



## MICROCAP GROWTH

### Portfolio Comments

December 31, 2025

#### Distinguishing Features

GIM builds the [Microcap Growth](#) portfolio from the bottom-up; sector weightings are secondary to stock selection. In Q4, the Microcap Growth portfolio was overweight versus the Russell Microcap Growth benchmark in Health Care, Information Technology, Consumer Discretionary, and Energy. The portfolio is underweight Financials, Materials, and Industrials. We currently have no exposure in Utilities, Real Estate, and Consumer Staples.

#### Market Environment

Fourth-quarter performance was more measured as small-cap equities navigated an increasingly bifurcated market. Leadership narrowed as investors became more valuation-sensitive following the year-to-date rally, favoring companies with visible earnings leverage and near-term catalysts, while a sharp rally in Health Care drove much of the market's return.

For the full year, equity markets delivered solid, but selective, gains, defying recession expectations. While growth moderated from earlier-cycle levels, resilient consumer spending, easing inflation, and improving financial conditions, supported by lower interest rates and a less restrictive regulatory backdrop, helped sustain expansion. This also helped the IPO market and M&A activity to accelerate. Dispersion remained elevated throughout the year, and results consistently favored companies with strong execution, balance-sheet discipline, and credible long-term growth trajectories.

#### Themes

After nearly three years of sustained underperformance, healthcare staged a decisive reversal in 2025, closing much of its performance gap versus the broader market. The sector delivered outsized gains, nearly doubling the Russell Microcap Growth Index's return, with momentum accelerating into the fourth quarter as market leadership narrowed. During Q4, healthcare accounted for more than 100% of the Russell Microcap Growth's total return as other sectors, in aggregate, detracted. Biopharma extended its strong recovery, turning what had been a headwind for many managers into a meaningful tailwind for the Microcap portfolio, where we maintained an overweight allocation based on an unusually attractive, catalyst-rich opportunity set following a multi-year valuation reset.

A key inflection point for sentiment was the September 30, 2025, Trump/Pfizer "Most Favored Nation" agreement, which we view as a clearing event that reduced regulatory uncertainty, narrowed valuation discounts, and reopened the door for M&A and capital deployment across small-cap healthcare.

The Pharmaceuticals, Biotechnology & Life Sciences segment was the primary driver of both healthcare's gains and the portfolio's relative performance, supported by a more constructive regulatory tone, improving visibility into clinical pathways, and renewed strategic activity. Entering 2026, while we remain focused on healthcare businesses with durable end markets, improving fundamentals, and clear paths to cash-flow generation, we have reduced weightings in some of the portfolio's biotechnology holdings given a less attractive risk return profile. While we remain constructive on the sector's long-term opportunity, we are mindful that policy and



regulatory tailwinds can shift quickly and continue to actively manage exposures in a sector marked by both opportunity and dispersion.

We maintain an overweight position in consumer discretionary stocks as consumer spending has proved more resilient than many expected, particularly in services and dining. Kura Sushi (KRUS) is capturing foot traffic as consumers continue to prioritize dining experiences. One of our top holdings in the sector, Universal Technical Institute (UTI) benefits from strong labor market demand for vocational training and certifications as workers increase skill levels for higher-paying technical roles.

We are underweight the Artificial Intelligence theme due to stretched valuations and elevated expectations of the stocks that leave little room for upside versus downside risk. Given the less-attractive risk/reward profile across many AI stocks, we have been selective and maintain Arteris as our primary AI holding given its strong fundamentals, differentiated IP, and reasonable valuation to peers.

### Performance Discussion

For the fourth quarter of 2025, the Granahan Microcap Growth strategy returned 8.7%, significantly outperforming the Russell Microcap Growth Index return of 2.1%. For the full year, the strategy returned 26.8% versus the benchmark's 21.8% return. Stock selection in Industrials was a positive contributor for the quarter, while stock selection in Consumer Staples slightly detracted from performance. With regards to Life Cycles this quarter, Pioneer and Special Situations outperformed the benchmark while Core Growth names underperformed the benchmark.

TOP CONTRIBUTORS	
4Q25 Top Contributors	2025 Top Contributors
1. <b>Arteris, Inc.</b> (Info. Tech, Pioneer)	1. <b>Centrus Energy</b> (Energy, Special Situation)
2. <b>Owlet, Inc.</b> (Health Care, Special Situation)	2. <b>Bel Fuse Inc.</b> (Info. Tech., Special Situation)
3. <b>Beta Bionics, Inc.</b> (Health Care, Pioneer)	3. <b>Owlet, Inc.</b> (Health Care, Special Situation)

TOP DETRACTORS	
4Q25 Top Detractors	2025 Top Detractors
1. <b>908 Devices (Health Care, Pioneer)</b>	1. <b>Pliant Therapeutics</b> (Health Care, Pioneer)
2. <b>Enovix Corp (Info. Tech., Pioneer)</b>	2. <b>Transcat, Inc.</b> (Industrials, Core Growth)
3. <b>Transcat, Inc. (Industrials, Core Growth)</b>	3. <b>Harvard Bioscience</b> (Health Care, Special Situation)

