# FOCUSED GROWTH

**Portfolio Comments**
**March 31, 2026**

In Q1 of 2026, the Granahan Focused Growth portfolio declined -12.1%, significantly lagging the Russell 2000 Growth benchmark's -2.8% return. The quarter was upended by the Iran war, which began in late February and sent oil prices soaring, reversing what had been a promising start to the year as leading indicators and PMIs were finally breaking out to the upside. The resulting rotation into energy and value stocks—and away from growth—was significant. This letter discusses what happened, how it impacted the portfolio, and how we are thinking about the path forward.

**Attribution – Highlights and Lowlights**

Stock selection was the primary driver of underperformance in Q1. Consumer Discretionary was by far the largest headwind, with -561 bps of negative selection driven primarily by Oddity (ODD) and Genius Sports (GENI).

***Q1 Largest Relative Contributors:***

- **Modine Manufacturing (MOD)** – Modine designs advanced thermal management systems, increasingly used for data center cooling. MOD shares rose +64%, contributing +135 basis points to performance. The stock benefited from accelerating demand for liquid cooling solutions driven by AI data center buildouts, as well as the planned spinoff of its auto business. The company raised full-year guidance and continues to execute well on its transformation from a legacy auto-thermal business to a high-growth data center play. Modine is one of the portfolio's top holdings.

- **Carpenter Technology (CRS)** – Carpenter manufactures and sells specialty materials primarily for the aerospace and defense markets. CRS shares rose +25%, contributing +131 basis points to performance. The company continues to benefit from robust aerospace demand and pricing power and reported strong fiscal Q2 results during the quarter. With a multi-year runway of growth ahead, Carpenter remains one of the largest positions in the portfolio.

- **Kura Sushi (KRUS)** – Kura Sushi operates a differentiated revolving value-oriented sushi concept with a long runway of unit growth in the U.S. KRUS shares advanced +33%, adding +97 basis points to relative performance. The stock benefited from strong same-store sales trends and continued confidence in the company's expansion trajectory, with new unit economics tracking ahead of plan. Kura Sushi is a modestly above average-sized position in the portfolio.

***Q1 Largest Relative Detractors:***

- **Genius Sports (GENI)** – Genius Sports is a leading provider of official sports data, technology, and fan engagement solutions to sports leagues, sportsbooks, and media companies. GENI shares fell -60%, detracting -333 basis points from performance. The weakness was driven by concerns around the company's announced acquisition of Legend, including the price paid, integration risk, and financial leverage. This came amidst existing concerns about the rise of prediction markets (e.g., Kalshi, Polymarket), which some investors believe will upend the traditional online sports betting ecosystem. Although we have reservations about aspects of the Legend acquisition and resulting complexity, we believe fears about this are overdone as the stock's market cap has essentially erased the consideration paid for Legend. As it relates to prediction markets, we believe Kalshi and Polymarket will both ultimately contract with Genius for official league data which would be positive for Genius. While we trimmed the position in the immediate wake of the Legend acquisition, we continue to view Genius Sports as well-positioned and hold a slightly below average-sized position.

- **Oddity Tech (ODD)** – Oddity is a direct-to-consumer company that leverages data science to develop and sell beauty and wellness products over the Internet. ODD shares plunged -71% in Q1, impacting relative performance by -315 basis points. While Q4 2025 results were solid—exceeding the high-end of guidance for revenue, adjusted EBITDA, and adjusted EPS—the shares declined sharply in response to very weak Q1 guidance, which called for a roughly -30% revenue decline. The company attributed this to a significant algorithm change at its largest advertising partner Meta, resulting in customer acquisition costs more than doubling. The timing was particularly challenging, as Q1 is when Oddity typically leans into marketing spending to acquire new customers. This degree of reliance on Meta was a significant negative surprise. While we understood Meta to be Oddity's largest advertising channel, the extent of the concentration on Instagram was much greater than we appreciated. Two key conclusions followed: first, our confidence in management was meaningfully reduced due to what we believe was insufficient transparency regarding advertising concentration; and second, even if the company addresses the issue, platform risk and reduced investor trust are likely to constrain the valuation multiple going forward. As a result, we exited the position.

- **Phreesia (PHR)** – Phreesia provides patient intake software, payment solutions, and advertising for healthcare organizations. PHR shares fell -51%, detracting -137 basis points from performance. The company reported a decent Q4, but reduced revenue guidance for CY2026 mainly due to challenges with pharma advertising in certain therapies. While we believe the selloff was overdone, we have cut the position to a very small holding given our reduced view of the company's desert island worthiness.

