

## U.S. FOCUS Growth Strategy

### Representative Commentary — 3Q25

Performance	Annualized					
	3Q25	1YR	3YR	5YR	7YR	10YR
FOCUS Growth Equity Composite (Gross)	4.00%	17.47%	24.47%	15.72%	16.28%	15.37%
FOCUS Growth Equity Composite (Net)	3.78%	16.49%	23.36%	14.64%	15.18%	14.27%
Russell Midcap® Growth Index	2.78%	22.02%	22.82%	11.25%	11.99%	13.36%

*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.
- Following Japanese Prime Minister Ishiba’s resignation in September, the new PM appears poised to resurrect the past Abenomics of boosting investment and demand through stronger public private partnerships.
  - That change may delay the Bank of Japan’s prior intention to increase its rates.
- 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.

- Risk was in favor this quarter with the highest factor returns from Beta and Residual Volatility in the U.S. and globally. There were also strong showings from Momentum in the U.S. and Earnings Variability ex U.S.
  - Earnings Quality and Profitability were ignored or panned, indicating that companies with low accruals, stable fundamentals, and operating efficiencies were penalized.
  - That also was seen by the 17% return for the Russell Microcap Index, the best performance this quarter among the major indices.
- Within U.S. small and mid capitalization growth indexes, better returns came from stocks with zero or negative earnings.
  - That was especially pronounced for small cap growth where over 20% of the Russell 2000® Growth Index lacks positive earnings.
- There was also a broader preference for stocks with high beta or low returns on equity.

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:

- **AI remains a dominant theme**, though some cracks are beginning to appear. Industry participants questioned the pace of infrastructure spending to support AI – from semiconductors to industrial coolants – and how sustainable that would be. Some of the spending appeared circular, such as NVIDIA committing billions of dollars to OpenAI only for the latter to reinvest a significant portion of that on the newest NVIDIA chips. With debt levels increasing for the biggest AI spenders, measures of capital spending to sales are approaching dot com peak levels.

- In the near term, the AI fervor continued to **dampen enthusiasm for software** on perceptions that many application software uses will evaporate (from our recent visits to various user conferences, we saw continued strong demand for application software).
- Helped by a more accommodative Federal Reserve, **capital markets activities picked up**. There have been meaningful recoveries in the levels of M&A and IPOs in recent months.
- With the Federal Reserve poised to continue monetary easing, **Industrial segments rotated** away from secular areas, such as aerospace or HVAC, toward the cyclical areas of home builders or mining companies.

Amidst this market environment, the portfolio outperformed the Russell Midcap® Growth Index in the third quarter.

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. **O'Reilly Automotive Inc.**, a specialty retailer of aftermarket auto parts and accessories, surged ahead by 20%. The company reported a strong second quarter with growth in same store sales driven by positive momentum in both do-it-for-me professional mechanic and DIY. Management raised its full-year outlook for sales, same store comparisons, and earnings. Margin projections were maintained to account for the potential impact of tariffs. Membership warehouse operator **BJ's Wholesale Club Holdings Inc.** dropped by -14%. Second quarter profits and earnings outpaced the consensus; however, revenues and same store sales fell short. Early in the quarter, their Northeast and Mid-Atlantic stores were impacted by unseasonable wet and chilly weather. While groceries and sundries performed well, general merchandise was down. Notably, membership rolls continue to grow.

In the Financials sector we tend to avoid banks that face credit deterioration or rising deposit costs, preferring either asset managers, specialized insurance companies, or financial technology providers. **RenaissanceRe Holdings Ltd.** provides reinsurance and insurance services. After a mixed quarter, we decided to redeploy the proceeds into stocks with better growth outlooks. Its share price slipped by -2% while held in the quarter. New to the sector this quarter was **Interactive Brokers Group Inc.**, a leading global electronic broker. They offer low-cost execution, clearing, and settlement for retail and institutional customers.

Many of our Industrial positions provide necessary business-to-business operational services, highly technical components, equipment enabling automation & efficiency improvements, or essential infrastructure services. **EMCOR Group Inc.** provides electrical, mechanical, construction, and facilities services. Strong data center growth was the key driver for their US Electrical segment and lifted the stock by 21%. Management increased full year earnings guidance. EMCOR is well positioned to win an outsized portion of large data center and manufacturing projects, given its scale, leading virtual design, and construction capabilities, as well as pre-fabrication assets. **Verisk Analytics Inc.** supplies data, analytics, and technology services to the insurance industry. The company reported a strong quarter, which surpassed consensus estimates. Management also announced the acquisition of AccuLynx, a SaaS client relationship management platform for contractors. Forward guidance was lowered due to anticipated dilution from debt to finance the pending deal. We decided to trim the position, which was down -19% for the quarter. **Cintas Corp.** offers corporate identity uniforms and facilities services. Cintas reported better fiscal first quarter results against subdued expectations. The stock pulled back -8% due to concerns around employment, industry pricing, and cost pressures. New to the sector this quarter was **Carpenter Technology Corp.**, a manufacturer, fabricator, and distributor of specialty metals.

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. **Amphenol Corp.** designs and produces electrical, electronic, and fiber optic connectors. The company reported a strong beat to second quarter estimates, resulting in a 25% gain. Despite macroeconomic and tariff noise, Amphenol continues to execute well. Third quarter guidance represents an upside to Street projections. **CyberArk Software Ltd.** offers access security solutions. We added to the position in late July. Subsequently, the company announced they are being acquired by Palo Alto in a cash-and-stock transaction. Its share price rose 19% on this development. **Monolithic Power Systems Inc.** designs and develops integrated power semiconductor solutions and power delivery architectures for computing, storage, automotive, industrial, communications, and consumer applications. Their stock climbed 26% after posting a solid second quarter with revenues at the high end of the guidance range and above the Street; earnings were also better. Upside to the quarter came from non-enterprise data center segments where the company is benefiting from a cyclical recovery as well as significant content growth. **HubSpot Inc.** offers a cloud-based customer relationship management platform. Second quarter results exceeded the consensus. Growth was driven on its platform by

AI adoption, seat growth, and more multi-hub deals. Despite the solid results, management maintained forward guidance excluding tailwinds from currency translation which caused a -16% slide in their shares. In our view, management is erring on the side of conservatism. **Gartner Inc.** is an information technology research and advisory company. Despite reporting upside to estimates on revenues and earnings, its key contract value metric fell short. That resulted in a -18% tumble to its shares. We decided to liquidate the position and redeploy the proceeds into higher conviction names. **CrowdStrike Holdings Inc.** provides cybersecurity products and services to prevent breaches. We exited the position on market cap considerations. Its share price pulled back by -16% while held in the quarter.

Within Materials, we seek well positioned companies that are less susceptible to swings in commodity prices. **Martin Marietta Materials Inc.** supplies aggregates to the building industry. Management announced an asset swap in which a private company called Quikrete will receive cement and ready-mix assets. As part of this exchange, Martin Marietta will obtain aggregates operations across Virginia, Missouri, Kansas, and Vancouver. This deal was well received by the market with its shares rising 15% over the quarter.

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 spending flush. In the U.S. expectations remain high for an additional rate cut at the late-October FOMC meeting, but countering that optimism are the effects (as of this writing) of the Federal government shutdown over its budget impasse. Meanwhile, equity markets keep shrugging off negative news and search 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 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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