

TimesSquare

International Small Cap

Representative Commentary

Performance	2Q	YTD	1-Yr	3-Yr	5-Yr	10-Yr	Since Inception (04/01/2012)
Composite (Gross)	11.22	6.41	9.74	14.42	2.68	7.11	8.47
Composite (Net)	10.99	5.97	8.82	13.38	1.70	6.08	7.43
MSCI EAFE® Small Cap (Net)	9.02	7.65	17.39	15.70	5.35	8.63	8.31

Annualized for periods greater than one year. 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.

Global markets navigated a turbulent second quarter amid shifting geopolitical and macro crosscurrents. Early in the period, Middle East tensions and disruption around the Strait of Hormuz triggered a spike in energy prices and elevated inflation expectations, pivoting global central banks to raise, rather than the expected cuts to, interest rates. As those tensions eased into quarter-end, energy prices retreated toward pre-crisis ranges and the inflationary impulse faded. Against that improving backdrop, corporate earnings and equity markets showed resilience, driven by an insatiable, secular wave of AI infrastructure capital expenditure and strong nominal growth.

Global equities rallied broadly in the second quarter. The Russell 3000 returned 15%, outpacing the MSCI EAFE (11%) but trailing a resurgent MSCI Emerging Markets (24%). Growth outperformed Value in both developed and emerging markets. Among global risk factors, Beta, Momentum, and Liquidity were the strongest performers, while Mid-Capitalization, Earnings Variability, and Investment Quality lagged.

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:**
 - Lower input costs driven by a significant comedown in energy prices closer to pre-crisis ranges are offering tangible macro relief, particularly in industrial hubs such as Germany. However, underlying domestic-end demand remains fragile, and a full-scale economic recovery is not yet visible.
 - Despite near-term geopolitical de-escalation, Europe's focus on long-term decoupling and economic self-reliance seems irreversible. As a result, the region is entering a multi-year phase of significant capital deployment across core structural vectors: energy transition infrastructure, defense budgets, and localized technology advancement.
- **Japan:**
 - Despite a modest increase in interest rates, loan growth remains strong, particularly among larger corporations. We are closely monitoring SME lending as a critical barometer. A sustained pick-up in this segment would be a strong signal that the administration's fiscal support for Prime Minister Takaichi's priority sectors—defense, energy, and technology—is beginning to flow through to the broader economy, though we are not there yet.
 - The economy remains in the early stages of a multi-year infrastructure-led growth cycle, with valuations still supportive. Near-term market sentiment has improved as immediate concerns over the Iran crisis appear to be easing for now.
 - The 10-year Japanese Government Bond (JGB) yield climbed to multi-decade highs near 2.9%, reflecting growing investor concern that the Bank of Japan, despite hiking its benchmark rate to a 31-year high of 1.0% in June, remains behind the curve.

The International Small Cap Portfolio outperformed the MSCI EAFE Small Cap benchmark in the second quarter of 2026, returning 11% versus the benchmark's 9%, for roughly 2% of active return. The portfolio's positive exposure to Beta and Profitability were the primary contributors, while negative exposure to Liquidity and Dividend Yield detracted. On a regional basis, holdings in Japan, Emerging Markets, and Asia/Pacific ex-Japan contributed to relative performance, while holdings in Europe lagged.

Regional Performance: Europe

Europe is on a multi-year journey to redefine its strategic priorities, and we believe our local, fundamental approach uniquely positions us to capitalize on this transition. European markets are currently rich with sectors experiencing meaningful dislocation (most notably energy) as well as companies that we believe will prove far more resilient than top-down thematic trends might imply. Our European holdings underperformed the benchmark's regional return. Strength in the Netherlands, Sweden, and Italy was offset by relative weakness in the United Kingdom, Germany, and France.

After first initiating the position in February, we have been accumulating our position in **Koninklijke Heijmans**, a Dutch construction and property-development group. Its shares rose 51% during the quarter on the back of strong operational updates.

Shares of **Greencore**, the UK convenience-food producer, fell -17% after reporting subdued revenue growth and a cautious tone around the UK consumers. We reduced our position to reflect the persistent inflationary pressure in the UK consumer space. We also trimmed our position in **Technip Energies** given the recent rally and the potential risk from work delays in the Middle East. This France-based energy-engineering company and one of only a handful of firms capable of building liquefied natural gas (LNG) plants declined -8% for the quarter. A more conservative near-term guidance update temporarily stalled the growth equity narrative for the Swiss pharmaceutical contract manufacturer, **Siegfried Holding**, causing the stock to pull back -5% during the quarter.

