

## Global Small Cap Strategy

Representative Commentary — 4Q25

Performance	Annualized						
	4Q25	YTD	1YR	3YR	5YR	7YR	Since Inception (1/1/2018)
Global Small Cap Composite (Gross)	0.73%	21.74%	21.74%	14.93%	5.17%	10.40%	6.72%
Global Small Cap Composite (Net)	0.53%	20.79%	20.79%	13.99%	4.28%	9.45%	5.80%
MSCI World Small Cap (Net) Index	2.83%	19.88%	19.88%	14.48%	7.13%	10.91%	7.46%

*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.*

In the fourth quarter, markets navigated a complex backdrop of geopolitical tensions and domestic policy shifts.

- Central banks around the world adopted divergent approaches to interest rates: the Federal Reserve delivered rate cuts in both October and December, signaling a pivot toward supporting a softening labor market. Meanwhile, the European Central Bank (ECB) held its benchmark interest rate steady, and the Bank of Japan raised rates to 0.75%, marking a 30-year high.
- The "AI trade" encountered headwinds as investors questioned return on massive capital expenditures and the circular financing arrangements enabling them.

After years of U.S. equity outperformance, international markets led the way in both the fourth quarter and for the full year 2025. The Russell 3000 Index gained 2% for the quarter and 17% for the year, trailing the MSCI EAFE and MSCI Emerging Markets Indexes, which posted 5% quarterly returns and surged 31% and 34%, respectively, for the full year. For the quarter:

- Value indexes outpaced growth in the developed world while Emerging Markets remained a growth-led story.
- Among global risk factors, Beta, Momentum, and Earnings Yield enjoyed positive performance, while Residual Volatility, Profitability, and Liquidity were punished.

As our investment team meets with companies, dissects recent earnings reports, and reviews the global landscape, they note several investment dynamics in various market segments that guide our positioning:

- **United States: Low Quality Bias and Early-Cycle Rotation**
  - **Stimulus and Early-Cycle Rotation:** U.S. economic activity remained resilient in Q4, with GDP growth exceeding expectations even as the labor market softened—reinforcing the Fed's decision to cut rates in October and December. While earnings were generally healthy, PMIs stayed stagnant. With additional rate cuts and early-2026 fiscal stimulus on the horizon, we are seeing clear signs of an early-cycle rotation.
  - **Low quality bias:** The late-year rally exhibited a distinct "low-quality" bias, particularly across small-to-mid-cap stocks. Investors disproportionately rewarded companies with low Returns on Equity (ROE), often overlooking fundamental profitability. This trend was most pronounced among small-cap growth stocks, where non-earning companies were highly rewarded.
- **Europe: Sovereignty and Reinvestment:**
  - **Technological Sovereignty:** The European mandate for independence has evolved beyond energy (decoupling from Russia) and defense (reducing U.S. reliance). We are now seeing a strategic push for technological sovereignty, driving increased domestic investment in technology.
  - **Reinvestment Cycle:** Large-scale spending packages scheduled for 2026 are expected to create significant tailwinds for infrastructure and defense. While the defense sector saw short-term volatility in 2025, visibility

into future earnings remains high, supported by record-level order books. This fiscal support is also beginning to spill over into the IT services sector, signaling early signs of cyclical demand recovery.

- **Japan: The “Takaichi Trade” and Structural Shifts**

- **Consumer Sentiment & Opportunity:** Record inbound travel boosted gains in consumer-related segments in early 2025. However, recent geopolitical tensions and a subsequent decline in Chinese tourism have created significant headwinds for these "inbound beneficiaries" and consumer brands with China exposure. We view this temporary weakness as an opportunity to acquire high-quality consumer assets that have been disproportionately affected by shifts in China sentiment.
- **Energy and IT Modernization:** Conversely, Takaichi’s reform agenda emphasizes energy independence and digital transformation. After years of underinvestment, increased allocation toward energy infrastructure and IT appear structural, creating a compelling long-term growth runway for companies aligned with Japan's national security and efficiency goals.

The Global Small Cap Portfolio underperformed the MSCI World Small Cap benchmark in the fourth quarter of 2025. The portfolio’s positive exposure to Profitability and negative exposure to Book-to-Price, Dividend Yield, and Earnings Yield were the largest factor detractors. On a regional basis, Asia Pacific Ex Japan contributed to the relative performance while holdings in the Middle East, Japan, and Europe lagged.

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

Holdings in the Americas slightly underperformed the benchmark’s regional return.

Our preferences in the Consumer-oriented sectors lean toward value-oriented or specialty retailers, franchise models, or premium brands. Automotive aftermarket product producer and service provider **Valvoline** posted a solid quarter and showed resilient demand with no signs of deferral or trading down from its customers. However, shares declined -19% as investors expressed concern regarding the Breeze acquisition, which has pressured EBITDA margins more significantly than initially anticipated. Additionally, in November the FTC forced Valvoline to divest 45 of the 200 stores it initially planned to acquire from Breeze to obtain antitrust approval for the transaction. **Performance Food Group**, a food products distributor operating through its Foodservice and Vistar (snack & beverage) segments, declined -14%. While food service account growth continued, orders from existing chains remained weak nationwide. Performance was further impacted by headlines about a potential takeout that briefly surfaced but were later dismissed.