### Top Contributors in Q4:

- **Arteris (AIP)** provides critical network-on-chip (NoC) interconnect intellectual property and SoC integration automation software that manages how data moves within complex semiconductors. The stock showed significant strength due to record annual contract value and the fact that AI-driven applications accounted for over half of their licensing dollars. Additionally, high-profile license expansions with industry leaders like AMD and Altera reinforced Arteris' central role in the accelerating shift toward next-generation architectures.
- **Owlet (OWL)** is a digital parenting platform best known for its FDA-cleared Dream Sock, a wearable monitor that tracks an infant's vital signs and sleep patterns in real-time. The stock responded strongly after the company reported record quarterly revenue. There is also excitement around the successful



launch of its AI-powered DreamSight camera and subscription services that increases confidence in the company's long-term growth outlook.

- **Beta Bionics (BBNX)** is a medical technology company that develops an autonomous insulin delivery system designed to simplify diabetes management for both Type 1 and Type 2 patients. The stock experienced significant momentum as the company raised its annual revenue guidance. This strength was fueled by sales through the Pharmacy channel and a rapidly expanding user base, which grew to at least 35,000 customers by year-end. Additionally, positive clinical progress on their next generation system and increased adoption among Type 2 diabetes patients further solidified investor confidence in their long-term growth trajectory.

#### Top Detractors in Q4:

- **908 Devices (MASS)** faced pressure in the quarter due to timing delays in federal and defense awards stemming from the recent government shutdown. Despite this "timing issue," we remain excited because the company sold its healthcare business, leading to improved financial strength. Additionally, the transition toward high-margin handheld devices and the anticipated full-rate production for the DoD's AVCAD program set the stage for accelerated revenue growth in 2026.
- **Enovix Corp (ENVX)** shares retreated late in 2025 due to softer near-term demand that raised questions about the timing of its production ramp and revenue trajectory. While the long-term opportunity for advanced lithium-ion architectures remains intact, we expect the company to demonstrate improved manufacturing yields and sustained commercial traction to serve as short-term catalysts for the stock.
- **Transcat (TRNS)** saw a pullback in the fourth quarter as investors reacted to macroeconomic uncertainty and the potential impact of increased tariffs on the broader manufacturing sector. We remain bullish because the company's business model is inherently resilient; the strict regulatory standards from the FDA and FAA mandate their calibration services regardless of the economy. The successful integration of a recent acquisition and continued margin expansion through service automation suggest that Transcat will return to its high-single-digit organic growth trajectory as macro-trends normalize.

#### Macro and Outlook

Heading into 2026, consensus expectations call for stronger earnings growth than in 2025, supported by anticipation of lower interest rates, improving capital markets activity, and continued investment in productivity-enhancing technologies. Small-cap growth companies are especially leveraged to this next phase, as liquidity improves and corporate activity accelerates.

Importantly, small caps also enter 2026 from a position of relative undervaluation versus large caps; as Furey Research noted in its 4Q25 letter (January 5, 2026), small-cap relative valuation "continues to appear attractive even as it has moved higher from recent all-time relative lows."

We remain focused on high-conviction businesses aligned with durable secular themes, AI infrastructure, industrial automation, advanced software platforms, and healthcare innovation, while remaining disciplined around balance-sheet strength, competitive advantage, and execution. In our view, 2026 should be a year where fundamentals and monetization matter more than narratives, and where improving liquidity supports both valuations and strategic flexibility. With small-cap valuations still



depressed relative to large caps, we see a compelling setup for innovative-led companies to re-rate as growth broadens, creating an opportunity for our active small cap strategy.

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*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.*



#### Microcap Growth Composite Trailing Period Returns 4Q25 - Annualized

	4Q25	1-Yr	5-Yr	Since Inception*
<b>Microcap Growth Composite – Net</b>	<b>8.7%</b>	<b>26.8%</b>	<b>-6.5%</b>	<b>0.6%</b>
Russell Microcap Growth Index	2.1%	21.8%	2.8%	8.2%

Inception Date: 7/31/2000

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, 2024. The verification report(s) is/are available upon request. 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 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. Verification does not provide assurance on the accuracy of any specific performance report. GIM is an independent, SEC-registered investment firm that oversees small and mid-cap equity portfolios for large institutions and wealthy individuals. The Microcap Growth product utilizes fundamental, bottom-up research and analysis to invest in companies in the micro-cap and emerging growth sector of the market. The benchmark for Microcap Growth product is the Russell Microcap Growth Index. The composite was created in July 2020, and the inception date is July 31, 2020 and is calculated by asset-weighting the performance of each account on a monthly basis. Composite represents all accounts managed in the Microcap Growth style. 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 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 shown both net and gross of fees. Effective January 1, 2021, the standard management fee of 1% 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. Gross returns are gross of investment management fees, which when included, reduce investment returns. The standard fee for accounts managed in the Microcap Growth 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.