

**SMALL CAP CORE GROWTH****Portfolio Comments****June 30, 2025****Commentary**

The second quarter of 2025 was marked by growing investor optimism as the U.S. economy showed unexpected resilience despite ongoing geopolitical tensions and the continued implementation of the new administration's fiscal reforms. While concerns about a slowdown lingered, particularly as government spending cuts began to take effect, strong corporate earnings and easing inflationary pressures provided a boost to equity markets. Signs of stabilization in U.S.-China trade negotiations, along with moderating energy prices, despite continued conflict in Eastern Europe and the Middle East, contributed to improved market sentiment. Against this complex backdrop, the Russell 2000 Growth Index gained 12.0% for the quarter, while the [Granahan Small Cap Core Growth](#) strategy outperformed meaningfully with a return of 20.5%. Year-to-date, the Granahan Small Cap Core Growth strategy is up 4.8%, 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%.

Portfolio performance in the second quarter reflected a broadening of leadership with top and bottom contributors spanning a mix of sectors and lifecycle categories. Among the notable contributors was **Porch Group** (Technology, Pioneer), a provider of home services software with an integrated insurance platform. The stock surged after the company swung to profitability, driven by robust growth in its insurance segment, strong fee-based policy management and a raised full-year outlook. We have trimmed our large position into strength. **Magnite** (Communication Services, Core Growth), which offers programmatic advertising technology, advanced on expanding margins and narrowing losses. Positive sentiment around antitrust action against Google and the announcement of a new advertising partnership with Netflix added to the upside. We increased our position because of these new developments. **indie Semiconductor** (Technology, Pioneer), a provider of ADAS and automotive sensor chips, rose following a series of strong design win announcements. While sales remained steady, investor enthusiasm around future growth potential fueled the stock's move higher. **Oddity Tech** (Consumer Staples, Core Growth), an online retailer of cosmetics and beauty products, uses AI to deploy targeted molecules, attract and retain customers and personalize product recommendations. The company posted record revenue and EBITDA for the quarter and raised full-year guidance, reflecting strong brand momentum and effective digital engagement. **Centrus Energy** (Energy, Special Situation), a supplier of low-enriched uranium for commercial nuclear power plants, advanced sharply. The company nearly doubled revenue and meaningfully beat earnings expectations, supported by favorable U.S. nuclear energy policy and limited domestic competition. We continue to hold positions in indie Semiconductor, Oddity Tech and Centrus Energy.

On the other end of the spectrum, **OrthoPediatrics** (Health Care, Core Growth), the only pure-play orthopedic device company focused on pediatric implants and instruments, declined after Q1 earnings were reported in-line. While short-term investor concerns about slowing growth are weighing on the stock, we believe the stock is attractive given its market leadership in a growing pediatric orthopedics



market, a strong balance sheet and compelling valuation relative to its long-term growth trajectory. **Syndax Pharmaceuticals** (Health Care, Pioneer), a biotech innovator focused on oncology, gave back some of its earlier gains. Despite a strong Q1 beat, investor sentiment turned cautious amid clinical trial variability concerns, particularly around efficacy comparisons between Syndax's Revumenib and competitor Ziftomenib. We believe the street is underestimating the size of the market and the strength of Syndax's competitive position. We have added to both OrthoPediatrics and Syndax. **Compass, Inc.** (Real Estate, Special Situation), is a tech-enabled real estate brokerage. Despite reporting strong Q1 results, the shares fell amid rising concerns about mortgage rates and renewed pressure on residential transaction volumes. The company continues to gain share, largely due to its highly differentiated technology, which makes agents far more efficient. Given the significant macro headwinds, we are holding a below average position in the name. **Cogent Communications** (Communication Services, Special Situation), a provider of fiber-optic internet and data services, declined because of a delay in ramping its optical wavelength services. We believe this is a timing issue, and view the pullback as a compelling entry point because of expanding margins, robust dividend yield and potential data-center monetization. We are maintaining positions in both Compass and Cogent. **Sweetgreen** (Consumer Discretionary, Pioneer), a fast-casual salad chain leveraging robotic automation, reported its first same-store sales decline (-3%) since its IPO, contributing to investor concern about near-term demand trends. SweetGreen's automation provides for faster throughput and better operating profits. We are opportunistically adding to our position.

The year-to-date list of top contributors remains largely unchanged, with the addition of **SI-BONE** (Health Care, Pioneer), a leader in sacroiliac joint fusion, a product that is minimally invasive, reported robust quarterly results. Detractors for the period included **Pliant Therapeutics** (Health Care, Pioneer), **Columbus McKinnon** (Industrials, Special Situation), **Onto Innovation** (Technology, Special Situation), **SPS Commerce** (Technology, Core Growth), and **Sweetgreen**.

Attribution

During the second quarter of 2025, outperformance was driven primarily by strong stock selection. The overweight position in Information Technology was the largest contributor, particularly within the Software & Services industry group. Equal weight positions in Health Care and Consumer Staples also contributed meaningfully to relative returns. Communication Services, another overweight sector, added positively, as did the underweight allocation to Energy. On the other hand, underweight positions in Consumer Discretionary, Real Estate, Financials, and Industrials detracted modestly on a combined basis, with Industrials representing the largest single detractor.

