FOCUSED GROWTH

Portfolio Comments
June 30, 2026

In Q2 of 2026, the Granahan Focused Growth portfolio returned +37.3%, nicely ahead of the Russell 2000 Growth benchmark's +25.7%. At a macro level, Q2 was in many ways a mirror image of Q1: the Iran conflict de-escalated, oil prices declined, and equities moved to new all-time highs, led by nearly everything connected to AI.

With the strong quarter, the portfolio is up approximately 21% year-to-date, roughly in-line with the benchmark. This letter discusses what drove the quarter, the changes we made in the portfolio, and our latest thoughts on the AI era.

Attribution – Highlights and Lowlights

Stock selection drove ouperfomance in Q2.

Q2 Largest Relative Contributors:

- **Porch Group (PRCH) –** Porch provides vertical software for the home services industry and, through the Porch Reciprocal Exchange, homeowners insurance informed by proprietary data on roughly 90% of U.S. homes. The stock rose +110% in the quarter, adding +501 basis points to relative performance, as Q1 results demonstrated the earnings power of the reciprocal model: improving attritional loss ratios, capital-light commission and fee revenue, and strong cash flow. We have owned Porch through a long and occasionally uncomfortable transition, and the market is beginning to value the company as the data-advantaged, asset-light insurance platform we believe it is becoming. While we have trimmed our position, Porch ended the quarter as our largest holding.

- **Forgent Power Solutions (FPS) –** Forgent designs and manufactures bespoke electrical distribution equipment for data centers, the power grid, and energy-intensive industrial facilities. The stock nearly doubled in the quarter (+91%), contributing +304 basis points. Demand has been extraordinary: March quarter bookings quadrupled year over year, backlog reached nearly $2 billion (+157% year over year), and management raised fiscal 2026 revenue guidance. Power availability remains a key constraint on AI data center construction, and Forgent sits squarely in that bottleneck. We started the position at the company's February IPO and added to it in the months that followed. Given the strong move in Q2, we cut FPS to a modestly above average position.

- **TTM Technologies (TTMI) –** TTM manufactures advanced printed circuit boards for data center networking, aerospace and defense, and other end markets. The stock rose +91%, adding +211 basis points, as investors hunted for AI bottlenecks beyond the obvious semiconductor names. The high-layer-count boards TTM supplies for AI networking equipment are precisely such a bottleneck, and results and estimates moved higher through the quarter. We have cut the position to a below average size.

Q2 Largest Relative Detractors:

- **Kura Sushi (KRUS) –** Kura operates a differentiated revolving value-oriented revolving sushi concept with a long runway of unit growth in the U.S. The stock fell -18%, detracting -146 basis points from relative performance. The April departure of long-time CFO Jeff Uttz, with CEO Hajime Uba stepping in on an interim basis, unsettled investors, and a market hungry for AI exposure had little patience for a consumer growth story with modest near-term comps. The fundamentals have not deteriorated: full-year comparable sales guidance was actually raised to modestly positive, restaurant-level margin targets were maintained, and the company continues to compound units at 20%+ annually toward what we believe is at least a 300-restaurant opportunity. Scale also lets Kura absorb cost inflation with only moderate price increases, improving its value proposition. We added to the stock on weakness and Kura remains an average-sized holding.

- **FTAI Aviation (FTAI) –** FTAI sells and leases CFM56 engine modules and is building a differentiated engine maintenance franchise. The stock rose +10% in the quarter, but with a 5%+ average weight against a benchmark up nearly +26%, it cost -110 basis points of relative performance. The business itself had an excellent quarter: Moody's upgraded its credit rating, management laid out plans to double its share of the CFM56 maintenance market, and FTAI's new power generator program (whereby the company refurbishes and converts old airplane engines) is effectively sold out due to strong data center demand. We have a positive view on the company's core business and view its power generator program as underappreciated. FTAI is a modestly above average position.

- **QXO (QXO) –** QXO is proven consolidator Brad Jacobs' building products distribution platform. The stock declined -11%, detracting -103 basis points, as rate-cut expectations evaporated and housing-linked demand stayed soft. The acquisition of TopBuild also came at a somewhat higher purchase price that most expected. Nothing in the quarter has changed our view of the long-term opportunity: a fragmented $800 billion industry, a proven serial acquirer with a playbook refined over four decades, and meaningful margin upside from technology and scale. We have added to the position and QXO represents an average sized holding.

