



SMALL CAP SELECT

Portfolio Comments

June 30, 2025

Distinguishing Features

GIM builds the [Small Cap Select](#) portfolio from the bottom-up; sector weightings are secondary to stock selection. At quarter-end, the Small Cap Select portfolio continues to be overweight in Information Technology, Communication Services, Consumer Staples, Materials and Consumer Discretionary versus the Russell 2000 Growth benchmark. The portfolio is underweight the benchmark in all other sectors. We have no exposure to Utilities, Real Estate, or Energy.

Market Environment

In early April, the Trump Administration introduced a new wave of tariff measures that initially unsettled markets and investors alike. Branded as “Liberation Day,” the tone and substance of the announcement raised concerns about potential trade disruptions and broader macroeconomic implications. This policy shift triggered a spike in volatility and increased risk aversion, particularly among growth-oriented stocks.

At the Berkshire Hathaway Annual meeting in early May 2025, Warren Buffett remarked, “People have emotions, but you got to check them at the door when you invest.” His words served as a timely reminder of the importance of emotional discipline during turbulent markets. Despite heightened uncertainty, these dislocations also created compelling opportunities especially in underfollowed areas of the market where long-term secular tailwinds remain intact and valuations diverged from fundamentals.

Later in the quarter, a series of transformative Executive Orders issued by the Administration along with relief from unsustainably high levels of tariffs, particularly on Chinese goods, reignited investor optimism. The policies reduced regulatory friction, accelerated approval timelines, and signaled strong federal support for several high-growth sectors, including artificial intelligence (AI), eVTOL aircraft and next-generation nuclear power. Although the lower levels of tariffs were not permanent, they clearly indicated that the administration was not willing to sabotage the economy in pursuit of fairer trade terms with international partners. Many businesses appeared to be on complete pause in early April, as evidenced in real time by a sharp decline in ocean freight volumes. However, this fear did not persist through the remainder of the quarter. Not only did conditions return to normal, but the country also appeared poised to benefit from broad-based stimulus included in the U.S. Government’s Reconciliation Bill, which was working its way through Congress.

Performance & Attribution

For the second quarter of 2025, the Russell 2000 Growth Index gained 12.0% for the quarter, while the Granahan Small Cap Select strategy outperformed meaningfully with a return of 38.6%. Year-to-date, the Granahan Small Cap Select strategy is up 16.0%, recovering steadily from the negative returns of the first quarter. In contrast, the Russell 2000 Growth Index remains in negative territory with a return of -0.5%. Outperformance for the quarter was mainly driven by stock selection in Information Technology and Communication Services.



With respect to LifeCycle categories for the quarter, all three categories outperformed the benchmark.

Top Contributors	Top Detractors
1. Magnite, Inc. (Communication Svs., Core Growth)	1. Sweet Green, Inc. (Consumer Disc, Pioneer)
2. Porch Group (Info. Technology, Pioneer)	2. OrthoPediatrics (Health Care, Core Growth)
3. indie Semiconductor (Info. Technology, Pioneer)	3. Vivid Seats (Communication Svs, Special Situation)
4. Carpenter Technology (Materials, Special Situation)	4. Insmmed Inc. (Health Care, Pioneer)
5. Comfort Systems USA (Industrials, Core Growth)	5. FTAI Aviation (Industrials, Core Growth)

Positioning

Using a weather analogy, the dark skies that defined the first quarter began to clear in the second, with sunshine breaking through in mid-April. We were encouraged to see the market rebound from the tariff scare, and overall, we were pleased with the quality of earnings reports and outlooks across our portfolio companies. The quarter was marked by a favorable combination of strong performance from our largest holdings and minimal exposure to companies that reported disappointing results. In fact, nine of the portfolio's top ten positions at the start of the quarter outperformed the benchmark over the period, some meaningfully.

Throughout the quarter, we maintained our meaningful underweight to the Health Care sector, as discussed in prior commentary. In contrast, our overweight to Technology expanded both organically, through strong performance, and strategically, with the addition of two high-conviction positions: **Silicon Motion** and **Digital Turbine**.

We are optimistic about **Silicon Motion's** potential for market share gains in its core PC and mobile phone markets, as well as its emerging opportunity in data center storage, a promising tailwind as enterprise demand for flash controllers scales, with Data Center demand.

Digital Turbine represents a re-engagement with a former holding, prompted by a shifting regulatory environment. We believe the growing momentum to dismantle the duopoly of the Google Play Store and Apple App Store, via court rulings, regulatory pressure, or new legislation will create a compelling opening for alternative app store ecosystems. In such a scenario, **Digital Turbine** is well-positioned to become the premier technology partner for these emerging platforms. Even as we were still building our position during the quarter, the stock was one of our top contributors—driven by a sharp acceleration in its international pre-installed apps business. This made it a timely and impactful addition to the portfolio.

Looking ahead, tariff policy, and broader macroeconomic risks may re-emerge as market headwinds. However, we remain confident in the durability and competitive positioning of many of our portfolio companies. We continue to find opportunity in businesses that are gaining share and are exposed to resilient or secularly growing end markets, including orthopedic devices, aerospace, and infrastructure supporting artificial intelligence and power generation.

Outlook

As we enter the third quarter, recession fears have abated, interest rates have stabilized, and the evolving tariff landscape is coming into focus. The Trump Administration has taken assertive steps to advance its economic agenda, including regulatory rollbacks that could accelerate activity in key areas such as U.S. reshoring, infrastructure modernization, and industrial technology advancement. For high-quality, innovation-driven small caps, this environment offers a compelling setup, and we believe the current



landscape favors active managers positioned to identify and invest in companies executing well through the volatility. At the same time, we remain attentive to potential disruptions that could impact the markets including evolving tariff policies, ongoing geopolitical tensions, and signs of renewed economic uncertainty. We continue to monitor these developments closely and maintain a fundamental-driven approach to risk management across the portfolio.

Our portfolio holdings reflect high-conviction themes such as AI infrastructure, industrial automation, and biotechnology innovation. Our investment approach remains disciplined and focused on companies with strong balance sheets, durable competitive advantages, and exposure to powerful secular trends that we believe will drive attractive, long-term returns.

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