TimesSquare Capital Management, LLC

U.S. Small Cap Growth Strategy

Representative Commentary — 3Q22

Performance

			Annualized			
	3Q22	**1YR**	**3YR**	**5YR**	**7YR**	**10YR**
U.S. Small Cap Growth Composite (Gross)	3.53%	-27.29%	4.89%	6.76%	9.03%	10.26%
U.S. Small Cap Growth Composite (Net)	3.28%	-27.99%	3.88%	5.72%	7.97%	9.19%
Russell 2000® Growth Index	0.24%	-29.27%	2.93%	3.59%	7.12%	8.80%

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.

Global markets—using the MSCI World Index as a proxy—began the third quarter in fine fashion (up 8% in July) but stumbled (down -4% in August) and then fell further (-9% in September). For the full quarter, the greatest discomfort was in emerging markets with a -12% return, followed by relative improvements in developed non-U.S. markets with its -9% showing, and -4% for the U.S. Measures of global economic activities fell to the demarcation line between expansion and contraction—with manufacturing showing greater weakness than services though both noting slower rates of new orders. That ebbing tide contributed to falling prices among commodities, especially oil and natural gas.

Central banks commanded investor focus during the quarter as they continued constricting their respective monetary supplies. Setting the pace, the U.S. Federal Reserve increased rates twice during the third quarter at 75-basis-point increments to a new range of 3.00% to 3.25%. There also were a pair of hikes from the European Central Bank, which made its first increase since 2011 in July and followed that with another in September, swinging European interest rates from negative territory to the current 0.75%. Other money centers shadowing those moves included Switzerland, which lifted its interest rates above 0% for the first time since 2014. The one notable holdout remained Japan, which was steadfast in maintaining its negative interest rate policy, though the Bank of Japan bought yen for the first time in over 20 years to buoy its falling currency. Currency woes also knocked the U.K. late in the quarter—bringing its pound to all-time lows vs. the U.S. dollar—as new Prime Minister Truss unveiled an economic stimulus plan that included significant tax cuts (in response to the market reaction, that portion of the plan was withdrawn). Despite all those actions, global inflation rates remained at elevated levels.

Across the U.S. equity landscape, investors backed either prior winners or potential hyper-growth areas. On the surface, the Russell value indexes were punished more than growth and there were steadily worsening returns as size increased (from the microcap to the megacap indexes). Underlying that, the influence of the growth style was neutral while value was negative; stocks with high exposures to market sensitivity or momentum reaped relative benefits. Among small and mid cap growth stocks, there were positive returns for stocks with high valuations and higher growth rates for sales. Despite falling commodity prices, the Energy sector remained relatively strong while Real Estate and Consumer Staples especially lagged. Also notable was that Health Care had positive returns for small caps, led by the Biotechnology industry, but both were below average in mid cap, where stocks in that industry and sector tend to be more mature in their growth profiles.

During the third quarter, the portfolio outperformed the Russell 2000® Growth Index. There was weakness in the Financials and Health Care sectors that was more than offset by strength in the Industrials, Consumer Staples, Consumer Discretionary, and Information Technology sectors.

A gyrating market led to price retrenchments among our Financials sector holdings this quarter. That caused an -11% retreat in the shares of **Hamilton Lane**, which provides private markets investment services. There were some market concerns about the challenging distribution environment for private equity firms seeking to monetize their investments, even though that type of activity was not a material influence on Hamilton Lane's services. Though some investors viewed Hamilton Lane through the same evaluation lens as publicly traded private equity firms, its business is significantly different. Rotating back to positive were the shares of **Silvergate Capital.** Providing financial infrastructure solutions and services for the digital currency industry, Silvergate reported improvements in net interest income from deposit growth and lower expenses, that combined to produce better-than-expected earnings. After a difficult spring, Silvergate bounced back by 40% this quarter and we trimmed our holdings. Among other trading activity in this sector, we exited our position in the independent investment bank and research provider **Evercore Inc**. Amidst a challenging backdrop, Evercore had offset the decrease from mergers & acquisition activity by expanding its restructuring and private capital advisory services. However, we were concerned about Evercore's near-term prospects. As market prices ebbed, we found the opportunity to reestablish a stake in **ProAssurance Corporation**, which provides medical liability insurance to practitioners throughout the U.S. Owned in the strategy several years ago, this high-quality business had pulled back to attractive levels.

The Health Care sector provided no balm to our performance in the third quarter. One area of pain was **Azenta, Inc**., which was the strategy's greatest detractor. A designer of cryogenic solutions for the life science industry, Azenta's recent results met expectations, though management lowered its guidance for the next quarter. The lingering effects of COVID in China, which caused sporadic shutdowns there, dampened that research market and its demand for Azenta services. There were also some investor concerns about the future benefits from Azenta's planned acquisition of a European cold chain logistics company, though we are optimistic about its long-term prospects. However, this quarter Azenta's shares retreated by -41%. Slipping by -18% was **Intra-Cellular Therapies**, which develops small molecule treatments for neurological disorders. The company reported revenues that were better than expected, though earnings were lower. There was an acceleration of sales for Caplyta, a treatment for schizophrenia and bipolar depression. However, some investors appeared concerned that as Caplyta volumes increased to a higher level that the rate of growth will slow. We view the projected growth trajectory positively, as well as Caplyta's potential for use in other indications, so we added to our position. Several medical device holdings fared better, including the 45% gain from **Shockwave Medical.** Developing intravascular devices for calcified cardiovascular diseases, Shockwave's revenues and earnings outstripped expectations. There were increased sales of its C2 coronary catheter system following a resumption of medical procedures. International sales also improved, and management increased its guidance for the balance of the year. We trimmed this position on its strength.

