TimesSquare Capital Management, LLC

International Small Cap Strategy

Representative Commentary — 2Q25

Performance

			Annualized			
	2Q25	**1YR**	**3YR**	**5YR**	**7YR**	**10YR**
International Small Cap Composite (Gross)	20.75%	25.03%	15.06%	7.21%	3.08%	6.35%
International Small Cap Composite (Net)	20.51%	23.90%	13.96%	6.17%	2.08%	5.31%
MSCI EAFE® Small Cap (Net) Index	16.59%	22.46%	13.28%	9.28%	5.01%	6.51%

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 second quarter, there were double-digit returns for equities as global economic activity measures lifted into expansion territory. However, there were many tremors across the economic landscape, with Washington DC at the epicenter.

- At the start of April, the U.S.'s proposed tariff regime led to significant economic fallout. Global markets whipsawed in the ensuing tariff tantrum and subsequent de-escalations to the point that later tariff announcements were often discounted quickly.
- Markets showed their concerns as U.S. treasury yields rose, and the dollar fell against major currencies.

Equities for now seemed unfazed as the U.S.'s Russell 3000® Index rose 11%, keeping pace with the 12% returns for the MSCI EAFE and MSCI Emerging Markets Indexes.

- Growth indexes outpaced value indexes in all regions and size ranges.
- Among global risk factors, Beta, Momentum, and Residual Volatility were highly rewarded, while Earnings Quality, Value, 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 investment dynamics in various market segments that guide our positioning:

- **In Europe:**
  - **Decoupling**: in addition to previously discussed energy decoupling from Russia, defense decoupling from the U.S. also became a central topic. Trade decoupling, and further down the line, technology decoupling is also shaping out to be a structural growth driver, potentially driving reshoring activities across the continent.
  - **The softening of regulations**: Excessive regulation hampered European growth in the past many years. The urgency of energy independence has prompted another look at the region's forced march towards carbon neutrality, for example. With its decidedly "pro-growth" stance, the new German government's commitment to economic investment is expected to generate positive ripple effects throughout Europe.
  - **ECB**: With inflation under control, a strong Euro, and a weak GDP, a rate cutting cycle can persist.
- **In Japan**:
  - **Continued corporate reforms are having an impact**: Japanese corporate governance reforms are finally yielding more sustainable and tangible impacts on the Japanese stock market, with companies prioritizing efficient capital allocation. This is evident in record high dividend increases and substantial share buybacks.
  - **Inflation, Interest Rates, and Trade**: The BOJ and Japanese government face a tricky environment related to inflation, interest rates and global trades, where a gradual strengthening of the yen appears to be the easiest

course. While a stronger currency presents a headwind for the export sector, it concurrently creates opportunities for domestic-facing firms.
- **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 outperformed the MSCI EAFE Small Cap benchmark in the second quarter of 2025, driven by strong stock selection. This outperformance was supported by broad-based strength across most regions, particularly within the Industrials and Information Technology sectors.

Regional Performance: Europe
Positive performance in the region was supported by strong stock selection across Germany, France, and the United Kingdom, while relative weakness in Switzerland and Spain partially offset some of the gain.

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 like the cloud as strategic assets.

Case in point is the portfolio's top contributor for two consecutive quarters, **Renk Group**, with its 67% surge. 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. During the NATO budget meeting on June 25th, the group declared its intension to move defense budget targets to 3.5% (+1.5% for adjacent spending). With this announcement, we believe much of the anticipated upside in the aerospace and defense sector has materialized, leading us to significantly reduce our exposure and take profits. **Maire**, a global Engineering, Procurement, and Construction (EPC) company focused on onshore, downstream infrastructure for oil and gas, petrochemicals, and fertilizers, is well-positioned to capitalize on the increased need for downstream oil & gas and fertilizer infrastructure, as well as energy transition-related demand. Despite an initial decline in early April on tariff concerns, the stock has since recovered. We trimmed our position after its stock price ascended 43%. **IONOS**, a Germany-based owner and operator of data centers across Europe, enjoys #1 and #2 market positions in the countries where it operates. The company provides critical services, mainly to small and medium-sized businesses, offering clients affordable tools and services to build and maintain an online presence. With geopolitical tensions rising and data sovereignty becoming increasingly important, IONOS is also on track to help European governments diversify away from U.S. hyperscalers, a trend highlighted by their recent government contract win in Germany. The share price of IONOS jumped 70% in the quarter.

Within the information technology sector, the IT services industry is largely insulated from direct tariff impacts. However, it is highly cyclical since IT budgets are closely tied to corporate revenue growth and overall business confidence. France-based **Sopra Steria** saw its share price ascend 34%. They offer a comprehensive suite of services including consulting, systems integration, software development, infrastructure management, and business process services. We increased our position in Sopra Steria during the first quarter on price weakness, anticipating that the challenging spending environment in Europe would be temporary and that revenue trends would begin to improve in the second half of 2025. Additionally, Sopra Steria is well-positioned to directly benefit from increased spending in the European defense and security industries due to its significant exposure in this space. Down -8% was the French company **Alten**, a leading specialist in engineering and technology consulting. The group continued to experience disappointing organic revenue growth in the first quarter because of its exposure to the European auto industry and general industrial sector. These end markets are currently taking a wait-and-see approach to further R&D investment, largely because of the broader macroeconomic climate, exposure to tariffs, and a general lack of investment. Despite this downturn, we believe Alten is managing costs well and protecting its margins. We also anticipate that the need for R&D investment within the auto sector will rebound, especially as vehicles undergo massive transformation with increasing amounts of onboard technology. Alten is at the center of this dynamic. We're maintaining a small position in the name, which we'll look to increase when visibility improves.

