

TimesSquare

# U.S. Focused Mid Cap Growth

## Representative Commentary

| Performance             | 2Q    | YTD   | 1-Yr  | 3-Yr  | 5-Yr  | 10-Yr | Since Inception<br>(09/01/2005) |
|-------------------------|-------|-------|-------|-------|-------|-------|---------------------------------|
| Composite (Gross)       | 19.71 | 20.86 | 21.23 | 21.39 | 13.70 | 16.61 | 14.30                           |
| Composite (Net)         | 19.47 | 20.36 | 20.22 | 20.36 | 12.67 | 15.51 | 13.11                           |
| Russell Mid Cap® Growth | 14.55 | 7.27  | 6.17  | 15.59 | 6.02  | 13.04 | 10.49                           |

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.

In the U.S., the market bounced back strongly from a very challenging first quarter. Until recently, a ceasefire had been holding between the U.S. and Iran. Falling energy prices eased consumer inflation fears. April and May non-farm payroll reports were both above the consensus, with expectations that June will continue the solid growth trend. AI remained the predominant market narrative for the quarter, with all signs pointing to sustained compute demand and robust capital expenditures.

Across U.S. equities, small caps outperformed large and mid, with growth outpacing value across market capitalizations. Within small and mid cap stocks, the market favored higher P/E multiples, lower quality, and higher risk.

Against this backdrop, the portfolio outperformed the Russell Midcap® Growth Index for the second quarter. Strengths for the portfolio included Information Technology, Financials, and Consumer Staples. Energy, Industrials, and Health Care were areas of relative weakness.

Among the wide variety of Information Technology companies, we prefer critical systems providers, specialized component designers, systems that improve client productivity or efficiency, and others that are growing their share of corporate IT budgets. **Palo Alto Networks Inc.**, a provider of cybersecurity solutions, featuring market-leading enterprise Next Generation Firewalls, climbed 12%. The company posted an across-the-board beat to consensus estimates and raised forward guidance. AI is driving incremental security spending. **Amphenol Corp.** designs and manufactures electrical, electronic, and fiber optic connectors. Its shares rose 40% on the heels of a solid quarter, with notable strength in IT data communications, defense, commercial aerospace, and industrials. Management continues to sound very positive overall about the outlook, with excitement about demand in the AI data center market. Semiconductor-based power electronics solutions supplier **Monolithic Power Systems Inc.** rallied 26%. First-quarter results were above projections, with notable strength in enterprise data and communications. Management notes improving visibility into orders, as longer lead times help build a larger backlog.

In the Financials sector, we tend to avoid banks experiencing credit deterioration or rising deposit costs, preferring asset managers, specialized insurance companies, or financial technology providers. Electronic broker **Interactive Brokers Group Inc.** rallied 30% over the quarter. Its platform facilitates the execution, clearance, and settlement of trades in stocks, bonds,

options, and a host of other financial instruments. The latest quarter featured continued account growth and higher trade commissions. Interactive Brokers continues to invest in expanding its product set and improving efficiency.

Our preferences in the Consumer-oriented sectors lean toward value-oriented or specialty retailers, franchise models, premium brands, or support services for other consumer companies. **Performance Food Group Co.**, a distributor of food and food-related products, rose 30%. They serve restaurants, vending distributors, theaters, retailers, and convenience stores. Results from the fiscal third quarter came in ahead of Street expectations, driven by stronger revenue from accelerating case volumes. **O'Reilly Automotive Inc.** is a specialty retailer of aftermarket auto parts and accessories. Its latest quarter's results handily exceeded Street projections as both do-it-for-me and do-it-yourself trends strengthened. It appears investors were disappointed that forward guidance wasn't raised, and that led to a 0% return for the second quarter.