The Three T's, One Quarter Later

Last quarter we framed the environment with the "Three T's": technology (AI), tensions (geo-political events), and trading (market structure). In Q2, all three swung hard in the opposite direction from Q1.

Tensions eased. The Iran conflict de-escalated in late June, Brent crude fell from $118 to $73 (down 38%), and gasolines prices eased. The market was able to absorb a hawkish shift from the Fed, facilitated in part by a strong earnings season (where 84% of S&P 500 companies beat Q1 adj. EPS estimates versus a long-term average of 72%) and global PMIs reaching multi-year highs.

Technology reaccelerated. Notably, market leadership shifted from the mega-cap AI spenders to companies with tangible, AI-driven revenue streams. Semiconductors and semiconductor equipment led the entire market, up 53%, as investors hunted for the bottlenecks in the AI buildout: power, cooling, networking, and memory. That played out favorably for the portfolio. Forgent (FPS) - power distribution), TTM ((TTMI) networking boards), Silicon Motion (SIMO), Onto Innovation (ONTO), Rambus (RMBS), and Modine (MOD) seek to help alleviate those constraints.

Trading factors turned from headwind to tailwind in most cases. With the reduction in tensions relating to the war with Iran, risk as a factor went from off to on which favors higher growth, longer duration assets, which characterizes most holdings in the portfolio. There is some chance that market leadership may be shifting from large caps to small caps. Small-caps have outperformed large-caps since July 2025, interrupting (perhaps breaking?) a 14-year run of large-cap dominance, the longest on record. History suggests it could have room to run, as new small-cap leadership cycles since 1926 have persisted for 3 to 14 years, roughly a decade on average. We'll see.

The Portfolio through an AI Lens

Last quarter we introduced a four-bucket framework for evaluating each portfolio holding through an AI lens. It has become an important component of our portfolio construction toolkit, and the shifting among the buckets since the end of Q1 helps frame the story of recent changes to the portfolio.

1. **Direct AI beneficiaries – Currently 15% of the portfolio, down from 36% last quarter**
   - Examples: Forgent (FPS), Silicon Motion (SIMO), TTM Technologies (TTMI), Modine (MOD)
   - Yeah but: Crowded trade?; many such stocks are expensive
2. **Companies relatively insulated from AI disruption – 52%, up from 40%**
   - Examples: Victory Capital (VCTR), Carpenter Technology (CRS), Kura Sushi (KRUS), Life Time (LTH)
   - Yeah but: What if job losses broaden and GDP contracts?
3. **Underappreciated AI beneficiaries – 27%, up from 22%**
   - Examples: Porch (PRCH), Axon (AXON), Genius Sports (GENI)
   - Yeah but: It may take a while to prove it
4. **Companies perceived to have higher AI risk – 2% of the portfolio**
   - Examples: Magnite (MGNI)
   - Yeah but: Many such stocks are very cheap

As noted above, Direct AI beneficiaries and a few other stocks in the portfolio rose sharply and in a number of instances prices raced ahead of fundamentals compressing future expected returns. We exited several positions including Credo Technology (CRDO), Semtech (SMTC), Nova Limited (NVMI), Universal Technical Institute (UTI) and Comfort Systems (FIX), entirely, and trimmed others, such as Modine (MOD), Forgent Power Solutions (FPS), Onto Innovation (ONTO), TTM Technologies (TTMI), and Carpenter Technology Corp (CRS). We reinvested that capital in several areas. First, as noted above, we bumped up or initiated positions in stocks in bucket #2 (AI Insulated) such as Neutron Holdings Inc (LIME - i.e., Lime e-scooters and e-bikes). Porch (PRCH), our largest position, is an example of an underappreciated beneficiary: we believe its proprietary home data should become more valuable for underwriting home owner's insurance as AI capabilities improve. Second, we shifted some capital to other AI beneficiaries where we believe meaningful upside remains underpriced (e.g., Silicon Motion (SIMO) and Generac (GNRC). And third, we initiated positions in a handful of companies well positioned to benefit from the positive impact AI could have on the bio-tech sector. To be clear, we are not investing in bio-techs directly (which inherently carry binary risk), but rather companies which stand to benefit from the broader tailwind AI could have on the sector. These companies can largely be thought of as "picks and shovels" to the industry and include such names as Repligen (RGEN), Twist Bioscience (TWST), and GRAIL (GRAL).

