



SMALL CAP CORE GROWTH

Portfolio Comments

March 31, 2026

Key Takeaways

1Q 2026 Performance: Granahan SC Core Growth: -4.9% Russell 2000 Growth: -2.8%

Top Contributors: Modine Manufacturing, FTAI Aviation, Carpenter Technology, RBC Bearings, Inc., Lumentum Holdings

Bottom Detractors: Digital Turbine, ODDITY Tech Ltd., Portch Group, Magnite, SI-BONE, Inc.

Key Themes: Market rotation and valuation sensitivity, AI infrastructure expansion, selective Healthcare/Biotech backdrop

Highlights

- **Market leadership rotated aggressively**, with prior winners, particularly Healthcare, reversing, while Industrials and cyclical exposure outperformed.
- **Top Contributors:** were driven by strength in aerospace demand, data center infrastructure buildout, and AI-related connectivity.
- **Bottom Detractors:** reflected healthcare volatility following strong prior performance and continued pressure in select growth-oriented and consumer-exposed names.
- **The market became more valuation-sensitive**, favoring companies with near-term earnings visibility and penalizing crowded, longer-duration growth positions, particularly within healthcare and software.

First Quarter 2025

First-quarter performance reflected a more challenging environment for small-cap growth equities as macro uncertainty increased and risk appetite became more selective. The escalation of the Iran conflict contributed to higher energy prices, renewed inflation concerns, and a more cautious view on the interest-rate outlook, creating a less forgiving backdrop for small-cap growth stocks. Within this environment, relative results were pressured primarily by weakness across several Core Growth and Pioneer holdings, as investors favored near-term earnings visibility. The Russell 2000 Growth Index declined 2.8%, while the Core Growth Portfolio declined 4.9%.



Top Contributors

Modine Manufacturing (Industrials, Special Situation)	MOD raised its guidance given increased AI-driven data center cooling demand while also benefiting from a transaction that moves MOD toward becoming a pure-play climate solutions and data center cooling company. We have trimmed into strength.
FTAI Aviation Ltd. (Industrials, Core Growth)	FTAI contributed meaningfully, supported by robust demand in the core aerospace business and growing interest in its new initiative to repurpose end-of-life jet engines for data centers. We have trimmed our position due to market cap restrictions.
Carpenter Technology (Industrials, Core Growth)	CRS continued to benefit from strong aerospace demand and pricing strength in specialty alloys, driving earnings momentum.
RBC Bearings Inc. (Industrials, Core Growth)	RBC outperformed as investors rewarded its differentiated positioning, strong aerospace and defense exposure, and consistent execution. We trimmed on strength, but maintain a top position given our conviction in its long-term growth and margin profile.
Lumentum Holdings (Information Technology, Pioneer)	LITE performed well, benefiting from sustained demand for optical components tied to AI-driven data center interconnect.

Bottom Detractors

Digital Turbine (Information Technology, Special Situation)	APPS weakened despite solid revenue trends, as investor skepticism around monetization weighed on shares. We have added to this position.
ODDITY Tech. (Consumer, Core Growth)	ODD declined largely due to user acquisition challenges with its largest ad partner and continued sensitivity around discretionary spending. We eliminated the stock.
Porch Group (Information Technology, Pioneer)	PRCH detracted, as ongoing volatility overshadowed improving fundamentals and execution within its insurance platform. We have added to this position.
Magnite, Inc. (Communication Services, Core Growth)	MGNI detracted despite stable operating performance, as near-term advertising demand concerns pressured sentiment. We are holding our position.
SI-BONE, Inc. (Health Care, Pioneer)	SIBN declined during the quarter as investor sentiment moderated despite continued progress in procedure adoption and reimbursement expansion. We have added to this position.

Taken together, these detractors reflect both pressure on select growth-oriented holdings and a market that has become increasingly valuation-sensitive.

Attribution

First-quarter performance reflected a more challenging market backdrop, with sector rotation and mixed stock-specific results weighing on returns resulting in underperformance of 210 basis points versus the Russell 2000 Growth Index. Unlike much of 2025, where stock selection dominated, both sector positioning and individual holdings worked against us. Equal weight Industrials was the clear bright spot, benefiting from strength in aerospace, infrastructure, and data center demand, with our holdings outperforming meaningfully. Underweight Financials and equal weight Consumer Discretionary also contributed modestly.



