



SMALL CAP DISCOVERIES

Portfolio Comments

December 31, 2025

Distinguishing Features

GIM builds the [Small Cap Discoveries](#) portfolio from the bottom-up; sector weightings are secondary to stock selection. In Q4, the Discoveries portfolio was overweight versus the Russell 2000 Growth benchmark in Basic Materials, Health Care, Telecommunications, Utilities and Consumer Staples. The portfolio is underweight all other sectors. We currently have no exposure in Real Estate.

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 2000 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 2000 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 Discoveries 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 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 Small Cap Discoveries strategy returned 8.8%, significantly outperforming the Russell 2000 Growth Index return of 1.2%. For the full year, the strategy returned 21.8% versus the benchmark's 13.0% return. Stock selection in Industrials was a positive contributor for the quarter, while stock selection in Materials slightly detracted from performance. With regards to Life Cycles this quarter, Core Growth and Pioneer outperformed the benchmark while Special Situation names underperformed the benchmark.

TOP CONTRIBUTORS	
4Q25 Top Contributors	2025 Top Contributors
1. Exact Sciences (Health Care, Core Growth)	1. Exact Sciences (Health Care, Core Growth)
2. Arteris, Inc. (Info. Tech, Pioneer)	2. Centrus Energy (Energy, Special Situation)
3. Carpenter Technology (Industrial, Core Growth)	3. Bel Fuse Inc. (Info. Tech., Special Situation)

TOP DETRACTORS	
4Q25 Top Detractors	2025 Top Detractors
1. 908 Devices (Health Care, Pioneer)	1. Cogent Comm. (Comm. Svs., Special Situation)
2. MP Materials (Materials, Special Situation)	2. Columbus McKinnon (Industrials, Special Situation)
3. Kinsale Capital (Financials, Core Growth)	3. CEVA, Inc. (Info. Tech., Special Situation)

Top Contributors in Q4:

- **Exact Sciences (EXAS)** was a top performer in 4Q25, supported by strong execution and continued adoption of Cologuard as screening volumes and physician penetration remained solid. The company's fundamentals strengthened as scale benefits and improving operating leverage reinforced confidence in the durability of its growth profile. Late in the quarter, Abbott Laboratories announced the acquisition of Exact Sciences at a meaningful premium, validating the strategic value of its franchise within a larger diagnostics platform. The transaction crystallized shareholder value and underscored how high-quality, differentiated assets can be rewarded even in a more selective market environment.
- **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.
- **Carpenter Technology (CRS)** was a strong performer in the quarter driven by robust demand from aerospace customers and continued strength in high-performance alloy shipments. Tight supply conditions and disciplined capacity management supported favorable pricing and mix, translating into meaningful margin expansion and earnings growth. Management's focus on operational execution and value-added products reinforced confidence in the durability of the cycle and the company's ability to



generate incremental returns through the upturn. While we believe Carpenter remains well positioned to benefit from multi-year aerospace build rates, we eliminated the position given less risk return profile after recent performance.

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, we expect 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.
- **MP Materials (MP)** underperformed in 4Q25 as rare-earth pricing remained volatile, and investors continued to discount near-term earnings visibility amid uneven China-driven supply dynamics. We view the company strategically important as MP controls a leading U.S. rare-earth resource base and is advancing downstream processing and magnet capability that should increase value-add and reduce reliance on foreign supply chains. With demand for NdPr magnets supported by electrification, defense, and next-generation industrial applications, we believe MP is positioned to benefit as the market increasingly prioritizes secure, non-China supply.
- **Kinsale Capital (KNSL)** is a premier specialty insurer that focuses exclusively on the high-growth Excess and Surplus (E&S) market, using a proprietary technology platform to underwrite hard-to-place risks with industry-leading efficiency. The stock lagged in the fourth quarter of 2025 as investors reacted to intensifying competition in its commercial property division. We believe Kinsale remains well positioned for the long term, boasting an attractive return on equity and substantial expense ratio advantage over its peers. Its ability to maintain double-digit premium growth and high retention rates through its data-centric model makes it a top-tier competitor in the expanding E&S market.

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 typically beneficiaries of those dynamics, 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.

Small Cap Discoveries Composite Trailing Period Returns 4Q25 - Annualized

	4Q25	1-Yr	5-Yr	Since Inception*
Small Cap Discoveries Composite – Net	8.8%	21.8%	-4.3%	10.1%
Russell 2000 Growth Index	1.2%	13.0%	3.2%	9.2%

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. 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, 2024. 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.