Among the wide variety of Information Technology companies, we prefer critical systems providers, specialized component designers, systems that improve client productivity or efficiency, and others that are growing their share of corporate IT budgets. **JFrog** was the portfolio’s strongest performer this quarter. The company manages the software supply chain and enables organizations to securely deliver software updates across their enterprise. Demand for security increased following the recent NPM supply chain attack. JFrog's security add-on—which secures open-source packages before organizations onboard them—has seen significant pipeline growth, driving a 32% rally in their shares. **MACOM Technology**, an analog semiconductor solutions provider, bested expectations for revenues and earnings, with management increasing its guidance for the next quarter. Shares climbed 38%, and we trimmed our position. Designing, developing, and producing high-performance control metrology, defect inspection, lithography, and data analysis systems that are used by microelectronic device manufacturers, **Onto Innovation** rose 22% after posting better-than-expected third-quarter results and guiding above consensus for the fourth quarter. During the quarter, the company also announced the successful closing of Semilab’s materials analysis business, updating guidance to reflect its partial-quarter contribution. **Clearwater Analytics**, a SaaS provider for automated investment data and accounting, rose 34% in December following the announcement of its acquisition by a private equity consortium. A new addition to the sector this month is **Braze**, a customer relationship management platform that enables large brands to leverage first-party customer data to communicate with and market to existing customers in a highly personalized, real-time manner across multiple digital channels. Its application combines messaging, audience segmentation, analytics, and user support in a single integrated solution.

Elsewhere, a provider of post-acute healthcare services including specialized rehabilitation treatment, **Encompass**, reported modest beat amid tough year-ago comparables, however, results were deemed insufficient to justify the stock’s premium valuation, leading to a -16% decline.

## Regional Performance: Europe

Positive performance in the region was supported by strong stock selection in Italy while relative weakness in Germany and the United Kingdom offset the gain.

After strong performance in the first half of the year, headlines regarding the conflict in Ukraine heightened volatility across the defense sector—even though Europe’s structural defense needs extend well beyond the immediate conflict. Earlier in the year, we trimmed our sector weights due to valuation concerns; however, in the second half, we began increasing exposure as visibility beyond 2030 started to improve. Specifically, we increased our position in **RENK**, a German global leader in mission-critical drive technology for land and naval applications, while the stock was down -39%. Long-term, we believe RENK will continue to benefit from Europe’s defense rearmament. Furthermore, the company’s recurring aftermarket exposure, long-cycle order book, and modular production model provide strong earnings visibility and free cash flow generation, notably without requiring major capex expansion to meet incremental demand.

On the topic of energy transition, France-based **Technip Energies** is one of only a handful of companies that can build liquefied natural gas (LNG) plants. The share price of Technip declined -19% as the company’s Q3 results disappointed the market due to lower-than-expected revenue in its TPS (Technology, Products & Services) division. We added to our position on this price weakness given the strong longer-term outlook.

Many of the portfolio’s structural compounders continue to move up the value chain. **Games Workshop**, a global leader in tabletop miniature gaming, delivered another standout first-half performance. Later in the quarter, *Total War: Warhammer 40,000* was officially announced, which will bring the sci-fi universe of 40k to the large-scale strategy gameplay that the *Total War* franchise is known for. The company’s robust 50p dividend (taking the total YTD to 375p vs. 265p in 2024) also helped push its share price 32% higher.

## Regional Performance: Japan

Our Japanese holdings underperformed the benchmark's country return due to stock selection.

We entered the year with a tilt toward consumer-related sectors, capitalizing on record inbound tourism and robust domestic spending. However, following the election of Prime Minister Takaichi and a subsequent rise in geopolitical friction with China, we saw a measurable contraction in inbound tourist volumes. On the contrary, the administration’s vocal support for energy independence and technological advancement has provided a strong tailwind for our holdings in these sectors. We remain high conviction in these areas, as we view them as structural growth engines that are resilient to shifts in political leadership and broader macro volatility. As a result, throughout the year, we built positions in grid-related names such as SWCC. A leading manufacturer of components for the electrical, infrastructure, and communications sectors, **SWCC** reported a beat and raise quarter. This was driven by a recovery in energy infrastructure and accelerating demand for optical ribbons. Shares appreciated 25% following the announcement.

Weakening October deposit and near-term net interest income weighed on shares of Japan’s leading digital bank **Rakuten Bank**, which dropped -22%. **Integral**, Japan's only listed independent private equity firm, declined -16%. We believe this weakness stems from a lack of local market appreciation for the private equity (PE) business model, a sentiment exacerbated by limited sell-side analyst coverage. We maintain high conviction in the company, as we believe the market will eventually re-rate the stock to reflect its strong fundamental performance and economic reality.

## Regional Performance: Middle East

Positive allocation effect from our overweight position was offset by stock selections. The share price of access security solutions provider **CyberArk Software** fell -8%, despite reporting strong third quarter results. The stock is now closely linked to Palo Alto Networks following its stock and cash acquisition offer. Despite a modest 3Q earnings beat from Palo Alto Networks, its shares pulled back in the quarter, driving the decline in CyberArk.

## Conclusion

As we enter 2026, the global landscape continues to evolve, shaped by trends toward national economic resilience and shifting trade dynamics. We are currently awaiting a Supreme Court decision on the Trump Administration’s tariffs; should the court rule against the current measures, we expect the administration to pivot toward alternative trade enforcement frameworks. The implementation of the "One Big Beautiful Bill" is projected to drive higher consumer tax refunds and more corporate capital spending. Furthermore, we anticipate a significant acceleration in AI adoption as the

year unfolds. Regional frictions—from Venezuela to maritime tensions in the Pacific—continue to elevate geopolitical uncertainty. Through this complexity, we remain focused on the fundamentals, seeking those steady management teams capable of creating economic growth at their companies, which we believe will be rewarded over time by the markets. As always, we are available to answer any questions you may 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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