Elsewhere, Sweden's market leader in the Swedish property classified sector, **Hemnet Group**, reported a miss in its first-quarter results, which sent its share price down -12%. While the company's results also showed better-than-expected margin expansion after two quarters of contraction, we trimmed our position amid near-term uncertainty. Danish medical device company **Ambu**, a global leader in single-use endoscopes, reported disappointing first quarter results.

Management’s fiscal 2025 guidance, despite weaker USD and tariff risk, also lagged consensus expectations. Ambu’s stock price traded down -8% as a result.

During the quarter we exited our positions in **Siltronic** and **Yubico** and booked losses of -10% and -16%, respectively while they were held in the portfolio this quarter. **Siltronic**, a Germany-based leader in silicon wafer manufacturing, has faced a more prolonged inventory correction in the bare wafer market than anticipated. Despite this, the medium and longer-term outlook for silicon wafer demand remains positive. We are particularly drawn to Siltronic's robust market position, its advanced R&D capabilities (which ensure alignment with the semiconductor device industry's technology roadmap requirements), and the expertise of its management team. Nevertheless, due to the persistent low visibility regarding an industry recovery, we opted to reallocate capital towards more compelling investment opportunities. A pioneer and leading global provider of phishing-resistant hardware-based multi-factor authentication (MFA) solutions, Sweden-based **Yubico** experienced consistent downward revisions to its growth and margin outlook, primarily driven by successive instances of poor investor communication from management. This led us to reassess the true quality of both the management team and the resilience of the business model, finding them to be not as strong as initially perceived. Consequently, we exited the position due to a change in our investment thesis.

We added to our position in **Greencore Group**, a leading producer of convenience foods in the UK. The company’s recent acquisition of Bakkavor will result in broader product portfolios and increased scale while generating significant cost synergies through operational efficiencies. Shares of Greencore climbed 46%.

Regional Performance: Japan
Our Japanese holdings outperformed the benchmark's country return. Japan is currently in a "wait and see" mode, as tariff uncertainty and an upcoming election appear to be delaying a BOJ rate hike despite inflationary pressures. 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.

We see the start of a possible shift of focus away from inbound spending to the areas where local consumers play a bigger role. **Food & Life Companies**, Japan’s leading quick-service sushi chain, was a beneficiary of the strong growth in inbound traffic as well as local consumptions. The company reported another strong month of sales growth, which drove its share price 63% higher. The faster-than-expected rollout of their digital conveyor belt system, Digiro, has also boosted per-customer spending. We anticipate this positive trend will continue, favorably impacting margins.

We increased our position in water recycling services provider **Organo**. The company reported a strong set of fiscal year-end results and released medium- and long-term targets highlighting continued confidence in the company's future. As a result, Organo’s share price jumped 46%. **Azbil**, a Japanese leader in HVAC systems for buildings, supplies a wide range of building automation products and services. The company is benefiting from increased demand for building automation driven by higher energy prices, rising temperatures, and stricter building regulations. They have also seen rapid growth in their data center business across Japan and Southeast Asia. Despite management issuing a conservative outlook and maintaining FY27 medium-term ROE and margin targets—even after achieving FY24 goals—Azbil's more aggressive share buyback plan and higher dividend payout reflect an improved capital allocation mindset. Its share price increased 23%. **Rigaku**, a leading specialist in the development, manufacture, and sale of X-ray equipment, reported a weak quarter, which drove its share price down -15%. We continue to hold the company at its current weight, as we believe the consensus estimates are assuming a worse-case scenario than the company guidance (i.e., no growth this year).

Regional Performance: The Americas and Emerging Markets
Within the off-benchmark regions, the portfolio’s Americas holdings underperformed the benchmark’s overall performance, while Emerging Markets holdings significantly outperformed, making the latter one of the largest regional contributors.

Canada-based **Pason Systems**, a designer and producer of sensors, instrumentation, and data management systems for land-based oil and gas drilling rigs, was down -1%. Despite reporting better-than-expected first-quarter results, the macro environment remained murky. Management, however, expected any industry activity decrease to be more modest in both depth and duration than prior industry slowdowns. **Arcos Dorados**, the largest independent McDonald's franchisee with over 2,000 restaurants across 20 Latin American and Caribbean countries, reported a slight revenue beat but missed on margin and EBITDA. Management indicated stronger trends in April, notably in Mexico, which was most affected by

Holy Week and should see the strongest rebound in the second quarter. We added to our position on price weakness post-earnings. Despite a later rebound, the stock ended the quarter down -1%. **HD Hyundai Marine Solution**, the maintenance and repair unit of South Korea's largest shipbuilding conglomerate, HD Hyundai Heavy Group, saw its stock price leap by 69%. The company reported better-than-expected results, underscored by significant operating leverage potential in both the after-market and the retrofit businesses. Hyundai Marine also benefits from its position as a non-Chinese ship builder, which insulates it from tariff impacts.

Conclusion

Markets and economies swung wildly in the first half of 2025, generally propelled by geopolitical drivers—most of those emanating from the U.S. Many companies downplayed their outlooks either in response or in advance of tariff-induced cost increases. Yet markets have a remarkable way of absorbing those concerns, pricing them in, and forecasting improvements. For example, most Federal Reserve watchers anticipate a rate reduction later this year. However, many investors are cautious regarding the intended and unintended consequences of the newly enacted massive tax and spending bill. We seek to balance our holdings between companies that should be resilient to potential headwinds and those poised to catch any accelerating tailwinds in their sails. Either way, our focus remains on the bottom line, seeking companies that are better equipped to maintain their fundamentals when peers are deteriorating, or to lead others with faster growth. As always, we are available for any questions you might have.

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.

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 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@tscmllc.com.

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