Regional Performance: Japan

Our Japanese holdings outperformed the benchmark's country return, driven by strong stock selection. Our portfolio is positioned to benefit from increased structural investments in infrastructure, electrification, and technology. We see a natural extension into renewable energy and, as a second derivative, battery storage. Concurrently, we are keeping a close watch on Japanese domestic fixed-income markets, where the 10-year Japanese Government Bond (JGB) yield has drifted up significantly. Driven by persistent yen weakness and sticky import inflation from early-quarter energy shocks, the central bank faces market pressure to accelerate its tightening cycle, despite political resistance to higher borrowing costs.

Our strongest contributors this quarter were **Dexerials**, a Japanese maker of functional and optical materials, which surged 97% and to which we added earlier in the quarter. The company reported better-than-expected Q4 results and provided bullish updates to their medium-term plan, with a large portion driven by their photonics business. **Sumitomo Bakelite**, a specialty-plastics manufacturer, rose 51% as the company achieved strong margin expansion due to robust demand for advanced semiconductor packaging materials. Benefiting from a cyclical recovery in global factory automation and capital expenditure, particularly in Asia, **MISUMI Group**, a distributor of factory-automation components, gained 49%. We used the strength in Sumitomo Bakelite and MISUMI to trim both positions. Meanwhile we added to **Tekscend Photomask**, a Japanese photomask manufacturer, and **OSG**, a maker of precision cutting tools. As semiconductor nodes shrink and design complexity rises, the demand for advanced photomasks is accelerating. Tekscend is uniquely positioned to capture this high-margin volume. Positioned as a premier maker of high-precision cutting tools, OSG is a direct beneficiary of the aerospace, automotive, and heavy machinery manufacturing rebound. Tekscend and OSG rose 43% and 42%, respectively.

On the negative side, drugstore operator **Sugi Holdings** faced temporary headwinds from rising labor costs and intense price competition in the domestic drugstore space, which led its stock price down -11%. **Integral**, Japan's only listed independent private equity firm, declined -14%. The company experienced short-term volatility tied to the timing of corporate realizations and portfolio exits. However, their underlying private equity strategy and corporate restructuring pipeline remain highly robust. Shares of waste-management operator **Daiei Kankyo** fell -5% on slight margin compression from upfront temporary outsourcing/labor costs tied to large demolition projects. We added to our position on this price weakness.

Regional Performance: The Americas and Emerging Markets

Our Emerging Markets holdings were a source of relative strength this quarter, while a position in the Americas detracted.

Our top contributor in the region was **Accton Technology**, the Taiwanese white-box networking-equipment manufacturer and a beneficiary of the global push for independent networking infrastructure, whose shares rose 66% while held during the

quarter. We exited the position on that strength. In Korea, **HD Hyundai Marine Solution**, a provider of aftermarket services for marine engines, rose 24% on the news surrounding the company providing ship engines to help power data centers. We trimmed the holding into that gain.

Amongst gold miners, we remain highly selective in this capital-intensive segment. As a result, we maintained conviction in **OR Royalties**, a Canadian precious-metals royalty company whose royalty and streaming model offers a more attractive risk-adjusted return profile. The company reported an inline quarter and increased dividends. However, later in the quarter, share price was impacted by a rotation out of the gold sector due to a higher-for-longer rate fear. We trimmed our position amid the uncertainty with the stock down -17% for the quarter.

Conclusion

We are operating in an environment where capital allocation is increasingly driven by strategic necessity rather than purely optimized economic returns, effectively recasting energy, defense, and technology supply chains as instruments of national policy. While the easing of tensions around the Strait of Hormuz has provided near-term relief, the structural shift toward regional self-reliance and the relentless pace of AI-driven capital expenditure remain the dominant forces shaping the global landscape. These macro crosscurrents create a complex tapestry of risks and opportunities, yet they consistently produce the pricing dislocations where our fundamental, bottom-up approach thrives. We remain steadfast in our focus: identifying disciplined management teams capable of compounding intrinsic value by navigating this new era of complexity. 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 65-85 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.

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