



## FOCUSED GROWTH

### Portfolio Comments

September 30, 2024

In the third quarter of 2024, the [Granahan Focused Growth](#) portfolio returned +17.1% compared with the Russell 2000 Growth benchmark return of +8.4%, outperforming by approximately 870 basis points. Below I discuss the individual portfolio holdings that were top contributors and detractors in Q3:

#### Q3 Largest Relative Contributors:

- **Zeta Global Holdings (ZETA)** - Zeta operates a marketing-technology platform that lets advertisers combine their internal first-party data with third-party data to attract, retain, and cross-sell customers. ZETA shares rose +69% in Q3, contributing +420 basis points to performance. The company beat earnings in Q2, has pre-announced strong earnings for Q3, and unveiled some impressive new products at its recent Zeta Live user conference. We believe the company remains well positioned, and clearly business momentum is good at Zeta. That said, while we still own a very large position, the stock's strong appreciation led us to reduce it meaningfully in Q3.
- **Genius Sports (GENI)** - Genius Sports provides real-time sports data and other services to online sports books. GENI shares rose +44% in Q3, contributing +210 basis points to performance. The company reported strong results and importantly, cleaned up a private equity position owned by Atlas which has been an overhang on GENI shares. Given the share price move, we cut back the position, but still maintain a large position in GENI shares.
- **Evolent Health (EVH)** - Evolent helps healthcare payers and providers manage complex conditions such as oncology and cardiology with the twin goals of providing better service and lower cost. EVH shares rose +48% contributing +170 basis points to performance. The company reported a good Q2 and reassured investors regarding two important items: 1) That Evolent would indeed be both retroactively paid and have contracts adjusted for changes in Medicaid usage. This was a big overhang following Q1 earnings; and 2) Reaffirmed its \$300M EBITDA run rate target at the end of 2024. These factors enabled the stock to rebound some during Q3 (+48%) after its significant fall in Q2 (-42%). The company remains well positioned, the stock continues to have an attractive expected return and risk/reward, and it is a relatively large holding in the fund.

#### Q3 Largest Relative Detractors:

- **indie Semiconductor (INDI)** - Designs and sells semiconductors for uses such as user experience, connected car (e.g. Apple CarPlay), and increasingly advanced vision and radar for driver assistance, autonomous driving, and driver monitoring. INDI shares fell -35% in Q3, hurting performance by -305 basis points. The company reduced guidance citing continuation



of an automotive inventory correction that has been underway for several quarters. This in turn reduced sales of existing designs and more significantly pushed out shipments of new models with Indie's designs. Importantly, the company has not lost design wins--i.e., shipments/sales of their chips will occur, just later than expected. We have essentially maintained our investment in INDI shares.

- **Sprout Social (SPT)** - Sprout, a leader in social media management software, reported a largely inline Q2. We sold a significant portion of our investment, during the quarter at what turned out to be very attractive prices. The stock ended Q2 down -19% hurting performance by -118 basis points. We exited the quarter owning SPT at a substantially reduced weight. This reflects a combination of Sprout's good business position, an attractive expected return, but also the fact that the company is currently navigating several uncertainties.
- **Montrose Environmental Group (MEG)** - Montrose is an environmental services company focused on assessment, permitting, analyzing and remediating a wide range of environmental contaminants. MEG shares fell 41% and cost 74 basis points during Q3. Investors are skeptical the company can meet/beat H2 2024 and 2025 estimates due to a variety of factors including regulatory changes and the possibility of a Trump election victory. We have a very small position believing that while both are legitimate concerns, there is a good chance they will not come to pass, and the stock's valuation is quite discounted.

### Signs of Spring After a Long Winter

Small and mid-cap secular growth stocks are showing signs of life after an extended rough period of performance. The asset class is up nicely since October of 2023 (the Russell 2000 Growth Index +38%, Granahan Focused Growth +39%). However, this rise has been eclipsed by the growth in the Mag 7 U.S. tech stocks (+68% during this period) "broadly," and more narrowly and spectacularly, Mag 7 stock Nvidia (NVDA) rising +201% over this period.

The very recent data is more encouraging. Since July 10, 2024, the Mag 7 have declined, while the Russell 2000 Growth is up and Granahan Focused Growth is up even more. This better performance stands to reason. During the two-year period from November 2021 to October 2023, The Greek God of Wind Aeolus threw fierce headwinds at small cap growth stocks: interest rates and inflation both spiked sharply; growth slowed materially; and multiple wars contributed to an elevated level of macro instability and uncertainty. All these factors were bearish for the kinds of smaller secular growth stocks in which the Focused Growth portfolio is invested. Hence, as I've written about, it was a very narrow market. Investors were happy owning 5%+ U.S. T-Bills. And, to the extent they dipped their toes in equities, were inclined to own Nvidia, the other momentum-driven Mag 7 stocks, and perhaps a few other AI related stocks.

