Future Pathways

Portfolio Comments
December 31, 2023

Distinguishing Features

GIM builds the Future Pathways portfolio from the bottom-up; sector weightings are secondary to stock selection. During the period, the Future Pathways portfolio remained overweight Industrials and Information Technology, and we added the Consumer Staples. We remain underweight the Russell 2500 Growth benchmark in all other sectors. The portfolio has no exposure to Utilities, Communication Services, Financials, Real Estate, or Materials.

Market Environment

Despite stock markets being up in 2023, smaller companies struggled as valuations and earnings were significantly impacted by higher interest rates and inflation. It is important to note that the S&P 500 and the Russell 2000, on an equally weighted basis, both hit lows in October from their peaks in 2021. This suggests we have been in a bear market for most stocks for two years despite strong performance coming from some of the largest market cap stocks. While there are plenty of macro uncertainties still in the mix, we see noteworthy positives. In the middle of December, the Fed signaled a more dovish stance on interest rates and lower inflation data points have also been encouraging.

Performance & Attribution

The Granahan Future Pathways strategy returned +6.6% in the quarter, lagging the +12.6% return of its Russell 2500 Growth benchmark. Challenges in quarter were largely tied to allocation and selection in Technology, Industrials, and Consumer Discretionary. Strong stock selection in Health Care and Energy was a positive this quarter but not enough to offset the portfolio's detractors. For the full year, the strategy returned +6.1%, underperforming the index return of +18.9%.

With respect to LifeCycle categories overall, Pioneers outperformed the benchmark this quarter and for the year while Core Growth and Special Situations lagged.

TOP CONTRIBUTORS	
4Q – 2023	**2023**
1. Castle Biosciences (Health Care, Pioneer)	**1. Axon Enterprise** (Industrials, Core Growth)
2. SoundThinking (Technology, Pioneer)	2. **Quanterix** (Health Care, Pioneer)
3. Olink Holding (Health Care, Core Growth)	**3. Nutanix** (Technology, Pioneer)
4. Axon Enterprise (Industrials, Core Growth)	**4. Castle Biosciences** (Health Care, Pioneer)
5. Nutanix (Technology, Pioneer)	**5. Monolithic Power Systems** (Technology, Core Growth)

TOP DETRACTORS	
4Q – 2023	**2023**
1. Array Technologies (Technology, Core Growth)	1. **Enphase Energy** (Technology, Core Growth)
2. Chart Industries (Industrials, Special Situation)	2. **Ameresco** (Industrials, Core Growth)
3. **Ameresco** (Industrials, Core Growth)	**3. SoundThinking** (Technology, Pioneer)
4. Gentherm (Consumer Discretionary, Special Sit)	**4. Kornit Digital** (Industrials, Core Growth)
5. Renalytix (Health Care, Pioneer)	**5. Array Technologies** (Technology, Core Growth)

Positioning
Despite a strong rally to finish to the year, 2023 was a difficult year for Future Pathways to outperform its broad-based Russell 2500 growth index. Clean energy and climate change-oriented companies' stocks significantly underperformed for both the fourth quarter and the year, which resulted in notable headwinds. In some ways, this felt unavoidable given the nature of clean energy projects being capital intensive and subject to long-term financing. As interest rates and the cost of financing went up, the growth of climate change investments and spending materially slowed, particularly in residential applications. What was much harder to predict was the fact that the U.S. Treasury Department would still not have given guidance on what qualifications are necessary to earn a 10% U.S. domestic content bonus credit that can be earned and is retroactive to the start of 2023. This in turn delayed many projects that were waiting in the wings as project sponsors wanted to make sure they could take full advantage of the bonus at the lowest possible cost for qualification.

The good news is we anticipate the outlook being much better going forward. Interest rates have started to come down and the cost of solar supplies has begun to decrease dramatically. The Treasury Department is bound to finally give guidance in 2024, at which time we anticipate a strong inflow of project awards and projects starts that have been pushed out from 2023. Solar energy was over 40% of new generation capacity in the United States in the last year, and we think its market share going forward will go up as costs for solar decrease more than alternative generation modalities.

During the year, we did our best to mitigate the downward pressure in the clean energy space by reducing our position to the low end of our targeted range, including selling most of our residential-oriented solar company positions. We anticipate residential will likely be more challenged from an investment perspective than the Utility scale space in the years to come. Going forward, we will look to rebuild this position size strategically as some of the headwinds to growth abate.

During the quarter, the most significant addition to the portfolio was our addition of **SunOpta**, a processor of plant-based beverages including Oat Milk and Almond milk. These beverages have been consistently gaining popularity over the years and are a far less carbon intensive product than dairy-based milks. During the fourth quarter, we built our position as the company showed much better results from market share wins and growth than the market was anticipating, overshadowing slowing growth in the traditional retail market, which is not SunOpta's primary distribution channel. We are also highly encouraged by the company's sale of its frozen fruit business. This transaction will serve to accelerate growth, improve margins, and lower the debt level of the company, which should lessen volatility and lead to a higher valuation of the company over time.

While we were disappointed in our 2023 results, we do feel that the Clean Energy stock should have a better year in 2024 and that the push to sustainable solutions will continue unabated.

Outlook
Earnings for small cap companies, as measured by the Russell 2000, are estimated to increase almost 20% in 2024 following two years of declining EPS. According to both Lori Calvasina from RBC and Steve

DeSanctis of Jefferies, balance sheets of Russell 2000 companies have near-record levels of cash. We believe our portfolio valuations are at extremely low levels, and a handful of our portfolio companies are trading at or near cash levels. While it is not possible to predict outcomes, this combination of low valuations and expected growth in earnings leaves us optimistic regarding the outlook for our portfolios.