Turning to areas of strength, there were benefits from the Industrials sector. Here we saw a 12% gain from **RBC Bearings**, which manufactures and markets custom bearing products. RBC's price had run up ahead of its earnings report and we trimmed the position because it was close to our target. The company then reported revenues and earnings that fell shy of expectations, as did the guidance for the subsequent quarter. Orders from its aerospace & defense clients were particularly strong, though RBC's business is in the process of shifting more toward the industrial markets with a recent acquisition. Though we appreciate the quality of RBC's operations, we continued to trim the position out of caution. Countering some of that gain was the -24% slip from the global welding company, **ESAB Corporation.** While ESAB's revenues and earnings were better than expected, the guidance for the balance of the year was lower. A spinoff from a larger company in the spring (when we initiated our position), ESAB has a limited sellside following and recently began excluding its Russian operations from its reporting, which can cause short-term price volatility. However, ESAB successfully increased prices for its welding equipment and sees opportunities in Europe and the emerging markets. We continued to build our position during this quarter's price weakness. Back to the positives, there was **Regal Rexnord Corporation** that specializes in motion control systems, climate solutions, and similar mechanical components for a variety of end markets. Regal reported better-than-expected revenues and earnings, plus management raised its guidance for the remainder of 2022. Though order volumes declined, that change was still better than feared and all its business lines showed organic growth from better prices. That produced a 24% lift for Regal's shares.

The strategy was aided by the Consumer Discretionary sector as well. Boasting a 68% return was **Wingstop, Inc**., the franchisor and operator of quick service restaurants for cooked-to-order chicken wings. Though recent revenues lagged expectations, earnings exceeded them on better cost controls. Wingstop plans significant growth with new channels for delivery—such as Uber Eats and DoorDash—and a new chicken sandwich offering. The latter quickly took off, and later in the quarter Wingstop announced it sold four weeks of inventory in only six days. Fitness fared less favorably than fried food for franchises. For the former, there was a -15% decline from **Planet Fitness**, which franchises fitness centers across the U.S. Planet Fitness reported revenues and earnings that were less than anticipated. Activities at the centers were stable, though equipment sales declined—mostly from a lack of supply from Chinese manufacturers. In addition, some marketing

expenses temporarily increased, which pinched margins. We believe that both of those influences should wane; meanwhile the company's core business was growing steadily. Seeing a brighter result was **National Vision**, a value-oriented optical retail chain providing eye exams, eyeglasses, and contact lenses. The company's revenues and earnings exceeded expectations as initial back-to-school activities were beneficial. National Vision also repurchased 2.6 million shares and the net result was a 19% share price climb.

A final area of strength was the Information Technology sector. This was home to the strategy's greatest contributor, **BTRS Holdings**, which provides a cloud-based integrated payments platform, known as Billtrust, to streamline business-to-business commerce. At the end of the quarter, BTRS agreed to be acquired by a private equity fund in an all-cash deal. That lifted its shares by 86%. Another acquisition target was **EVO Payments**. This international merchant acquirer & payment software provider agreed to be acquired by a larger firm in that industry, and its shares rose by 42%. Offsetting that somewhat was the -27% showing from **Integral Ad Science,** which provides digital advertising verification services. Although revenues and earnings met expectations, management reduced its guidance for the rest of the year. Weakness from a potential recessionary environment may delay starting recent deals or otherwise elongate the sales cycle. We expect Integral to continue its strong growth path with healthy margins, so we added to our holdings. Better results came from **Paycor HCM, Inc**., a leading software-as-a-service provider of human capital management solutions for small and medium-sized businesses. Demand was strong, leading to growth in bookings, larger clients, and higher per-employee-per-month service levels. That prompted Paycor's management to provide better-than-expected guidance for the next fiscal year and supported a 15% gain this quarter. We added to our position later via a secondary offering that caused temporary intra-quarter weakness.

Surveying the remainder of 2022, there seem to be many uncertain balances ready to tip either way. With nearly all central banks well on the quantitative tightening path, there are concerns whether they might raise rates too high too fast, as well as worries that they may pivot and begin easing too soon. Many economies across the globe teeter on the edge between expansion and contraction with the determining factor appearing to be new order demand, which has not yet fully recovered. Across our investment universe, companies are concerned about a future recession, and many have taken precautionary steps for a more challenging future business environment. Our bottom-up analysis and discussions with company management teams aim to find holdings that can be resilient whichever way the scales tilt. As always, we are available for any questions you might have as we endeavor to protect the assets you have entrusted with us.

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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Composite & Performance Disclosure:

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. Russell Investment Group is the source and owner of the Russell Index data contained or reflected in this material and all trademarks and copyrights related thereto.

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.

Effective 04/01/2015, TimesSquare removes accounts from this composite 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 01/01/2017, the significant cash flow policy has been removed.

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 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 management fee of 1.00% charged by TimesSquare to separately managed institutional accounts in this composite. 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.