Thankfully, most of these factors have either reversed or been neutralized. U.S. 10-year Treasuries began to fade in October 2023, and the Fed followed cutting interest rates by 50 basis points this September, signaling more is to come. Inflation has been tamed at least for now, and corporate growth rates appear to have stabilized--albeit at levels well below the heady rates of a few years



ago. The sole exception to the headwinds reversing is, very depressingly, that the wars in Ukraine, Sudan, and the Middle East are if anything getting worse.

In turn, investors appear to have begun to widen their apertures beyond just T-bills and the Mag 7, and U.S. smaller growth stocks are showing some life. This widened aperture extends to investors beginning to expand their AI lens beyond AI infrastructure plays, to include companies positioned to *benefit* from AI--something we have been anticipating for some time. In the Focused Growth portfolio, this includes companies such as Zeta Global (ZETA), which has introduced hundreds of AI agents to help their customers get more efficacy and efficiency from the Zeta platform. Similarly, at Hubspot's (HUBS) recent Inbound user conference, the company introduced its AI suite called Breeze, which uses various AI-powered tools and features to improve productivity and business outcomes across the Hubspot platform. And Axon's (AXON) Draft One AI-powered report-writing tool automatically generates a high-quality police report draft using body-worn camera audio within minutes of an incident. Agency trials have shown that it can save officers an hour or more per day on report writing. Investors are starting to take notice of these real-time applications.

More broadly, we are encouraged that the companies owned in the Focused Growth portfolio are largely executing on their business plans (again, growing generally at healthy levels albeit lower than a few years ago) and importantly meeting or beating investor expectations. This was largely the case in both Q1 and then again in Q2. We'll see shortly about Q3, but I'm cautiously optimistic.

I remain confident that the philosophy and process underlying the Granahan Focused Growth investment strategy can and will continue to generate good returns over most intermediate and long-term environments. As a reminder, we seek companies worthy of taking to a desert island for 5-7 years, and meld this company analysis with a disciplined probability-weighted expected return valuation, careful portfolio construction, and sound risk management.

## **Content Corner**

Before closing, as usual I'd like to share some content I think you might like:

A Couple of Videos:

[Roger Federer - Dartmouth Graduation Speech](#) - In Roger Federer's 2024 Dartmouth Commencement speech, he provides lessons about graduating (be it from school or tennis), life beyond the court, and how "it's only a point." During this last lesson, he notes that he won 80% of the 1526 tennis matches he played, but astonishingly, only 54% of his points. Investors can take some...*pointers*...from this.

[Peter Lynch & Charlie Rose - 1993 Classic Interview](#) - I stumbled upon this terrific Charlie Rose interview with legendary investor Peter Lynch. Not sure how Lynch squeezes so many fantastic nuggets of advice into 19 minutes and 37 seconds...but he does. If you're an investor, thinking about investing, or believe you can predict interest rates, listen to this interview.



Books:

[Demon Copperhead](#) - Barbara Kingsolver's modern retelling of Dickens' *David Copperfield*. Set in rural Appalachia, the novel's central character Demon navigates a life of poverty, addiction, and survival.

[Intermezzo](#) - Irish author Sally Rooney's (Normal People) latest novel explores the complex relationship between two brothers, Peter and Ivan, as they experience grief, love, and self-discovery in the wake of their father's death. Her prose is at times purposely reminiscent of Joyce's Ulysses. But don't let that scare you, Intermezzo provides juice that is well-worth the squeeze. One more note, I highly recommend listening to the audiobook which is wonderfully narrated by Irish Actor and filmmaker Éanna Hardwicke.

[On The Edge: The Art of Risking Everything](#) - Nate Silver, founder of the *fivethirtyeight* podcast, writes about probabilities in many forms, from poker, to investments, to elections, to sports betting and much more. If you think in probabilities, you'll enjoy Silver's book.

A Movie:

[Blue Jay](#) - Confession, I have a soft spot for RomComs. This one stars Sarah Paulson and Mark Duplas as once high school sweethearts reunited for 24 hours, and is different and better than most.

I wish you and yours a happy holiday season and I also wish for a just and lasting peace to come to the far too many war-torn regions and peoples of the world.

Sincerely,

A handwritten signature in black ink that reads 'Andrew' in a cursive style.

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