**A Quarter Defined by Conflict and Rotation**

During the first part of Q1 macro conditions appeared increasingly constructive: leading indicators were finally moving higher after years of stagnation, mortgage applications were trending up, and the 10-year Treasury yield fell below 4%. The market was broadening and Small and Smid cap equities were near all-time highs. Then came the Iran conflict. Beginning in late February and escalating through March, the conflict sent oil prices surging, leading gasoline prices to jump from about $2.80 to over $4.00 per gallon. What had been a broadening, risk-on market shifted to a risk-off market dominated by war, sharply rising energy and commodity prices, stagflation risk, and fears of higher rates and unanticipated contagions. Energy, Materials and Industrials led the Russell 2000 Growth Index, and within the Russell 2000, small-cap value outpaced small-cap growth by almost 800 basis points. This environment was a headwind for the Focused Growth portfolio.

Investor sentiment towards software deteriorated sharply due to AI disruption fears, and the portfolio was modestly overweight software coming into the quarter. We have reduced our software exposure to a modest benchmark underweight. Although we believe that the specific software companies we own possess durable competitive moats, we recognize that AI disruption risk raises uncertainty and it will take time for the market to sort out winners vs. losers. While the impact of AI on software is broadly destabilizing, the impact of AI for compute and the underlying supply chain is tremendously bullish, and AI enablers such as Modine (MOD) and Comfort Systems (FIX) are well represented in the Focused Growth portfolio. We have been selectively adding exposure to companies that benefit from the secular shift toward drones and “directed energy” defensive systems, such as Unusual Machines (UMAC), AeroVironment (AVAV), and nLight (LASR). We also recently initiated a position in York Space Systems (YSS), which we believe is a well-positioned, desert island worthy company in the emerging space economy.

**Positioning and Outlook**

Having a clear framework around what we own, why we own it, and what it’s worth is always critical, but especially during periods of extreme change and rotation. As we’ve discussed in previous letters, the changes brought on by AI are likely to be broad, very significant, and unprecedented. In addition, there are also big transformations occurring in terms of geo-political events and the stock market is undergoing its own large-scale transformation (rising impact from retail investors, ETFs, hedge fund pods, quants, and momentum investors). Let's call these transformations the "Three T's" —technology (AI), tensions (geo-political events), and trading (market structure)— and together they make for a challenging environment for plan sponsors, consultants, individual investors, and, yes, for small-cap portfolio managers.

Periods of significant underperformance are painful but not unprecedented. The Focused Growth investment philosophy and process have been tested through a wide variety of markets and crises since its inception in 2007, including the global financial crisis, the pandemic, and several sharp rotations away from growth. We believe the underlying philosophy remains fully intact. As a reminder, there are four steps to our process:

1. Identify “desert island-worthy” companies—those we believe will be much larger in 5–7 years.
2. Apply a strict valuation framework centered on probability-weighted expected return and risk/reward.
3. Careful portfolio construction and allocation.
4. Risk management.

The first step is, I believe, the most important: identifying Desert-Island-worthy companies. That said, AI and the other two aforementioned T's make evaluating a company's longer-term prospects—i.e., Desert Island-worthiness—challenging. Below is one lens through which we are evaluating companies from an AI perspective, segmenting companies into four buckets. For each bucket, I've included the percent of the portfolio, representative examples of portfolio holdings, and some challenges ("yeah buts"):

1. **Significant AI beneficiaries – 36% of the portfolio**
    - Examples: Modine (MOD), Comfort Systems (FIX)
    - Yeah but: Crowded trade?; Many such stocks are expensive
2. **Companies at low risk from AI disruption – 40% of the portfolio**
    - Examples: Kura Sushi (KRUS), Lifetime Fitness (LTH)
    - Yeah but: What if job losses broaden and GDP contracts?
3. **Companies we believe will be AI beneficiaries, though the market may be less convinced – 22% of the portfolio**
    - Examples: Axon (AXON), Porch (PRCH)
    - Yeah but: It may take a while to prove it
4. **Companies perceived to have higher AI risk – 2% of the portfolio**
    - Examples: Phreesia (PHR), Magnite (MGNI)
    - Yeah but: Many such stocks are very cheap

The extremes of the current moment, driven by the Three T's, make evaluating short-term performance and attribution challenging. Stocks that are working are in many cases going to extreme valuations, and stocks that are not working are doing the same on the downside. We are carefully weighing all the above and leaning hard into our proven, disciplined process. This has resulted in a number of moves in the portfolio which include both sales (some stocks that have appreciated due to valuation and some stocks that are down and being disproportionally punished), and purchases (both stocks that are up but we believe the positioning, duration and the expected returns remain strong, and selectively stocks that are down but we believe are mis-priced due to positioning, duration, and expected returns).

