

## International Small Cap Strategy

Representative Commentary — 3Q25

Performance	Annualized					
	3Q25	1YR	3YR	5YR	7YR	10YR
International Small Cap Composite (Gross)	4.84%	21.07%	20.34%	6.31%	4.60%	7.19%
International Small Cap Composite (Net)	4.63%	20.02%	19.21%	5.29%	3.59%	6.15%
MSCI EAFE® Small Cap (Net) Index	6.20%	17.65%	19.63%	8.46%	6.05%	7.91%

*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 third quarter, except for fixed income outside the U.S., all major assets classes had positive returns.

- Global economic activity measures lifted into expansion territory and solidly remained there (though U.S. metrics lagged the rest of the world).
- As widely expected, the U.S. Federal Reserve reduced its rates by 25 basis points in September while the Bank of England did so in August.
- The global game of “tariff tit for tat” continued, adding greater than usual uncertainty and weighing on levels of consumer sentiment or confidence.

Equities continued their upward march with the U.S.’s Russell 3000® Index climbing 8%, ahead of the 5% return for the MSCI EAFE Index though lagging the 11% gain for the MSCI Emerging Markets Indexes. Among global risk factors, Beta, Residual Volatility, and Earnings Variability were highly rewarded, while Profitability and Growth were punished or ignored.

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:

- **In Europe:**
  - **ECB:** The ECB held interest rates steady in September, with inflation near its 2% target. Economic growth in the region remains subdued, potentially facilitating further ECB rate cuts.
  - **European “Sit-Rep”:** Europe has traditionally been more “reactive” than “proactive”. However, we are starting to see a softening of European regulation, which may signal a shift towards a more “pro-growth” stance.
  - **Infrastructure Revival Spending on the Horizon:** Supported by its landmark spending plan, Germany is expected to invest over €126 billion in 2026, with significant allocations for transportation and broadband. We are closely monitoring corporate Germany’s readiness to capitalize on this economic boost.
  - **Intraregional and Extra-regional Geopolitics:** These remain meaningful influences for Europe.
- **In Japan:**
  - **Next Prime Minister:** With Prime Minister Ishiba’s resignation in September, Sanae Takaichi is set to become Japan’s first female prime minister after winning the presidency of the ruling party. A protégé of the late former Prime Minister Abe, Takaichi’s “high-pressure economy” policy stance emphasizes boosting investment and demand through stronger public-private partnerships.

- **Continued Impact from Corporate Reforms:** Strong corporate results and the lower-than-expected impact of U.S. tariffs drove the Nikkei 225 to a historic high in August 2025, surpassing its 1989 bubble-era peak.
- **Inflation, Interest Rates, and Trade:** Amid elevated inflation and lingering trade uncertainties, the BOJ signaled its intent to further pursue interest-rate hikes. The election of Takaichi could potentially further delay such rate hikes.
- **Continued focus on domestic upgrading and investment:** Japan continues to heavily invest in digital transformation, infrastructure upgrades, and workforce productivity. These investments are particularly incentivized by challenges related to labor recruitment and talent shortages.

The International Small Cap Portfolio underperformed the MSCI EAFE Small Cap benchmark in the third quarter of 2025. The portfolio's negative exposure to Book-to-Price and Earnings Variability were the largest factor detractors. On a regional basis, Japan and Asia/Pacific ex Japan lagged while holdings in the Americas and Emerging Markets contributed to relative performance.

### **Regional Performance: Europe**

Positive performance in the region was supported by strong stock selection across Germany, Italy, and the United Kingdom, while relative weakness in France and Denmark partially offset some of the gain.

Political uncertainty in France weighted on stocks in the country. Cases in point are **Sopra Steria** and **Ipsos**, which lost -22% and -14%, respectively. **Sopra Steria**, a leader in digital transformation and IT services, benefits from high recurring revenues and exposure to structural growth areas like European defense. However, the company's 40% revenue exposure to France has increased our short-term concern. Reduced visibility, stemming from difficulties in passing the French state budget and exacerbated by the unplanned CEO departure, has led us to adopt a more prudent stance for the near term, despite liking the company's strategy of moving up the value chain toward consulting. **Ipsos** is a global leader in survey-based market and social research. The company reported a modest recovery in the first half of 2025, with improvements across all regions. While EBITDA declined year-over-year due to negative impact from FX and recent acquisition, management reaffirmed guidance and highlighted a positive top-line turning point.

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, concerns about tariffs are now highlighting the need for trade decoupling. Looking ahead, we anticipate a medium-term objective of greater European technology self-determination, viewing infrastructure the cloud as strategic assets. The portfolio's top contributor for three consecutive quarters, **Renk Group**, delivered another strong quarter with its 29% leap. 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. We trimmed our position on this price strength. A global leader in innovative steel and metal machinery manufacturing, the share price of Italy-based **Danieli & C. Officine Meccaniche** ascended 31%. The company reported better-than-expected FY 2025 results and announced a €3B program agreement to revitalize the Piombino steel hub, with approximately 50% of the investment allocated to its turnkey technological systems.

