TIMESSQUARE CAPITAL MANAGEMENT, LLC

U.S. Small Cap Growth Strategy

Representative Commentary — 1Q25

Performance

			Annualized			
	1Q25	**1YR**	**3YR**	**5YR**	**7YR**	**10YR**
U.S. Small Cap Growth Composite (Gross)	-9.41%	-0.68%	1.95%	12.59%	7.32%	7.99%
U.S. Small Cap Growth Composite (Net)	-9.64%	-1.67%	0.94%	11.48%	6.26%	6.93%
Russell 2000® Growth Index	-11.12%	-4.86%	0.78%	10.77%	5.03%	6.14%

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, dissects recent earnings reports, and reviews the global landscape, they note several investment dynamics that guide our positioning:

- In **Information Technology**, reverberations remained from January's announcement that China's *DeepSeek* AI model could produce competitive results at a lower cost. That led to concerns about reductions in the massive spending rates on AI-related infrastructure (e.g., data centers), which weighed on semiconductors and related industries. 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.

Amidst this negative market environment, the portfolio outperformed the Russell 2000® Growth Index in the first quarter.

Our preferences in the Consumer-oriented sectors lean toward value-oriented or specialty retailers, franchise models, or premium brands. **Bright Horizons Family Solutions Inc.** provides early education and childcare services. Its share price advanced 15% after they reported a solid fourth quarter and gave encouraging guidance. Back-up care was the key driver, while full service has yet to fully rebound, though there have been green shoots in bigger cities aided by back-to-office trends. **Valvoline Inc.**, an operator and franchiser of vehicle service centers, slipped by -4%. Their fiscal first quarter revenues and profits beat Street projections due to improving transaction counts and better same store sales comparisons. They also announced the acquisition of Breeze Autocare, which operates 200 locations across 17 states. Though down, the stock outpaced the index sector average return of -17%. **Chef's Warehouse Inc.** is a specialty wholesale distributor serving restaurants, hotels, country clubs, and fine food stores. Their fourth quarter results were solid, and management cited growth opportunities in newer markets as well as category expansion. Management called out consistent demand strength across their customer base. We opportunistically added to the position when its shares pulled back in late March, though the stock still scored a 10% gain for the quarter. Membership warehouse club operator **BJ's Wholesale Club Holdings** rose 28%. In the latest quarter, higher profits and earnings came from better same store sales. Membership metrics and digital engagement were key growth drivers. **Boot Barn Holdings Inc.** is a specialty retailer of western and work-related footwear, apparel, and accessories. The December quarter results were in line with the company's preannouncement. Since then, Boot Barn's sales momentum has continued despite weather disruptions across retail. Tariff concerns have weighed on sentiment with the shares pulling back by -29%. **Freshpet Inc**., a producer and distributor of fresh refrigerated pet food, tumbled -43%. Mixed fourth quarter results included a miss to sales estimates and a beat to profits. We decided to reduce the position as there has been slower growth among lower- and middle-income households.

We often see the ebb and flow of the Energy sector tied to underlying commodity prices. In this area, we seek low-cost exploration & production companies with high-yielding acreage or specialized service providers. **Magnolia Oil & Gas Corp.** is an exploration and development company with operations in Texas. Its share price surged 9% after they reported solid fourth quarter results which included profits above the consensus on slightly better production, pricing, and operating expense management. **Cactus Inc.**, a manufacturer of highly engineered wellhead systems and pressure control equipment, retreated by -21%. Its shares were impacted by the combination of a slight miss to the latest quarter's results along with weaker guidance for its spoolable/flexible pipe business. Another consideration for the stock is that they historically produced half of their pressure control equipment in China and the balance in Louisiana. In recognition of the tariff risk, management built out capacity in Vietnam last year. That facility, which can handle their full US and China product volume, will start ramping up in the second quarter. New to the sector this quarter was **Infinity Natural Resources Inc.**, an exploration and production company with operations in the Appalachian Basin. The company possesses compelling acreage containing oil and natural gas, with strong production growth projections, and attractive well economics.

In the Financials sector we tend to avoid banks that face credit deterioration or rising deposit costs, preferring either asset managers or specialized insurance companies. **MVB Financial Corp.**, a provider of financial services to individuals and corporate clients, dropped -16%. In the fourth quarter, higher expenses and lower net interest income were partially offset by higher fees and a lower loan loss reserve provision. The bank improved their capital position through a sale leaseback transaction that included four branches. That capped a year in which they poured resources into building risk management and compliance controls amid heightened regulatory scrutiny for Banking-as-a-Service banks. MVB shrank its balance sheet given uncertainty over potential changes to deposit rules and exited its crypto line of business. **Hamilton Lane Inc.** is an alternative asset management firm. Earnings exceeded estimates stemming from solid expense discipline and higher incentive fees. Fundraising came in slightly below expectations. While its shares edged forward by 1% over the quarter, we opportunistically added to the position. Hamilton Lane is well positioned to benefit from growing secular demand for private asset investment strategies. New to the sector this quarter was **Paymentus Holdings Inc.**, a provider of cloud-based bill payment technology and solutions. They are taking share from legacy providers and home-grown systems.