From a broader perspective, while the Iran war has dominated the recent narrative, the secular tailwinds that underpin our portfolio—including AI infrastructure, aerospace modernization, digital financial services, and the ongoing reshoring of U.S. manufacturing—remain intact. Oil prices are likely to normalize at some point, although the timing is unknowable. On the whole, we believe the portfolio is well positioned to benefit when the market's focus broadens beyond the immediate macro-driven considerations.

**Content Corner**

Before concluding, below are a podcast, an article and two books I've enjoyed recently:

**A Podcast:**

- Jensen Huang on the Lex Fridman Podcast (#494) – In this wide-ranging conversation, the Nvidia founder/CEO discusses the company's evolution from designing chips to system-wide engineering, encompassing chip, memory, networking and software. As Huang put it, the rise of AI agents and reasoning-based workloads create exponential growth in demand for AI compute and shifts bottlenecks to system-level infrastructure, such as power, cooling, networking, and memory. Those dynamics drive significant, durable demand across the AI supply chain, where we believe Focused Growth is well positioned with companies like Modine Manufacturing (MOD), Comfort Systems (FIX), Semtech (SMTC), Rambus (RMBS) and TTM Technologies (TTMI), as well as energy enablers such as Nextracker (NXT) and Centrus (LEU).

**<u>An Article:</u>**

- What Keeps Max Greyersman in Golf Obscurity? Less than One Stroke Per Round – This NYT article by Hugo Lindgren is a fun story of PGA touring pro Max Greyersman and how he effectively deploys a probabilistic mindset he learned from his Dad Alex Greyersman, a former money manager and professor at Columbia

**<u>Two Books:</u>**

- How to Make a Few More Billion Dollars– Brad Jacobs has built over $40 billion in enterprise value across six companies, including United Rentals, XPO Logistics, and most recently QXO (in which we are shareholders). The book is part memoir, part playbook, and distills his approach to identifying fragmented industries ripe for consolidation, executing disciplined M&A, and driving operational excellence at scale. His philosophy of finding large fragmented markets, pursuing M&A at attractive valuations, investing aggressively in technology, and compounding value over time, fosters the kind of desert island worthy company we seek to own.

- Runnin' Down a Dream – Bill Gurley, a former sell-side analyst and highly accomplished venture capitalist, has written a terrific book. It is a good and worthwhile read for anyone, but a ***<u>must-read</u>*** and a great gift for people in college, entering the workforce, or early in their careers.

**Thank You**

We appreciate that these are unsettling times. Please know that we are always happy to speak with you directly if you have questions or would like to dive deeper into what we're seeing and doing. On behalf of the entire team at Granahan Investment Management, I thank you for your trust and partnership. As always, our capital is invested alongside yours with conviction.

Sincerely,

Drew

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**Focused Growth Composite Trailing Period Returns 1Q26 - Annualized**

| | 1Q26 | 1-Yr | 5-Yr | 10 Yr |
|---|---|---|---|---|
| **GIM SC Focused Growth Composite – Net** | **-12.1%** | **0.2%** | **-3.4%** | **17.8%** |
| Russell 2000 Growth Index | -2.8% | 23.6% | 1.6% | 9.8% |

*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 Focused Growth Composite has had a performance examination for the periods January 1, 2012 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 Focused Growth product utilizes fundamental, bottom-up research and analysis to invest in companies in the small cap sector of the market that exhibit sustainable high earnings growth, with a focus on the technology services, internet, consumer, and business services sectors. The benchmark for the Small Cap Focused Growth product is the Russell 2000 Growth. The composite was created in December 2011 and the inception date is July 31, 2007 and is calculated by asset-weighting the performance of each account on a monthly basis. The composite includes returns from the portfolio manager's prior firm, from inception of August 1, 2007 through December 31, 2011. 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. 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. Effective January 1, 2021, the standard management fee of 1% per annum is applied to all accounts to calculate the net return. Beginning 10/31/12, net of fee returns were calculated using actual investment fees charged to the account. Prior to 10/31/12 and for accounts which pay no management fee, the standard management fee of 1% was applied to calculate the net return. The standard fee for accounts managed in the Small Cap Focused 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.*