



SMALL CAP ADVANTAGE

Portfolio Comments

March 31, 2025

Distinguishing Features

GIM builds the [Small Cap Advantage](#) portfolio from the bottom-up; sector weightings are secondary to stock selection. As of March 31, 2025, the Small Cap Advantage portfolio was underweight its Russell 2000 Growth benchmark in Health Care, Industrials, Energy and Consumer Discretionary and overweight all other sectors. The portfolio has no exposure to Consumer Staples.

Commentary

Market Environment

Inflation concerns that dominated the headlines in 2024 have evolved into broader fears of stagflation, contributing to a more cautious investment environment. Expectations for accelerating earnings growth in small-cap equities have moderated meaningfully. At the same time, the newly imposed tariffs are expected to place upward pressure on prices, even as several economic indicators reflect declining business and consumer confidence. While the underlying fundamentals of the U.S. economy remain relatively resilient, uncertainty surrounding the Trump administration’s evolving agenda has weighed on investor sentiment and contributed to increased market volatility. In this environment, shifting policy narratives are likely to sustain a higher level of uncertainty, making it more challenging to forecast the near-term impact on corporate earnings.

Performance

For the first quarter of 2025, the Granahan Small Cap Advantage strategy returned -12.4%, underperforming the -11.1% return of its Russell 2000 Growth benchmark. Selection in Financials, Real Estate, and Consumer Discretionary contributed positively for the quarter. The largest detractor for this quarter came from stock selection in the Health Care sector.

With respect to LifeCycle categories for the quarter, Core Growth companies were the largest penalty to performance followed by Pioneers and Special Situations.

Top Contributors	Top Detractors
1. Porch Group (Technology, Pioneer)	1. indie Semiconductor (Technology, Pioneer)
2. Genius Sports (Industrial, Pioneer)	2. Kornit (Industrials, Core Growth)
3. Life Time Group Hldgs. (Consumer Disc, Core Growth)	3. Pliant Therapeutics (Health Care, Pioneer)
4. Marex Group (Financials, Core Growth)	4. Kura Sushi USA (Consumer Disc, Pioneer)
5. Compass, Inc. (Real Estate, Special Sit)	5. Globant SA (Technology, Core Growth)



Outlook

The current investment landscape for small cap growth stocks is characterized by both uncertainty and opportunity. The Trump administration's strategy to address the country's fiscal challenges, centered on reducing government waste, fraud, and unnecessary spending, has introduced a new dynamic into the market. At the same time, the administration's efforts to re-industrialize the U.S. economy, particularly through the use of tariffs, have fostered a more protectionist trade environment, adding volatility to global supply chains and dampening investor sentiment. While these initiatives aim to enhance long-term fiscal health, they also contribute to near-term unpredictability as federal programs and agencies undergo restructuring.

Nevertheless, this uncertain backdrop creates compelling opportunities for small cap growth investors. Many innovative small cap companies continue to demonstrate strong fundamentals, including robust revenue growth, scalable business models, and unique market positions, yet are trading at historically attractive valuations due to broader macroeconomic concerns. Market dislocations can provide long-term investors with the chance to establish and build positions in high-potential businesses before sentiment recovers. As capital begins rotating back into growth-oriented equities in anticipation of economic stabilization, small caps—especially in technology, healthcare, and industrials—could deliver meaningful returns. Accordingly, we remain focused on the underlying fundamentals of the businesses we invest in and believe that current market volatility presents an opportunity to position the portfolio for long-term success.

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