Where Does Value Accrue in the AI Era?

Our latest thinking on this question centers on what we internally call the SRM layer, the smart routing and middle layer that sits between the large language models (LLMs) on one side and an enterprise's proprietary data and workflows on the other. The LLM's keep improving, but increasingly behave like utilities: token prices are falling 50-80% per year, sophisticated enterprises already run multiple models in production, and free open-source routers are making basic model-switching easier. We believe durable economics will accrue to the SRM layer that combines model-agnostic routing with a customer's proprietary data, permissions, and persistent automated workflows. The cleanest public expressions today are large caps, such as Palantir (PLTR) and Snowflake (SNOW), but this framework still matters for the portfolio in two ways. First, it keeps us constructive on AI infrastructure, which remains a significant exposure even after the significant cutback described above: whichever model or orchestration layer wins, inference has to run somewhere. Second, it sharpens our definition of AI risk/reward. For example, application software without proprietary data or workflow lock-in sits closest to commoditization, and we continue to keep that exposure minimal. While at the same time, we have modestly bumped up select investments in those companies which have software with proprietary data and workflows (such as Porch discussed above). This is all moving very fast and we look forward to sharing more of our thoughts in the coming quarters and years.

Content Corner

- In this podcast Ezra Klein and Yuval Harari have a deep and mind-bending conversation on a wide range of topics including how AI differs fundamentally from other technological advancements in that it acts as an agent vs. just a tool, and an interesting discussion about the parallels between immigrants "taking jobs" and AI doing the same.

- Two pieces relevant to the SRM layer of AI

  - A Frontier Without an Ecosystem Is Not Stable by Satya Nadella — This June essay sparked our internal discussion of the SRM (smart routing and middle layer) described above. Nadella argues that the enduring value in the AI era will come from companies compounding their own institutional knowledge on top of interchangeable models, rather than ceding it to a few models that eat everything they see. It is one of the clearest articulations we have read of where moats may form in an AI-driven economy.

  - Palantir CEO and co-founder Alex Karp interviewed by Andrew Ross Sorokin on CNBC. Similar to Nadella's essay, in this interview Karp (and this white paper released a few days later by Palantir), Karp argues that enterprises risk seeding their "alpha" to the LLM's and need to own/control their own AI stack.

- Anthropic Releases Claude Science, a Product Aimed at Researchers, the Pharma Industry — In his 2024 essay Machines of Loving Grace, Anthropic CEO Dario Amodei (himself a biophysics PhD) predicted that AI-enabled biology and medicine will compress the progress human biologists would have achieved over the next 50 to 100 years into the next 5 to 10. The launch of Claude Science, a purpose-built research tool already wired into the major protein, chemistry, and genomics databases, is an early indication that this pull-forward may be starting to materialize, at least directionally. If discovery cycles do compress, the tools and platforms that sit in the discovery workflow stand to benefit--including, we believe, the four "picks and shovels" stocks that we have recently added to the portfolio.

- Although it is a year and a half old, this interview with Wayne Ting CEO of Lime (e-scooters and e-bikes) does a nice job of laying out the attractiveness of the micro-mobility space generally and Lime specifically.

- Theo of Golden - Last, but not least, if you are looking for a great summer read with almost no mention of technology, this unusual novel by first time novelist Allen Levy is for you. Among its many lasting impressions are the virtues of attentiveness and being in the moment

Thank You

On behalf of the entire team at Granahan Investment Management, I'd like to express my gratitude for entrusting us with the management of your capital, which is managed alongside our own.

Sincerely,

Drew

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Focused Growth Composite Trailing Period Returns 2Q26 - Annualized					
	2Q26	**YTD**	**1-Yr.**	**5-Yr.**	**10-Yr.**
GIM Focused Growth Composite – Net	**37.3%**	**20.7%**	**7.5%**	**0.7%**	**19.5%**
Russell 2000 Growth Index	25.7%	**22.2%**	38.7%	5.6%	12.0%

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.