



SMALL CAP CORE GROWTH

Portfolio Comments

March 31, 2025

Commentary

The first quarter of 2025 saw the transition to a new U.S. administration and the rollout of major policy changes--including plans to cut spending to reduce the deficit--raising concerns about a potential economic slowdown. Shifting tariffs and their potential impact on supply chains and prices have made “uncertainty” the dominant theme in U.S. equity markets. Geopolitical instability, including U.S.-China trade tensions and conflicts in Eastern Europe and the Middle East, is adding to market volatility. Given this evolving backdrop, the Russell 2000 Growth Index declined 11.1% for the quarter, while the [Granahan Small Cap Core Growth](#) strategy fell 13.0%.

Of the detractors, three were in the Pioneer lifecycle category: **indie Semiconductor** in Technology and **Pliant Therapeutics** and **Viking Therapeutics** in Health Care. Special Situation company **Columbus McKinnon** in Industrial and Core Growth company **SunOpta** in Consumer Staples round out the largest detractors. **indie Semiconductor** has faced meaningful pressure from macroeconomic headwinds, particularly the uncertainty surrounding tariffs and their impact on global auto production. The company has proactively reduced operating expenses to navigate the period of softer demand. We continue to hold our position as the stock now trades at a depressed valuation relative to its long-term growth potential. **Pliant Therapeutics’** stock declined sharply following the emergence of an unexpected safety signal related to its pulmonary fibrosis drug, Bexotegrast. In light of this development, we exited our position. Uncertainties surrounding U.S. tariff policies and investor apprehension toward **Columbus McKinnon’s** strategic acquisition of Kito Crosby Limited weakened the stock. The merger will yield over \$70 million in annual net cost synergies enhancing operational efficiency while also increasing the company’s exposure to recurring consumable revenue that should reduce the cyclicity of the overall company. We continue to hold the stock. **SunOpta** reported lower gross margins due to ongoing strategic investments and a temporary supply chain disruption. However, given the company’s continued market share gains in the expanding organic and specialty foods sector, we increased our position. **Viking Therapeutics** experienced a meaningful decline in the quarter due to escalating competition in the obesity treatment market. We have increased our position as the company has demonstrated notable progress in its clinical pipeline, particularly for its oral version of the drug, and believe the company is strategically positioned to capitalize on the growing obesity treatment market.

Three Core Growth names contributed positively to the portfolio this quarter: **Casella Waste Systems** and **RBC Bearings** in Industrials, and **Life Time Group Holdings** in Consumer Discretionary. Rounding out the top five contributors were Pioneer names **Porch Group** in Technology and **Intra-Cellular Therapies** in Health Care. Porch Group has shifted its strategic focus to a more streamlined model that improves revenue visibility and reduces exposure to insurance market volatility. The company also issued initial 2025 EBITDA guidance which was



approximately 100% above Street consensus. Given the compelling valuation, we are holding our position. Casella Waste Systems is a vertically integrated waste management company operating in the northeastern United States. The company's strategic acquisitions have bolstered its growth trajectory, with the last year being particularly active. Furthermore, the waste management sector's domestic focus insulates Casella from tariff-related risks, reinforcing its stable and promising long-term outlook. We trimmed our position given the strong relative performance. RBC Bearings demonstrated strong performance driven by robust demand in its Aerospace and Defense business. Additionally, RBC Bearings has achieved notable gross margin improvements reflecting the company's operational efficiencies and successful integration of strategic acquisitions. Given the company's strong financial foundation and positive outlook, we are maintaining our position. Life Time Group offers differentiated experiences to their health-conscious clients. Record member retentions and in-center revenue reflect a strong model, and we're maintaining our position. Intra-Cellular was up on a proposed offer from JNJ to acquire the company at a 36% premium so we sold out of the stock.

Attribution

Our overweighted Biotechnology holdings were the largest penalty to performance this quarter. We address the factors influencing this in the themes section of this report. The underweighted Consumer Staples, Industrials, Financial and Energy sectors all detracted from performance. Strength in the portfolio came from the overweight Information Technology sector, with Software and Services the most robust contributor. Other positive contributors include the overweight Consumer Discretionary and Real Estate sector. Core Growth companies were the largest penalty to performance followed by Special Situations and Pioneers.

