



SMID SELECT

Portfolio Comments

September 30, 2025

Distinguishing Features

GIM builds the [SMID Select](#) portfolio from the bottom-up; sector weightings are secondary to stock selection. As is generally the case, the SMID Select portfolio's largest overweight is Information Technology versus the Russell 2500 Growth benchmark. Additionally, the portfolio is overweight Communication Services, Consumer Staples, and Industrials. The portfolio is underweight all other sectors. We have no exposure to Utilities, Real Estate, Energy or Materials.

Market Environment

U.S. small/mid 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.

Market breadth in the Russell 2000 Growth Index remained extremely narrow in 3Q25, with less than 41% of stocks outperforming the Index, over one standard deviation below the long-term mean since 1986. This marked only the third instance since 1986 where two consecutive quarters have shown such weak breadth. The average small-cap growth fund returned 9% versus the Index's 12.4%, with only 20% of funds beating the benchmark. Despite these challenging market dynamics and the benchmark's gains being concentrated in lower-quality, highly speculative stocks, our portfolio modestly outperformed the Index due to the benefit of disciplined stock selection and balanced risk positioning.

Performance & Attribution

Against this backdrop, the Granahan SMID Select composite delivered solid third-quarter results, gaining 13.8% outpacing the Russell 2500 Growth Index return of 10.7%. Year-to-date, the portfolio is up 32.4%, significantly ahead of the Index's 10.0%, underscoring the benefits of our focus on innovation-driven businesses and disciplined stock selection.

With respect to LifeCycle categories for the quarter, Special Situations nicely outperformed the benchmark while Pioneer and Core Growth names lagged. Year to date, both Pioneers and Special Situations outperformed the index while Core Growth lagged.

3Q25 Top Contributors

1. **Porch Group** (Info. Technology, Pioneer)
2. **Ameresco, Inc.** (Industrials, Special Situation)
3. **FTAI Aviation** (Industrials, Core Growth)
4. **Digital Turbine** (Info. Technology, Pioneer)
5. **Modine Manufacturing** (Consumer Disc, Special Sit.)

3Q25 Top Detractors

1. **Magnite, Inc.** (Communication Svs, Core Growth)
2. **Shift4 Payments** (Financials, Core Growth)
3. **SI-BONE, Inc.** (Health Care, Pioneer)
4. **Sweet Green, Inc.** (Consumer Disc, Pioneer)
5. **Carpenter Tech.** (Industrials, Special Situation)



Positioning

For the first time in quite a while, three important dynamics aligned in the third quarter: the market was strong, small/mid caps outperformed the broader U.S. market, and our portfolio delivered strong relative performance versus both the benchmark and peers.

Several forces are driving this shift. Small-cap earnings have transitioned from contraction to growth and are now outpacing large-cap peers, an inflection point that comes after a long period of relative underperformance. This improvement occurred against a backdrop of historically low absolute and relative valuations for small caps, a condition we have long viewed as unsustainable. The SMID Select strategy delivered solid results in the quarter, building on strong second-quarter gains. Some of our largest holdings, such as Magnite and Carpenter Technology, pulled back after exceptional prior-quarter strength, and we avoided the more speculative corners of the market, particularly in quantum computing stocks, that temporarily boosted benchmark returns. While some of these names may ultimately prove to be long-term winners, their current valuations look frothy.

Our healthcare holdings were a relative drag, reflecting both our below-benchmark biotech exposure, an area of strength in the quarter, and continued pressure on key positions such as SI-BONE and OrthoPediatrics. Both companies continue to post robust growth, yet valuations have compressed further, which is admittedly frustrating but likely a sign we are nearing an inflection point.

A standout positive development was Digital Turbine, which became one of our largest positions as its growth accelerated sharply, supported by upward revisions to revenue and earnings guidance. The company is well positioned to benefit from the opening of the Google Play store to broader competition, an opportunity where Digital Turbine already has embedded software across hundreds of millions of devices. Despite this, the market has yet to fully price in the potential of this catalyst.

We also initiated a position in Tower Semiconductor, a global chip manufacturer with a leading position in silicon photonics, a technology rapidly gaining traction in data center and AI applications. Tower provides attractive leverage to the AI theme but still trades at what we view as a remarkably reasonable valuation relative to peers. In an environment where certain areas of the market appear stretched, we continue to emphasize valuation discipline and expected return as core elements of our investment process.

Macro and Outlook

The U.S. economy remained resilient in Q3, supported by steady consumer spending, easing input costs from a crude oil sell-off, and renewed business investment. Real GDP grew at a 3.8% annualized pace in 2Q25, underscoring the durability of expansion despite policy uncertainty. Second quarter corporate earnings broadly exceeded forecasts, supported by robust demand and resilient margins.

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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SMID Select Composite Trailing Period Returns 3Q25 - Annualized

	3Q25	YTD	1-Yr	5-Yr	10 Yr
GIM SMID Select Composite – Net	13.8%	32.4%	35.5%	8.7%	17.1%
Russell 2500 Growth Index	10.7%	10.0%	12.6%	7.8%	10.9%

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/Mid Cap Select Composite has had a performance examination for the periods March 31, 2015 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/Mid Cap Select product utilizes fundamental, bottom-up research and analysis to invest in the stocks of companies in the small to mid-cap sector of the market that have the ability to sustain growth through market disruption. The Small/Mid Cap Select is a concentrated SMID-cap portfolio typically containing 45-50 holdings. The benchmark for the Small/Mid Cap Select product is the Russell 2500 Growth. The composite was created in September 2016 and the inception date is March 31, 2015 and is calculated by asset-weighting the performance of each account on a monthly basis. The composite includes an autonomous sub-portfolio, which includes cash, as part of a sleeve-managed SMID strategy. 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 January 1, 2021, 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. 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. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request. Returns are gross of investment management fees, which when included, reduce investment returns. The standard management fee applicable is applied to all accounts to calculate the net return. The standard fee for accounts managed in the Small/Mid Cap Select style is payable quarterly in arrears and is calculated by applying the ANNUAL rate of 1.00% 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. 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.