We often see the ebb and flow of the Energy sector tied to underlying commodity prices. In this area, we seek low-cost exploration & production companies with high-yielding acreage or specialized service providers. **Cheniere Energy Inc.**, an owner and operator of liquefied natural gas terminals in New Orleans and Corpus Christi, slid -16%. Its stock had a strong start to the year and then rallied further during the Iran war, but has since sold off on ceasefire negotiations.

Many of our Industrial positions provide necessary business-to-business operational services, highly technical components, equipment enabling automation & efficiency improvements, or essential infrastructure services. **Carpenter Technology Corp.** manufactures, fabricates, and distributes specialty metals. The stock gained 57% on the heels of higher-than-expected fiscal third-quarter earnings, highlighted by strength in the Specialty Alloys segment and a favorable sales mix. Management noted that bookings for commercial aerospace structures have improved. **Comfort Systems USA Inc.**, a provider of mechanical and electrical installation, renovation, maintenance, and repair services, advanced 44%. Results from the latest quarter featured impressive revenue growth and continued evidence that the data center buildout is in full swing, with Comfort Systems acting as a key pillar in hyperscaler expansion plans. **Karman Holdings** is a manufacturer of mission-critical structural components and propulsion systems for space and defense programs. Their latest quarter marked the continuation of impressive results that were above Street expectations. Its business is well positioned for a favorable demand environment for missiles, drones, air defense systems, submarines, and space launch systems. Karman received over \$1 billion in contingent demand commitments to support product visibility. Despite these positives, one key variable is Congress' approval of defense spending, which caused its shares to pull back by -38%. **Verisk Analytics Inc.**, a provider of data, analytics, and technology solutions to the insurance industry, fell -5%. The company's first-quarter results came in ahead of projections amid concerns about AI disintermediation.

Our preferences among Health Care stocks are those companies providing novel therapies for unmet needs that command premium pricing, or specialized service providers. **Cencora Inc.** sources and distributes pharmaceutical products. Its shares dropped by -10% on news of the well-liked and long-tenured CFO's retirement.

One of our strategy's purchase rules is based on the range of market capitalizations in the Russell Midcap® Growth Index following its reconstitution. After that, the largest stock in the index had a market capitalization of \$86 billion. The strategy's guideline limits new positions outside the benchmark at the time of initial purchase to less than 75% of the largest name in the benchmark—or \$66 billion based on the new benchmark—so we will raise our limit from \$64 billion to \$66 billion. The lower end of the purchase range moves from \$1.7 billion to \$2.5 billion, matching the smallest stock in the benchmark (after excluding an outlier).

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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The holdings discussed represent a particular point in time. It should not be assumed that the securities continue to be held, and/or continue to be held in the same percentage, and/or were held continuously throughout the period. In addition, the holdings of a particular client account may differ from the information provided. Securities discussed do not represent the entire portfolio and, in aggregate, may represent only a small percentage of a portfolio's holdings. Information is subject to change without notice. It should not be assumed that any of the securities discussed were or will prove to be profitable. Past performance does not guarantee future results.

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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 invests in stocks with market capitalizations at time of purchase generally within the range of capitalizations of stocks in the Russell Mid Cap Growth 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 15 stocks. Historical turnover has averaged 73% per year. Composite inclusion threshold \$500,000. From January 1, 2007 to April 30, 2010 the fee is 150 basis points. From May 1, 2010 the fee is 100 basis points. The composite creation and inception date is September 1, 2005.

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 Russell Midcap® Growth – a market capitalization-weighted index that measures the performance of those Russell Midcap® companies with higher price-to-book ratios and higher forecasted growth rates. All indexes, including the Russell Midcap® Growth Index, are based on gross-of-fee returns. FTSE Russell is the source and owner of the Russell Index data contained or reflected in this material and all trademarks and copyrights related thereto.

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. From January 1, 2007 to April 30, 2010 the applied standard fee was 150 basis points. From May 1, 2010 through present the applied standard fee is 100 basis points. 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. TimesSquare's fee schedule is available upon request and may also be found in Part 2A of our Form ADV.

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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