Weightings

The Health Care weighting is down 4% from last quarter, bringing it in line with the Russell 2000 Growth Index. Information Technology is up 2%, which is significantly overweight at 31% of the portfolio. We are also overweight Communication Services. Industrials are up 4% and still underweight the Index. All other sectors are underweight the Index and relatively flat with last quarter. Since last March, we have reduced our Health Care and Technology weights and raised every other sector. Special Situations are up by 1% and Pioneers down by 1% since last quarter. Since March of 2024, Core Growth is up by 4% and Pioneers are down by 4%.

Themes

DeepSeek made waves in January 2025 with the launch of DeepSeek-R1, a free, open-source reasoning model that rivals leading AI systems, but was developed at fraction of the cost of its U.S. counterparts. While its debut initially sparked concerns of reduced hardware demand and triggered a broader market sell-off, the longer-term implications are more nuanced. DeepSeek's breakthrough in inferencing efficiency could accelerate AI adoption, consistent with Jevons' Paradox: as the cost of a resource drops, its overall consumption often increases. Supporting this view, major hyperscalers like Microsoft, Amazon, Google, Meta, and Oracle have already signaled increased AI-related capital expenditures in 2025, particularly inferencing infrastructure.



One key challenge remains inferencing speed, which limits AI's current capabilities to simple, text-based tasks. As AI evolves toward faster, more multimedia-rich, and agentic outputs, reducing latency becomes critical. This presents investment opportunities in two small-cap areas: AI connectivity and memory & storage. To capitalize, we increased exposure in both. In connectivity, we added **Astera Labs**, **Credo Technology**, and **Tower Semiconductor**—all innovators enhancing GPU interconnect speed. In memory and storage, we boosted positions in **Onto Innovation**, **Pure Storage**, and **Rambus**, companies enabling faster, higher-capacity AI processing. Despite the indiscriminate market sell-off, we believe these strategic areas offer meaningful long-term upside.

The reduction in the healthcare weighting of the Core Growth portfolio reflects a mix of macroeconomic and sector-specific challenges. The new administration's agenda to shrink the federal government has led to funding cuts at agencies like the NIH, CDC, and FDA, increasing uncertainty for the healthcare sector. The recent resignation of the FDA's head of the Center for Biologics Evaluation and Research (CBER) adds further risk for biotech companies, heightening concerns about potential delays in drug approvals and reduced research investment. These dynamics prompted us to exit positions in **Quanterix Corporation**, **10x Genomics**, and **EyePoint Pharmaceuticals**. At the same time, the congressional budget process introduces additional risks, particularly to Medicaid and Medicare. The expiration of ACA subsidies and potential funding reductions threaten hospital and insurer profitability; we sold **Health Catalyst** and **Evolent Health** due to their exposure.

Investor sentiment toward small-cap biotech M&A has deteriorated, partly due to increased licensing activity between Western and Chinese pharmaceutical firms—highlighted by Merck's recent deals—which may signal a more defensive stance in the industry and a diminished near-term catalyst for biotech valuations. In light of these risks, we have consolidated around high-conviction holdings with strong financials and promising technologies: **Blueprint Medicines**, with a leading therapy in Ayyakit and a focus on allergy and inflammation therapy; **Insmed Corporation**, leveraging ARIKAYCE for pulmonary disease; **Repligen**, a life sciences innovator in bioprocessing with limited exposure to broader risks; and **Kiniksa Pharmaceuticals**, which has executed a successful commercial launch of Arcalyst, a drug for recurrent pericarditis, and is advancing a valuable and, we believe underappreciated, pipeline.

Macro

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. 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 so far, 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 make it more challenging to forecast near-term corporate earnings.



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.

Disclosure: The information provided in this commentary should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed do not represent an account's entire portfolio and, in the aggregate, may represent only a small percentage of an account's portfolio holdings. All performance attribution is calculated using gross of fees returns and should be considered approximate.

It should not be assumed that any of the securities transactions or holdings discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.