

## International Small Cap Strategy

### Representative Commentary — 4Q25

Performance	Annualized						
	4Q25	YTD	1YR	3YR	5YR	7YR	10YR
International Small Cap Composite (Gross)	-1.64%	31.43%	31.43%	14.75%	2.40%	7.68%	6.27%
International Small Cap Composite (Net)	-1.85%	30.35%	30.35%	13.69%	1.42%	6.64%	5.24%
MSCI EAFE® Small Cap (Net) Index	2.68%	31.83%	31.83%	14.94%	5.62%	9.14%	7.49%

*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 the near-term return on massive capital expenditures.

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, each of 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 dynamics in various market segments that guide our positioning:

- **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 International Small Cap Portfolio underperformed the MSCI EAFE Small Cap benchmark in the fourth quarter of 2025. The portfolio's positive exposure to Profitability and negative exposure to Book-to-Price and Dividend Yield were the largest factor detractors. On a regional basis, Asia/Pacific ex Japan contributed to the relative performance while holdings in Europe and Japan lagged.

### **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%, 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. Conversely, delays in UK government spending acted as a major headwind for **Chemring**, a leading producer of systems used to protect air, sea, and land platforms from missiles. Chemring's share price fell -20% as the company faced a weaker period for its sensors and information segment due to these procurement delays.

On the topic of energy transition, France-based **Technip Energies** is one of only a handful of companies capable of building liquefied natural gas (LNG) plants. The share price of Technip declined -19% as the company's third quarter 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. As a global leader in the production and distribution of small domestic appliances, such as espresso coffee makers and kitchen appliances, **De'Longhi** continues to grow its brand awareness and market share. Management focuses on innovation, distinctive design, and cutting-edge solutions to maintain its leadership position. After the company delivered another strong quarter, driven by the expansion of its professional business and household coffee segments, its share price improved by 19%. **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. Germany-based **IONOS** is a leading European data center owner and operator, holding #1 or #2 market positions in its core regions. The company provides essential, affordable digital infrastructure and web-presence tools tailored for small and medium-sized businesses. The share price dropped -33% following a revenue miss primarily attributed to the AdTech division as the business goes up for sale. Investor uncertainty has been further compounded by the unexpected departure of the CFO. The world's largest manufacturer of high and ultra-high-pressure pumps, **Interpump**, delivered solid results, demonstrating a stronger-than-expected recovery in the hydraulic division and improving profitability. Shares of Interpump ascended 20% as a result.

### **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. Our conviction remains high 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** and increased our exposure to semiconductors/technology through companies like **Organo** and **Rigaku**. 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. A specialist in X-ray metrology and analysis, **Rigaku** saw its share price lift 29%. Despite softer first half results, the company maintained market share in key areas. Sentiment was bolstered by the news that Kioxia and Kioxia Iwate selected the XTRAI A MF-3400 for their 3D NAND flash mass production lines. Water recycling services provider **Organo** reported better-than-expected second quarter results. Shares rose 8% on continued uptrend in orders and a positive investment outlook in the semiconductor market.

Foreign exchange was a significant headwind for **Appier**, an AI-powered SaaS company focused on business decision-making. The company reported weaker-than-expected results, driven by an increasing mix of e-commerce clients whose budget execution is heavily concentrated in the fourth quarter. Additionally, Appier experienced decelerating growth within its mobile gaming vertical, creating uncertainty regarding its mid-term profit growth trajectory. We subsequently exited the position, which declined -34% while it was held during the quarter.

Weakening October deposit and near-term net interest income weighed on shares of Japan's leading digital bank **Rakuten Bank**, which dropped -22%. We added to our position on price weakness. **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: The Americas and Asia/Pacific Ex Japan**

Relative strength within our Asia/Pacific Ex-Japan holdings helped offset weakness across our Americas holdings.

Within the benchmark, junior gold miners performed well; our decision not to hold these speculative names dampened relative performance for the period. However, we remain committed to **OR Royalties**, as we believe their royalty and streaming model offers a superior risk-adjusted profile. Management continues to excel in acquiring high quality precious metal assets in mining jurisdictions, focusing on producing assets or assets that can begin production within a 5-year horizon. Having trimmed our position in October following strong year-to-date performance, we opportunistically added back to the holding during November's price weakness with the stock down -12% for the quarter.

As Australia's leading "Testing, Inspection, and Certification" (TIC) business, **ALS** provides laboratory and testing services to the commodities, life sciences & food, and industrial sectors. Shares of ALS rose 12% after the company reported robust first-half results and raised its group organic growth guidance.

### **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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### **General Disclosure:**

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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](mailto:info@tscmlc.com).

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