Elsewhere in Europe, the share price of contract development and manufacturing organization **Siegfried Holding** traded down by -11%. Inflationary pressures and adverse currency effects weighed on the company's first half 2025 results. Leading developer and manager of student housing **Unite Group** reported improvements in rental income and net operating income but missed on profits. Shares of Unite Group declined -15% as a result.

### **Regional Performance: Japan**

Our Japanese holdings underperformed the benchmark's country return due to stock selection. We maintain a balanced portfolio of leading businesses across diverse sectors, making it less sensitive, though not immune, to macroeconomic factors like FX, interest rates, and tariffs.

Within the Industrials sector, **Timee** is a Japanese job platform specializing in short-term job postings, offering a unique and flexible solution to both job seekers and employers. Timee's core operations revolve around its digital platform, which connects job seekers with employers looking for short-term and gig workers. In September, the company reported operating profit above the upper end of its guidance range but lowered its full-year net sales outlook, citing delayed revenue from logistics projects and ongoing cost pressures in the food and retail sectors. We trimmed our position in August on price strength and are actively seeking more clarity from management with its share price down -30%.

Reporting another strong quarter and raising its fully year guidance was water recycling services provider **Organo**. That news led to a 24% increase in its share price. The company continues to see robust demand for ultrapure water in semiconductor manufacturing, driven by the growth of Gen-AI related projects.

Shares of **Internet Initiative Japan**, Japan's oldest and largest Internet Service Provider (ISP), declined by -11%. The company reported a disappointing quarter but is seeing more growth in areas with higher revenue and margins. We exited our position in Japan's largest mass-market shoe retailer, **ABC-Mart**. The company reported an in-line quarter, with improved domestic gross margin but continued persistent challenges in its overseas operations. Specifically, there was increased margin pressure in South Korea stemming from aggressive pricing from local competitors. The share price was down -2% while held in the portfolio this quarter.

Finally, **Rakuten Bank**, Japan's leading digital bank, delivered another strong quarter and saw its share price ascend 22%. We trimmed our position amid the price strength.

### **Regional Performance: The Americas, Asia/Pacific Ex Japan, and Emerging Markets**

The portfolio's holdings in the Americas delivered strong performance and outperformed the benchmark's regional performance, while an underweight position in Asia/Pacific Ex Japan drove the underperformance in that region.

**OR Royalties**, a Canada-based precious metals royalty and stream company, reported a slight beat to its second-quarter estimates. The company continues to acquire high-quality precious metal assets in mining jurisdictions considered Tier 1, focusing on producing assets or assets that can begin production within a five-year horizon. The share price of OR Royalties surged 57% during the quarter. Another contributor was **ALS**, Australia's leading "Testing, Inspection, and Certification" (TIC) business. ALS provides laboratory and testing services to the commodities, life sciences & food, and industrial sectors. Management reiterated its 5-7% fiscal year organic revenue growth target and steady margin expansion. Within its largest business unit, minerals testing, the sector is now seeing a strong turnaround after a multi-year downturn in exploration activity and is expected to pick up further in FY26. These positive developments helped lift ALS' share price by 19%.

Emerging Markets was an area of strength with positive stock selections. **Accton**, a leading Taiwan-based manufacturer of white-box network devices, saw their share price leap 39% after the company reported a better-than-expected second quarter despite currency headwinds. The company continues to benefit from data center upgrades and demand growth for high-end accelerators and switches. **Arcos Dorados**, the largest independent McDonald's franchisee with over 2,000 restaurants across 20 Latin American and Caribbean countries, reported solid second-quarter results despite low consumer spending in Brazil. However, sluggish consumption trends in Brazil continued to weigh on the stock, driving the share price down -14%. **Piraeus Financial Holdings**, the parent company of a leading Greek bank Piraeus Bank, posted strong results for the second quarter, with net income beating consensus estimates. Loan growth remains strong, and their asset management business continues to deliver ahead of expectations. With a benign macro outlook for Greece, we remain positive on the stock but trimmed our position as its share price rose 22% for the quarter.

### **Conclusion**

The preliminary indications from quarterly earnings reports show broader growth across economic sectors and size segments, with an additional tailwind of the typical end-of-year corporate budget spending flush. Equity markets keep shrugging off negative news and searching for the next shiny new thing—recent hype surrounding quantum computing indicates that might be it. However, economic realities typically intrude on such halcyon views. Hence, 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 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](mailto:info@tscmlc.com).*

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