

**MICROCAP GROWTH****Portfolio Comments****September 30, 2026****Highlights**

- **A sharp reversal followed an exceptional second quarter.** After gaining 29.0% in the second quarter, the Russell Microcap Growth Index declined 12.2% in the third as Treasury yields rose and market leadership narrowed.
- **The portfolio trailed in the correction.** The [Granahan Microcap Growth](#) strategy returned -16.4% versus -12.2% for the benchmark. Year to date, the strategy return was +12.6% versus +8.5% for the Index.
- **Weakness was concentrated.** Core Growth and Pioneer holdings each outperformed the Index, while Special Situations fell significantly as first-half thematic leaders reversed.
- **We used volatility to recycle capital.** After trimming positions into second-quarter strength, we added to selected holdings as valuations reset, while reducing exposure where execution challenged our thesis.

Quarter in Review

The third quarter highlighted both the volatility and the opportunity inherent in micro-cap growth investing. The Russell Microcap Growth Index fell 12.2% after a 29.0% second-quarter advance. Rising Treasury yields raised the hurdle rate for long-duration growth, and leadership narrowed toward the largest technology companies. The reversal was particularly pronounced among first-half leaders in AI infrastructure, electrification, space and critical minerals.

Our shortfall was concentrated in those areas rather than spread evenly across the portfolio. Core Growth and Pioneer holdings outperformed the benchmark; Special Situations absorbed most of the decline. Some shares fell far more than our assessment of business value changed. In other cases, execution or timing weakened. We added selectively where expected returns improved and reduced exposure where the investment case became less compelling.

LifeCycle Diversification and Capital Allocation

Leadership has rotated throughout 2026. Core Growth and Special Situations were more resilient in the first quarter; Pioneers and Special Situations led the second-quarter rally; and Core Growth and Pioneers provided better downside protection in the third.

The portfolio has also shifted toward Pioneers. They represented 39.0% of assets at quarter-end, up from 29.4% one year earlier. Special Situations declined to 31.5% from 42.5%. After trimming selected positions during the second-quarter rally, we rebuilt exposure to Arteris, and CEVA during the third-quarter correction where we believed the investment theses remained intact and valuations had become more attractive. This capital recycling is especially valuable in less-liquid micro caps, where changes in positioning can move prices further than changes in business value.



Performance Discussion

As stated above, for the third quarter, the Microcap Growth strategy returned -16.4% versus -12.2% for the Russell Microcap Growth Index. Security selection detracted approximately 4.0 percentage points, while sector allocation was approximately neutral. Year-to-date the strategy return was +12.6% versus +8.5% for the Index.

Health Care was the largest source of relative value, adding approximately 327 basis points, led by revenue-generating medical technology and commercial biopharmaceutical companies. Industrials detracted approximately 336 basis points, followed by Information Technology at approximately 204 basis points. We maintained a meaningful underweight to clinical-stage biotechnology.

Top Contributors

908 Devices (Health Care, Pioneer)	908 Devices was the quarter's leading contributor driven by reported second-quarter revenue growth of 23%, profitability improvement and management raised the low end of its 2026 revenue outlook. Demand for handheld chemical-analysis tools across public-safety and defense markets supports the long-term opportunity. We trimmed the position after its appreciation while retaining meaningful exposure.
First Tracks Biotherapeutics (Health Care, Pioneer)	First Tracks rose approximately 68% as the path for ANB033 in celiac disease became clearer. The company completed enrollment of the first Phase 1b cohort, reaffirmed its fourth-quarter top-line data target and received FDA Fast Track designation. We trimmed after the advance while retaining exposure to the upcoming clinical milestone.
Xeris Biopharma (Health Care, Core Growth)	Xeris gained approximately 21% as commercial execution strengthened. Second-quarter product revenue grew 34%, including 81% growth in Recorlev, a therapy used to treat high cortisol levels in adults with Cushing's syndrome. The results support the company's transition toward a more profitable commercial biopharmaceutical model. We trimmed to manage position size.
Butterfly Network - New Position (Health Care, Pioneer)	Butterfly gained approximately 12% after we initiated the position. Its semiconductor-based ultrasound platform is broadening point-of-care imaging and creating opportunities in software and embedded applications. Second-quarter revenue grew 39%, gross margin reached 71.4% and management raised revenue and adjusted EBITDA guidance. We see an attractive runway as adoption broadens.
OrthoPediatrics (Health Care, Core Growth)	OrthoPediatrics reported strong financial results with revenue growth, profitability and guidance all ahead of expectations. Growth is increasingly translating into improved profitability as the company scales its business. The company is entering an exciting new cycle of innovative products that should support attractive growth and profitability. We trimmed after the appreciation.



