflation:** Relatively low unemployment and ongoing de-coupling efforts (shifting away from China, Russia, and the U.S.) may contribute to inflationary pressures, which could 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 Rate:** 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 real estate sector is beginning to attract renewed attention.

The International Small Cap Portfolio outperformed the MSCI EAFE Small Cap benchmark in the first quarter of 2025, driven by strong stock selection. This outperformance was supported by broad-based strength across most regions, particularly within the Consumer Discretionary and Industrials sectors.

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. One of the three leading stainless-steel producers in the Western Hemisphere, **Acerinox** saw its shares rise by 22%. The worst appears to be over for its European business, and destocking in the U.S. market seems complete. The company benefits from the prospect of increased steel protectionism in the U.S. (representing approximately 80% of its global stainless profits) and the EU's renewed focus on defense and infrastructure.

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. Software solution provider **Craneware** develops software applications that enable hospitals to capture more revenues, improve pricing, and save costs. Despite returning to double digit growth in revenue and adjusted EBITDA, shares of Craneware lost -13%.

In other parts of the European markets, during some intra-quarter weakness we added to our position in **Fortnox**, the Swedish provider of IT applications and solutions for small and medium sized companies had posted a strong fourth quarter. At the end of the quarter, a private consortium agreed to acquire Fortnox, and its shares soared 33%.

Regional Performance: Japan

Our Japanese holdings delivered performance in line with the benchmark's Japan return. This balanced mix of leading businesses across various sectors of the Japanese economy 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** 53% 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.

Water recycling services provider **Organo** reported third-quarter results in line with expectations and increased its operating profit guidance. However, the company lowered its order guidance due to delays in large Japanese projects and a downturn in legacy semiconductor and memory markets in China. This was partially offset by an upward revision of its order forecast in Taiwan, driven by rising demand from advanced semiconductor manufacturing. Consequently, Organo's share price declined by -18%.

We exited our position in **Rohto Pharmaceutical**, Japan's leading manufacturer of over the counter (OTC) health care products, which lost -17% while held in the quarter. Our initial investment in the first quarter of 2023 was based on the premise of strong management, strong brands and products, and a robust pipeline. While the investment showed early promise, our thesis deteriorated due to poor management communication with investors, a stagnation in innovation despite strong legacy brands, and the continued lack of progress in their clinical pipeline. Additionally, strategic missteps, such as venturing outside their core business to acquire a Singapore-based traditional Chinese medicine company, further weakened our conviction. While we believe in allowing companies time to prove themselves, this experience has reinforced our learning that early warning signs warrant a more cautious approach to building positions or a quicker reduction when issues arise.

Regional Performance: Asia Pacific ex Japan and Emerging Markets

Our underweight position in Asia Pacific ex Japan added to overall portfolio performance. Within the region, **Johns Lyng Group**, Australia's leading integrated building services provider reported disappointing results that fell short of their own guidance, despite recent positive statements from management. Furthermore, their U.S. business showed no positive progress. Having lost confidence in management, we exited our position, with a -28% share price decline during the holding period this quarter.

Our Emerging Markets holdings delivered mixed results. The unwinding of the global AI trade negatively impacted **Accton Technology**, a leading Taiwan-based manufacturer of white-box network devices and a top contributor in the fourth quarter of last year. Despite reporting better-than-expected margins and continued strong growth in ASIC, Accton's share price declined by -27% during the first quarter of 2025. 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

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@tscmlc.com.

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75 Rockefeller Plaza, 30th Floor New York, NY 10019
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