

Global Small Cap Strategy

Representative Commentary — 2Q25

Performance	Annualized					
	2Q25	1YR	3YR	5YR	7YR	Since Inception (1/1/2018)
Global Small Cap Composite (Gross)	18.27%	25.44%	15.59%	9.20%	6.50%	6.56%
Global Small Cap Composite (Net)	18.05%	24.46%	14.62%	8.27%	5.57%	5.63%
MSCI World Small Cap (Net) Index	11.58%	14.47%	12.15%	10.97%	6.48%	6.42%

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 the U.S.:**
 - **Companies across most areas either scrap or significantly reduced forward guidance:** As companies wait to see how near-term results fare in this environment, we believe some have lowered expectations to levels that can be surpassed in future quarters.
 - **Consumer:** With so many consumer goods potentially subject to tariffs, measures of confidence and sentiment remained at trough levels. Some customers advanced their purchases ahead of expected price hikes.
 - **Financials:** Although M&A activity began unexpectedly slowly this year, there were early signs it was accelerating.
 - **Health Care:** Reduced Medicaid spending weighed on volume levels and growth across the sector. Changes at the FDA slowed regulatory approvals, which combined with the Trump administration's rhetoric for lower drug prices and onshore production, have dampened enthusiasm for the biopharma industry.
 - **Industrials:** Many companies are understandably conservative with their outlooks as tariff levies are quickly announced and rescinded. That favored longer-cycle secular end markets—such as aerospace & defense, datacenter-related, and infrastructure—compared to the short-cycle cyclical areas of transportation or consumer-related.

- **Information Technology:** As with other segments, anticipation of higher prices from tariffs led to a short-term surge of orders across the semiconductor industry. Offsetting that was the rebound in spending for all things AI-related, which had been weak in the first quarter following *DeepSeek's* emergence.
- **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 Global Small Cap Portfolio outperformed the MSCI World Small Cap benchmark in the second quarter of 2025. This outperformance was supported by positive allocation effect and strong stock selection across most regions.

Regional Performance: The Americas

The Americas was the portfolio's largest regional contributor supported by strong stock selection.

Many of our Industrials positions provide necessary business-to-business operational services, highly technical components, equipment enabling automation & efficiency improvements, or essential infrastructure services. Contributing a 45% return was **EMCOR Group**, which provides construction and operational services for mechanical and electrical systems to a broad range of commercial, industrial, utility, and institutional customers. EMCOR reported revenues and earnings that bested expectations with a record high level of remaining performance obligations (outstanding and unbilled work for existing customers) along with a healthy pipeline of new projects. **Regal Rexnord Corp.** manufactures automation sub-systems, industrial powertrain solutions, power transmission components, and air moving products. Its share price rose 30% on the heels of its first quarter, which stood in stark contrast to the market's lowered expectations and a reduced outlook. Most of the revenue upside came from the Power Efficiency Solutions segment. Management reiterated forward guidance as they have not seen any evidence of a demand slowdown and believe they are well positioned to navigate the impact of tariffs. **Loar Holdings**, a diversified manufacturer and supplier of niche aerospace and defense components, saw its share price climb 23%. At the start of the quarter, increased production plans for new Boeing aircraft left many parts manufacturers scrambling, which in turn increased demand for Loar's components. Its share rose and we trimmed our position. Later the company reported better-than-expected revenues though earnings were merely as anticipated. Loar's overall margins were pinched by a higher proportion of defense sales and additional internal costs since becoming publicly traded last year.

Among the wide variety of Information Technology companies, we prefer critical system providers, specialized component designers, systems that improve productivity or efficiency for their clients, and others that are growing their shares of corporate IT budgets. **JFrog** provides systems to manage and speed up the release of software updates from developers to users. We added to our position on near-term lows at the start of the quarter. Later, its reported revenues and earnings surpassed expectations, and JFrog's management lifted its prior guidance for 2025. In addition to a stable level of new business wins, there were levels of customer usage beyond their contractual commitments that also boosted revenues. That lifted its shares up by 40% and we trimmed the position. **Lattice Semiconductor** offers programmable logic semiconductor products, system solutions, design services, and licenses. The company's first-quarter results and

second-quarter guidance both came in line with Street estimates. We believe Lattice is well-positioned to benefit from new product ramps, particularly with its Avant platform, which is expected to gain significant traction in the second half of 2025. Its diverse revenue streams across computing, communications, automotive, and industrial applications provide resilience against cyclical downturns in specific sectors. Moreover, strength in the data center segment is driving growth, helping to mitigate potential negative impacts from fluctuations in other markets. We added to our position as its share price was down -4% in the quarter. **Onto Innovation Inc.** designs, develops, and produces high-performance control metrology, defect inspection, lithography, and data analysis systems that are used by microelectronic device manufacturers. While first quarter results were in line with the Street, second quarter projections fell short. That triggered a -13% tumble in its share price. **Workiva Inc.** offers cloud-based compliance and regulatory reporting solutions. Results for the latest quarter edged estimates and the company maintained full year revenue guidance, thereby reflecting continued momentum in multi-solution platform deals. Management did however indicate that new business bookings could be impacted by a less favorable buying environment. These cautionary comments served to pressure the stock price by -9%. **Synaptics**, a developer of human interface semiconductor solutions for electronic devices, faced persistent delays in its recovery, with estimates continually revised downward. The anticipated Windows 10 phase-out catalyst has thus far failed to materialize. Given Synaptics' status as a consumer-exposed semiconductor company in the portfolio, impacting highly discretionary product categories, we liquidated our position, which lost -25% this quarter.

Our preferences among Health Care stocks are those companies providing novel therapies for unmet needs that deserve premium pricing, or specialized service providers. **Inspire Medical Systems Inc.**, a medical technology company focused on the development and commercialization of innovative solutions for treating obstructive sleep apnea, pulled back by -18%. First quarter revenues exceeded consensus estimates. That report was overshadowed by second quarter guidance, which was viewed as disappointing. Management explained the second quarter will be a transitional period as centers work through their Inspire IV system inventory ahead of ordering the recently launched Inspire V systems.

Within the real estate sector, **National Storage Affiliates (NSA)**, a U.S. self-storage facility operator, saw its share price decline -16%. The company reported disappointing first quarter results, though management reiterated its full-year guidance.

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 -2%. 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.

Regional Performance: Europe

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 53% 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 intention 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.

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 30%. 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 to this space.

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 64% higher. The faster-than-expected rollout of their digital conveyor belt system, Digi-ro, has also boosted per-customer spending. We anticipate this positive trend will continue, favorably impacting margins.

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 20%.

A leading systems developer and business consultant, **Simplex Holdings**, reported inline quarterly results, demonstrating a notable earnings recovery, and its share price jumped 43%. Strong growth in Strategic DX Consulting led the company to increase its gross margin guidance over the next two years. With a positive demand environment, the company is also showing robust order and backlog growth.

Regional Performance: Emerging Markets

The portfolio's off-benchmark Emerging Markets holdings significantly outperformed the benchmark's overall performance.

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. 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, 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. We exited the position on strong performance with its share price up 49% while it was held during the quarter.

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.

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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.

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