

**SMALL CAP DISCOVERIES****Portfolio Comments****September 30, 2025****Distinguishing Features**

GIM builds the [Small Cap Discoveries](#) portfolio from the bottom-up; sector weightings are secondary to stock selection. In Q3, the Discoveries portfolio was overweight versus the Russell 2000 Growth benchmark in Health Care, Industrials, and Communication Services. The portfolio is equal weight Information Technology and Materials and is underweight all other sectors. We have no exposure in Real Estate and Utilities.

Market Environment

U.S. small-cap equities have been driven by multiple tailwinds this quarter, as economic growth has proven more resilient than anticipated, corporate earnings have remained solid, and recent declines in interest rates, energy prices, and the dollar have supported investor optimism. Offsetting these strengths, however, risks persist: sticky inflation could constrain the Fed's flexibility, tariff disputes and retaliatory measures threaten global trade, the government shutdown injects fiscal uncertainty, and the potential impact of simmering geopolitical tensions remains unknown.

Themes

Artificial intelligence remained a key driver of Russell Microcap performance in Q3 as hyperscaler capex accelerated. We maintain targeted exposure to the theme—through Veeco Instruments, CEVA, Arteris, as well as infrastructure enablers outside of tech such as Centrus Energy and CECO Environmental that should benefit from power and facility upgrades tied to data-center buildouts. We continue to seek underappreciated AI beneficiaries—such as Arteris, whose fundamentals align with AI adoption yet whose shares have lagged peers—so we can participate in the trend while maintaining valuation discipline. At the same time, we have prudently reduced position sizes where expectations and valuations have become elevated, redeploying capital to areas with more attractive risk-reward.

Health Care, and particularly biotechnology, re-emerged as a leading theme this past quarter after a rocky start to 2025. After several years of outsized macro headwinds, followed by fresh pressure at the end of 2024 and early in 2025, investors worried the new administration's policies might disrupt the biopharma ecosystem. On the ground, however, the picture looks far less disruptive. Field checks with biotech management teams suggest operations remain largely "business as usual," and recent evidence supports this. In fact, some policy measures, particularly at the FDA, may prove constructive for the industry.

We remain attentive to risks. After the group's sharp run-up, valuations warrant careful monitoring, especially against a backdrop of ongoing macro uncertainties. We are actively managing both sector and individual position weightings to balance near-term caution with conviction in the long-term growth drivers that make biotechnology one of the most compelling areas of Health Care innovation today.

Performance Discussion.

For the third quarter of 2025, the Granahan Discoveries strategy returned 14.7%, modestly outperforming the Russell 2000 Growth Index return of 12.2%, but underperforming the secondary benchmark, Russell Microcap Growth Index, which returned 19.9%. Stock selection in Information Technology and Health Care added alpha while stock selection in industrials detracted from performance. With regards to Life Cycles



this quarter, Core Growth and Special Situations outperformed the Russell 2000 Growth while Pioneer names underperformed the benchmark.

3Q25 Top Contributors	3Q25 Top Detractors
1. CECO Environmental (Industrials, Special Sit.)	1. Soleno Therapeutics (Health Care, Pioneer)
2. Centrus Energy (Energy, Special Situation)	2. Mayville Engineering (Industrials, Special Situation)
3. Materion Corp. (Materials, Core Growth)	3. Cogent Comm. (Comm. Services, Special Situation)
4. Bel Fuse, Inc. (Info. Tech, Special Situation)	4. WillScot Holdings (Industrials, Special Situation)
5. Veeco Instruments (Info. Technology, Special Sit.)	5. Sweetgreen, Inc. (Cons Disc, Pioneer)

Top Contributors in Q3:

- **CECO Environmental (CECO)** provides engineered air pollution control, industrial water, and energy-transition solutions for power industries. The stock was a strong performer in the quarter as bookings accelerated led by natural-gas power projects. This increase in orders expands backlog and enhances revenue visibility into upcoming quarters. A higher mix of utility-gas work also supports operating leverage and margin progression.
- **Centrus Energy (LEU)** is an American supplier of enriched uranium fuel for commercial nuclear power plants. The stock strength was driven by rising uranium fuel prices, U.S. government support for domestic nuclear fuel production, and the company's announcement of a multibillion-dollar expansion to enhance enrichment capacity.
- **Materion Corp. (MTRN)** rallied after a solid quarter and constructive outlook with strength across semiconductors, aerospace, and industrial end markets. Investors responded to healthier bookings and backlog that improved revenue visibility and margin expansion. The company also stands to benefit from potential U.S. government support for critical minerals and domestic supply chains.
- **Bel Fuse, Inc. (BELFB)** designs and manufactures power conversion, circuit protection, magnetic, and connectivity solutions used across networking, industrial, and aerospace/defense end markets. Shares were strong in the quarter as bookings accelerated with networking OEMs resuming orders as programs restarted and inventories normalized.
- **Veeco Instruments (VECO)** is a leading provider of advanced thin film process equipment for semiconductor manufacturing serving key markets like AI chips, power devices, and compound semiconductors. The company delivered solid financial results and is well-positioned to benefit from surging demand for tech hardware in AI and advanced computing applications.