Our preferences among Health Care stocks are those companies providing novel therapies for unmet needs that deserve premium pricing, or specialized service providers. **Insmed Inc.,** a biopharmaceutical company engaged in developing therapies for patients with rare diseases, rose 10%. Revenues from the latest quarter were consistent with management's projections. They also provided positive guidance for Arikayce, an antibiotic for treating Mycobacterium avium complex lung disease in adults and noted the FDA has granted priority review for Brensocatib for treating inflammatory diseases. **Intra-Cellular Therapies Inc.** is focused on the discovery and development of small molecule drugs that address underserved medical needs in neuropsychiatric and neurological disorders. The company agreed to be acquired by Johnson & Johnson, and we sold out of the position which climbed 54% for the time it was held in the quarter. **Soleno Therapeutics Inc.** is a clinical-stage biopharmaceutical company focused on developing novel therapeutics for rare diseases. The FDA granted approval of Vyvkat for treating Prader Willi syndrome, a rare genetic disorder that causes life-threatening obesity in children. That development served to boost the stock price by 60% and we decided to book some of the profits by cutting back on the investment. **Addus HomeCare Corp.** provides in-home personal care services. Despite outpacing fourth quarter estimates, its shares sold off by -21% on fears of cuts to Medicaid tied to the House reconciliation process. Of note, Addus does not believe their patient demographic of older adults and/or individuals with disabilities will be the focus of cuts. **Day One Biopharmaceuticals Inc.** develops and commercializes targeted therapies for patients with genetically defined cancers. Their lead drug Ojemda is used to treat certain types of brain tumors (gliomas) in patients six months and older. The launch has been promising with 280 patients on therapy in December. Despite its early success, there are concerns about the addressable market and prescribing patterns. We decided to sell out of the position, which declined by -35% for the time it was held in the quarter. There were two additions to the sector this quarter. **Ceribell Inc.** is a commercial-stage medical technology company engaged in transforming diagnoses and treatment for patients with serious neurological conditions. Its products enable early detection and management of seizure patients thereby enabling more precise patient care. **Verona Pharma** is focused on developing therapies for respiratory diseases. Their Ensifentrine received FDA approval for treating chronic obstructive pulmonary disease. The first two quarters of the product launch exceeded estimates.

Many of our Industrial positions provide necessary business-to-business operational services, highly technical components, equipment enabling automation & efficiency improvements, or essential infrastructure services. **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 31 commercial aircraft and 44 executive jets during the quarter. We trimmed the position on this strength. **Kratos Defense & Security Solutions Inc.** supplies technology products, systems, and software for defense, national security, and commercial markets. Their product mix includes hypersonics, missile defense, unmanned vehicles, space, and satellite communications. Profit margin was ahead of estimates and that contributed to an earnings beat in the fourth quarter. The company released a two-year guidance framework that calls for revenue growth as well as an increase in capital expenditures on areas such as hypersonics and Valkyrie drones. The other big news from management was the establishment of a joint venture with the Israeli company Rafael for a project called Prometheus Energetics to produce solid rocket motors. These developments served to lift its shares by 14% and we built up the position with rising conviction in the business. **AZEK Co.**, a designer and manufacturer of wood alternative building products, edged forward by 3%. In March, the company announced they entered into a definitive agreement to be acquired by Australia-based James Hardie Industries in a cash and stock deal. **Casella Waste Systems Inc.** is a vertically integrated solid waste services company. Its stock price improved by 5% despite a mixed earnings report that included higher revenues, though lower-than-expected profits. Pricing and volume growth were favorable in the resource solutions business, while solid waste generated a modest upside with better pricing. Lower margin acquisitions and an unfavorable mix shift weighed on profits. **ACV Auctions Inc.** 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. **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 -25%. 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.

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 9% 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. We added to the position over the quarter. **FormFactor Inc.** provides test and measurement solutions to the semiconductor industry. We exited the position due to incremental restrictions on its business with China as well as general weakness in semiconductor volumes. The stock was down -27% for the time it was held in the quarter. After a strong run, the shares of **Vertex Inc.** tumbled -34%. This end-to-end tax compliance software solutions provider reported fourth quarter results that were mostly in line with Street projections. However, their forward-looking profit estimates were below as the company is accelerating investment opportunities to take advantage of the demand they see for e-invoicing and AI products. Commentary on the demand environment was constructive. We added to the position on this weakness. **Impinj Inc.** operates a cloud connectivity platform in the Americas, Asia-Pacific, Europe, the Middle East, and Africa. We decided to liquidate the position because this company entered an inventory correction phase and those tend to be multiple quarter events. Its shares fell -28% for the time it was held in the quarter.

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.

General Disclosure:

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.

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 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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