For the year-to-date, outperformance was driven primarily by strong stock selection particularly in Information Technology and Consumer Discretionary and Staples. Underweight Industrials were the largest detractor.

Weightings

Performance-driven shifts led to changes in sector weights over the quarter, with Technology increasing by 3%, and Communication Services and Materials each rising by 1%. All other sectors declined by 1%. During our semi-annual Lifecycle review, six companies—AvePoint, Genius Sports, JFrog, Oddity, Okta, and Toast—graduated from Pioneer to Core Growth, contributing to the decline in Pioneer exposure



from 33% to 25% quarter-over-quarter. Meanwhile, Special Situations rose to 23% from 19%, reflecting the reclassification of our solar energy holdings from Core Growth. As a result, the Core Growth category expanded modestly, increasing from 46% to 49% of the portfolio.

Themes

At the Berkshire Hathaway Annual meeting in early May 2025, Warren Buffett remarked, *“People have emotions, but you’ve got to check them at the door when you invest.”* His words served as a timely reminder that emotional discipline is essential during periods of extreme market turbulence, such as those experienced by investors in the second quarter. While the environment was undoubtedly volatile, it also created compelling investment opportunities in underfollowed areas of the market, particularly where secular tailwinds remain intact and valuations disconnect from fundamentals.

Against this backdrop, select areas of the portfolio benefited from policy-driven tailwinds. A series of Executive Orders issued during the quarter ignited investor enthusiasm by reducing regulatory barriers, accelerating approval processes, and signaling robust federal support for several high-growth industries. These orders target sectors including artificial intelligence (AI), eVTOL aircraft, next-generation nuclear power, and digital assets such as stablecoins, serving as catalysts for several portfolio holdings.

For example, **Archer Aviation (ACHR)** gained on news of an Executive Order directing the FAA to streamline eVTOL certification. **Centrus Energy (LEU)** rallied on accelerated licensing and federal support for nuclear fuel under a separate initiative. **Circle Internet Group (CRCL)** also advanced following an order promoting U.S.-dollar-backed stablecoins and clearer regulation for digital assets.

Investor sentiment toward biotechnology improved as regulatory overhangs began to ease, with the newly confirmed FDA Commissioner reaffirming the agency’s commitment to accelerating drug approvals. Additional stability came from the newly appointed head of CBER (Center of Biologics Evaluation and Research), who reiterated regulatory support for innovation in cell and gene therapy, helping to restore confidence across the sector. Select holdings such as **Stoke Therapeutics (STOK)** and **Intellia Therapeutics (NTLA)** responded positively to these developments.

Additional tailwinds for the healthcare sector included a pickup in M&A activity and several encouraging clinical trial results. The portfolio benefited from the announced acquisition of **Blueprint Medicines (BPMC)** by Sanofi, as well as encouraging Phase 3 results from **Insmid (INSM)** for brensocatic, a therapy targeting a high-need condition with no approved treatments. As the overall sector continues to evolve, we have refocused the portfolio toward companies with differentiated pipelines, compelling fundamentals, and long-term catalysts we believe are best positioned to perform in this shifting environment.

Information technology was one of the top-performing sectors in the quarter, supported by easing macroeconomic concerns and continued momentum from hyperscalers accelerating their AI infrastructure buildouts. The sector benefited from a surge in capital investment, as leading cloud and technology providers ramped up spending to meet the demands of generative AI and large-scale machine learning applications. Semiconductor stocks emerged as key beneficiaries of this capex cycle, driven by the need for greater computational performance and energy efficiency. **Astera Labs (ALAB)**, a



provider of high-speed silicon-based connectivity solutions, is well-positioned to capitalize on this trend with products critical for scaling AI compute deployments, while **Nova (NVMI)** plays a vital role in precision and yield for AI-focused wafer production and advanced packaging. These companies, along with other high-conviction semiconductor holdings, are directly leveraged to the surge in demand for high-performance compute architectures that underpin AI workloads. With secular tailwinds in AI, cloud computing, and data infrastructure intact, we believe the technology sector remains well positioned for sustained growth, margin expansion, and long-term market leadership though we remain mindful of valuation risk and policy shifts that could impact capital investment

Macro

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 negative economic implications. This triggered a spike in market volatility and heightened risk aversion, particularly toward growth-oriented stocks.

Despite these headwinds, the U.S. economy demonstrated resilience in the second quarter. The Federal Reserve Bank of Atlanta’s GDPNow model currently estimates 2Q25 real GDP growth of 2.6, supported by healthy consumer spending and a rebound in business investment. Inflation moderated further, with core CPI trending near 2.5% year-over-year which is well off its highs giving the Federal Reserve potential room to ease policy if conditions warrant. While interest rates remained elevated, the cost of capital has become a more predictable input for businesses and investors alike.

Against this backdrop, U.S. small-cap growth stocks staged a strong comeback in the quarter. M&A activity increased, IPO pipelines began to reopen, and investors gravitated toward companies with strong balance sheets, secular growth drivers, and more reasonable valuations. These dynamics created opportunities for active managers to identify emerging winners in an environment increasingly favorable to innovation-driven small caps

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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