Top Detractors in Q3:

- **Soleno Therapeutics (SLNO)** is a clinical stage biotechnology company focused on novel therapeutics for rare diseases with its lead candidate targeting Prader-Willi Syndrome. The stock was weak in the quarter given investor concerns around potential side-effects.
- **Mayville Engineering (MEC)** is a value-added contract manufacturer that provides design, and metal-fabrication solutions to commercial vehicles, construction/access, powersports and other industrial customers. Shares were weak in 3Q as management guided to weak 2H25 due to soft demand and inventory destocking across key end markets. The July acquisition of Accu-Fab adds higher margin capabilities targeting power infrastructure projects. As macro conditions improve, we anticipate normalization in end markets supporting a more constructive 2026 outlook.



- **Cogent Communications (CCOI)** was weak in the quarter as investors grew impatient with the pace of revenue realization following the company's acquisition of Sprint's legacy networking assets. While the integration process proved more complex than initially expected, the long-term strategic rationale remains intact and believe the company can see meaningful contribution over the next several quarters.
- **WillScot Holdings (WSC)** is the leader in modular space solutions and portable storage units used across construction, industrial, and government end markets. Shares were weak as volume growth has not reaccelerated as expected given a soft non-residential construction market and softening pricing tailwinds. These factors tempered growth expectations, but we still expect stronger results over the next several quarters.
- **Sweetgreen, Inc. (SG)** operates a network of fast-casual restaurants focused on healthy, made-to-order salads and warm bowls. Operational execution has been weak with labor inefficiencies, elevated food costs, and slower throughput that weighed on profitability. Given the persistent execution challenges and limited visibility into margin improvement, we exited the position.

Outlook

Heading into the final quarter of 2025, recession fears have eased, and the Fed's September rate cut from 4.25% to 4.00% suggests the beginning of a more accommodative stance. Artificial Intelligence remains the centerpiece of market enthusiasm, with accelerating investment in AI infrastructure, cloud, and advanced data platforms reinforcing its role as a secular driver of productivity and growth. Small-cap growth stocks responded favorably in Q3, supported by renewed M&A activity, a reopening IPO market, and investor appetite for companies that combine innovation with disciplined execution.

We believe our portfolio is positioned to capitalize on these opportunities, anchored in high-conviction secular themes such as AI compute and infrastructure, industrial automation, advanced software platforms, and biotech and healthcare innovation. We remain disciplined in our approach, emphasizing companies with strong balance sheets, durable competitive advantages, and a demonstrated record of execution—traits we believe are essential for compounding value in a market still marked by uncertainty and selective risk.

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Small Cap Discoveries Composite Trailing Period Returns 3Q25 - Annualized

	3Q25	YTD	1-Yr	5-Yr	10 Yr
GIM SC Discoveries Composite – Net	14.7%	12.0%	8.6%	-0.2%	8.2%
Russell 2000 Growth Index	12.2%	11.7%	13.6%	8.4%	9.9%
Russell Microcap Growth Index	19.9%	19.3%	33.1%	7.8%	8.1%

Granahan Investment Management claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Granahan Investment Management has been independently verified for the periods January 1, 1993 through December 31, 2023. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The Small Cap Discoveries Composite has had a performance examination for the periods July 31, 2004 through December 31, 2023. The verification and performance examination reports are available upon request." GIM is an independent, SEC-registered investment firm that oversees small and mid-cap equity portfolios for large institutions and wealthy individuals. The Small Cap Discoveries product utilizes fundamental, bottom-up research and analysis to invest in companies in the small and micro-cap sector of the market that exhibit high and/or accelerating earnings growth. Composite consists of time-weighted total returns for all accounts managed by GIM in the Small Cap Discoveries style. The benchmarks for the Small Cap Discoveries product are the Russell MicroCap Growth and the Russell 2000 Growth. In October 2014, the Russell 2000 Growth was moved from a secondary benchmark to a primary benchmark to reflect client use of both Indices and the product's statistical fit with both indices. In July 2008, Gary Hatton became the sole portfolio manager for the Small Cap Discoveries product; prior to this time, a multi-manager format was utilized with each portfolio manager autonomously overseeing a portion of the client portfolio. The composite was created in August 2004 and the inception date is July 31, 2004 and is calculated by asset-weighting the performance of each account on a monthly basis. Accounts are included beginning with the first full month under management and terminated accounts are included in the composite. Performance calculations, expressed in U.S. dollars, produce a total return including cash and the reinvestment of dividends and interest. Effective July 1, 2016, the composite is subject to a significant cash flow removal policy for accounts with external flows greater than or equal to 75% of market value. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request. The dispersion is a standard deviation using equal-weighted gross of fees total returns for accounts in the composite the entire year. The three-year annualized standard deviation measures the variability of the composite gross of fees returns and the benchmark returns over the preceding 36-month period. Leverage is not utilized. Effective January 1, 2021, the standard management fee of 1.25% per annum is applied to all accounts to calculate the net return. Prior to that, net of fee returns were calculated using either actual investment fees charged to the account or for accounts that pay no management fee, the standard management was applied to calculate the net return. The fee for accounts managed in the Small Cap Discoveries style is payable quarterly in arrears and the standard fee is based on the ANNUAL rate of 1.25% times the average value of the assets in the account on the last day of each month in the quarter. Fees are collected quarterly, which produces a compounding effect on the total rate of return net of management fees. All fees are detailed in the firm's Form ADV. Market value is based on trade date and security pricing is supplied by Telemet. A complete list and description of all of the firm's composites and broad distribution pooled funds is available upon request. Past performance is no guarantee of future results. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.