Bottom Detractors

Mayville Engineering (Industrials, Special Situation)	Mayville declined meaningfully, reversing much of its second-quarter gain, although it remains a positive contributor year to date. Second-quarter sales grew 23% and the company won approximately \$40 million of new Datacenter and Critical Power projects. Project launch costs, capital spending and negative free cash flow have delayed earnings conversion from that growth. We are focused on evidence that the ramp can produce stronger margins and cash generation.
ADTRAN Holdings (Information Technology, Special Situation)	ADTRAN fell approximately 50% amid a correction in networking shares and renewed scrutiny of profitability. Second-quarter revenue rose approximately 6%, and sales to cloud and hyperscale, enterprise and government customers grew 47%. Yet third-quarter non-GAAP operating-margin guidance of 1.5% to 5.5% underscored the need for better earnings conversion. We are monitoring whether optical-networking growth can produce sustained margin expansion.
Arteris (Information Technology, Pioneer)	Arteris declined approximately 50% after leading the portfolio in the second quarter. Annual contract value plus royalties exited June at a record \$99.5 million, up 44% year over year. We believe its network-on-chip intellectual property benefits from increasing chip complexity and demand for data movement within advanced processors. We added as the stock fell because the underlying thesis remained intact.
Enovix (Information Technology, Pioneer)	Enovix fell approximately 52% as commercialization of its silicon-anode batteries progressed more slowly than investors expected. A lead smartphone customer passed an important cycle-life milestone, but final accelerated testing was expected to continue through the fourth quarter before system-level field testing. The next proof points are a production award and scaled commercial revenue. We are monitoring those milestones closely.
United States Antimony (Materials, Special Situation)	U.S. Antimony was weak as lower antimony prices and delayed deliveries sharply reduced near-term expectations. Management cut 2026 revenue guidance citing commodity pricing, the timing of government shipments and the Thompson Falls capacity ramp. The domestic supply opportunity remains significant, but the company must demonstrate more consistent production and delivery. We reduced the position.

Portfolio Positioning

At quarter-end, the portfolio held 42 companies versus 777 in the benchmark, with active share of approximately 90%. Its median company is larger, less leveraged and faster growing than the benchmark median. Sector weights reflect bottom-up selection.

Characteristics as of September 30, 2026	Portfolio	Russell Microcap Growth
Median market capitalization	\$925M	\$224M
Weighted average market capitalization	\$1,114M	\$1,092M
Long-term debt to capital weighted average	29.2%	42.1%
Historical three-year sales growth	14.8%	11.1%



Holdings declined from 47 to 42 during the quarter. We initiated Butterfly Network, Silicom, trivago and Allient; added selectively to technology positions after the drawdown; and funded part of those purchases by trimming Health Care winners. We continued reducing clinical biotechnology exposure and exited positions when valuation, execution or our assessment of the thesis changed.

Outlook

We enter the fourth quarter with a more balanced opportunity set. Elevated yields and a higher cost of capital raise the standard for growth companies. We expect investors to emphasize financial results, balance-sheet quality and company-specific catalysts more than broad multiple expansion. At the same time, the correction reduced valuations across several secular growth areas without an equivalent deterioration in business prospects.

Micro-cap volatility can create large gaps between share-price movements and fundamental value because liquidity is limited and institutional ownership is low. We added where prices fell faster than our assessment of business value and reduced exposure where execution challenged our thesis. The third quarter tested that discipline. Our objective remains to identify durable growth before it is widely recognized and use periods of dislocation to improve long-term expected returns for clients.

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Microcap Growth Composite Trailing Period Returns 3Q26 - Annualized

	3Q26	YTD	1-Yr	5-Yr	Since Inception*
Microcap Growth Composite – Net	-16.4%	12.6%	22.4%	-4.1%	2.5%
Russell Microcap Growth Index	-12.2%	8.5%	10.8%	2.6%	8.6%

Inception Date: 7/31/2020

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