These gains were more than offset by weakness elsewhere. Overweight Healthcare was the largest detractor, reversing from its leadership role last year as sentiment softened and prior winners gave back some gains. Energy also detracted due to both underweight positioning and negative performance, while Communication Services and Consumer Staples lagged on stock-specific issues. Technology was mixed, with positive selection offset by an overweight position. Overall, the quarter reflects a more valuation-sensitive and less forgiving market, where both positioning and execution are driving outcomes.

Weights

Industrials increased modestly, reflecting both strong performance and selective additions, while Healthcare declined as a percentage of the portfolio due to market movement and position trimming. Technology exposure remained relatively stable, with a continued focus on AI-related infrastructure and connectivity.

Across Life Cycle categories, we continued to rebalance capital toward Pioneer and Special Situation opportunities, where dislocations have created more compelling forward return potential, while trimming select Core Growth winners into strength.

Themes

Early in 2026, market leadership began to broaden beyond a narrow set of mega-cap winners, and small-cap growth outperformed large caps on a relative basis. Dispersion remains elevated, however, and investors continued to reward businesses with visible earnings power, balance-sheet discipline, and identifiable catalysts. Portfolio companies: Carpenter Technologies, Modine Manufacturing and FTAI Aviation are examples. In our view, this is a constructive shift that favors bottom-up stock selection and reinforces our focus on resilient companies where fundamentals are improving, and management teams are executing well.

In Healthcare, and particularly biotech, the broad-based rebound that defined 2025 has transitioned into a more selective environment. While the sector continues to benefit from innovation, M&A activity, and improving regulatory clarity, performance is increasingly driven by clinical progress and commercial execution. We remain focused on companies with differentiated pipelines and strong balance sheets, while actively managing risk in a sector that remains volatile. Celcuity, Edgewise Therapeutics, and Revolution Medicines, are examples of highly promising pre-commercial biotech names for which we have carefully managed position size in accordance with risk/reward tradeoffs as important pipeline catalysts approach.

As the market places greater weight on nearer-term free cash flow, balance-sheet strength, and evidence of durable competitive positioning, companies perceived as more easily disrupted by AI may face sharper valuation pressure even when near-term operating performance appears intact. This has deeply affected the valuations of all software companies where the average valuation is now very close to that of the Global Financial Crisis in 2008. In our view, this environment further reinforces the importance of disciplined stock selection and a focus on business models with mission-critical products, embedded customer workflows, and a clear path toward self-funded growth. During the quarter, we acted on this view by exiting several positions (e.i.f. Beauty, ODDITY Tech, Klaviyo and SPS Commerce) where we believe disruption risk has increased while selectively adding to high-conviction holdings where recent share price weakness appeared disconnected from underlying competitive positioning.

Macro and Outlook

The macroeconomic backdrop remains relatively stable, although risk factors persist. While economic growth remains resilient, supported by consumer spending and a stable job market, the war in Iran has led to increased



market volatility and investor caution. Inflation remains a risk if higher energy prices persist, and chances for a Fed rate cut this year have waned. On the positive side, capital markets activity has picked up, with an increase in M&A and a gradual reopening of the IPO market, which could provide an important tailwind for small-cap equities.

After two years of modest earnings contraction, small-cap fundamentals are beginning to improve. Russell 2000 earnings returned to growth in 2025, and expectations for 2026 are strengthening, with the potential to outpace large caps if conditions remain supportive. While forecasts may prove optimistic, the more important shift is the broadening of earnings growth, which tends to reduce market concentration and create a more favorable environment for stock selection.

While higher oil prices and inflation may create a less forgiving near-term backdrop, they do not change the broader opportunity set in small caps, particularly when valuations are attractive. If anything, they reinforce our focus on companies with pricing power, strong balance sheets, improving cash flow, and identifiable catalysts that can perform through a more volatile environment. Our Life Cycle-diversified, bottom-up stock selection process is designed to uncover these unique growth opportunities within the small cap universe.

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Small Cap Growth Composite Trailing Period Returns 1Q26 - Annualized

	1Q26	1-Yr	5-Yr	10 Yr
GIM SC Core Growth Composite – Net	-4.9%	32.6%	-3.3%	13.7%
Russell 2000 Growth Index	-2.8%	23.6%	1.6%	9.8%

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