



SMALL CAP SELECT

Portfolio Comments

September 30, 2026

Distinguishing Features

GIM builds the [Small Cap Select](#) portfolio from the bottom-up; sector weightings are secondary to stock selection. At quarter-end, the Small Cap Select portfolio is overweight in Information Technology, Financials, and Communication Services versus the Russell 2000 Growth benchmark. The portfolio is underweight the benchmark in all other sectors. We continue to have no exposure to Utilities, Real Estate, or Energy.

Market Environment

Performance became increasingly differentiated during the quarter. Companies delivering earnings growth, improving execution and identifiable catalysts continued to be rewarded in several areas. Company fundamentals across the portfolio remained broadly intact during the quarter.

- Small-cap fundamentals continued to improve during the quarter, although market volatility and narrower leadership weighed on share prices.
- Following a very strong second quarter, portfolio actions taken late in 2Q and early in 3Q contributed to solid relative performance in a more challenging market environment.
- Stock selection remained the principal source of relative value. Health Care, Financials, Communication Services and selected Software holdings offset significant weakness in Industrials and several Special Situation stocks.
- Pioneer companies produced a positive return, supported by company-specific catalysts and fundamental progress.

Performance & Attribution

The Granahan Small Cap Select strategy returned -2.6%, meaningfully outperforming the Russell 2000 Growth Index, which returned -9.4% during the quarter. Year-to-date, the portfolio returned 54.2%, compared with 10.7% for the Russell 2000 Growth Index.

From a LifeCycle perspective, Pioneer companies produced a positive return for the quarter. Core Growth also was modestly positive and Special Situations experienced substantially greater pressure. The Pioneer result illustrates how identifiable catalysts and fundamental progress can support earlier-stage businesses even during a difficult quarter for small-cap growth.

3Q26 Contributors	3Q26 Detractors
1. Magnite, Inc. (Comm. Services, Core Growth)	1. Indie Semiconductor (Info. Tech., Special Situation)
2. Porch Group (Financials, Pioneer)	2. Nextpower Inc. (Industrials, Core Growth)
3. Chime Financial (Financials, Core Growth)	3. FTAI Aviation Ltd. (Industrials, Core Growth)
4. SI-BONE, Inc. (Health Care, Pioneer)	4. Modine Manufacturing (Industrials, Core Growth)
5. SharkNinja, Inc. (Consumer Disc., Core Growth)	5. Capstone Energy (Industrials, Special Situations)



Positioning

During the late spring and early summer, both the portfolio and the Russell 2000 Growth Index underwent significant changes. According to analysis by Steve DeSanctis at Jefferies, the newly reconstituted index, effective June 26, outperformed the prior benchmark's holdings by 247 basis points in July. A key contributor to this difference was the reduction of nearly 700 basis points in the benchmark's Industrials weight at the end of June. Industrials subsequently became the benchmark's worst-performing sector in the third quarter, returning -17.45%.

Following strong gains in Industrials during the spring, we determined that the prospective returns for many of our holdings had become less attractive and reduced several positions. As a result, our average Industrials weight declined from 21.7% in the second quarter to 11.8% in the third quarter. Later in the quarter, share-price declines improved the prospective returns of selected holdings, prompting us to add to high-conviction positions such as Carpenter Technology and FTAI Aviation. We ended the quarter approximately 70 basis points underweight Industrials relative to the Russell 2000 Growth Index.

Macro and Outlook

Despite the third-quarter pullback in smaller companies, the U.S. economy and equity markets have remained resilient. The challenges are substantial: disruptions to oil supply, persistent inflation, elevated interest rates, a sluggish housing market and ongoing geopolitical conflict. Even so, these pressures have yet to meaningfully derail economic activity. Low unemployment, continued industrial activity and steady consumer spending remain supportive, while credit spreads are relatively contained. For small-cap companies, this remains a workable backdrop, particularly for businesses with the earnings growth and cash generation to fund their expansion.

We enter the fourth quarter with a constructive but selective view. The third-quarter pullback improved small-cap valuations, with the Russell 2000's forward P/E falling below 20x for the first time since mid-2025, therefore small caps remain inexpensive relative to large companies. Valuation alone, however, is not an investment thesis. We continue to seek businesses that can translate attractive end-market opportunities into earnings growth, stronger cash generation and identifiable commercial milestones.

Rising Treasury yields remain an important consideration for small-cap growth investors and created valuation pressure across parts of the portfolio during the quarter. Even so, the strategy generated solid relative performance in 3Q, reinforcing our view that higher yields do not automatically preclude attractive small-cap returns. The source of the increase matters: higher yields associated with stronger nominal growth, investment and earnings can remain consistent with a constructive small-cap environment, provided companies generate sufficient growth to absorb the higher cost of capital. We therefore believe the more important question entering 4Q is whether earnings and business momentum remain strong enough to offset the pressure from higher discount rates.

Our lifecycle framework helps us evaluate that question across companies at different stages of development. The positive return from Pioneers and greater pressure on Special Situations during the quarter demonstrate that rates alone did not determine outcomes; earnings progress, catalysts and valuation mattered considerably. As we look ahead, we believe prospective returns are likely to depend less on broad multiple expansion and more on earnings delivery, company-specific execution and disciplined capital allocation. We remain focused on identifying companies where recent stock price weakness is disconnected from strong underlying fundamentals and long-term growth prospects.



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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 Select Composite Trailing Period Returns 3Q26 - Annualized

	3Q26	YTD	1-Yr.	5-Yr.	10-Yr.
GIM SC Select Composite – Net	-2.6%	54.2%	43.5%	3.4%	19.4%
Russell 2000 Growth Index	-9.4%	10.7%	12.1%	4.7%	9.9%

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 Select Composite has had a performance examination for the periods March 31, 2015 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 Select product utilizes fundamental, bottom-up research and analysis to invest in the stocks of companies in the small cap sector of the market that have the ability to sustain growth through market disruption. The Small Cap Select is a concentrated portfolio typically containing 45-50 holdings. The benchmark for the Small Cap Select product is the Russell 2000 Growth. The composite was created in September 2016, and the inception date is March 31, 2015 and is calculated by asset-weighting the performance of each account on a monthly basis. The composite includes an autonomous sub-portfolio, which includes cash, as part of a sleeve-managed small cap strategy. 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 January 1, 2021, 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. The standard management fee applicable is applied to all accounts to calculate the net return. The standard fee for accounts managed in the Small Cap Select 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. The annual net of fee returns for 2015 and 2016 were previously calculated using actual account fees instead of the standard 1.00% annual fee and have been corrected as of 1/1/2020. Prior to making the correction, the 2015 Net of Fees Return was presented as 0.82%, and 2016, as 14.64%. 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.