



SMALL CAP DISCOVERIES

Portfolio Comments

March 31, 2025

Distinguishing Features

GIM builds the [Small Cap Discoveries](#) portfolio from the bottom-up; sector weightings are secondary to stock selection. As of 3/31/25, the Small Cap Discoveries portfolio is overweight its position in Industrials, Consumer Discretionary, Materials, and Communication Services versus the Russell Microcap Growth benchmark. The portfolio’s Health Care weighting remains underweight the benchmark (27% versus 34%). The portfolio is also underweight to the benchmark in Financials, Information Technology, and Consumer Staples. The portfolio has no exposure to Energy, Real Estate or Utilities.

Market Environment

Inflation concerns that dominated the headlines in 2024 have evolved into broader fears of stagflation, contributing to a more cautious investment environment. Expectations for accelerating earnings growth in small-cap equities have moderated meaningfully. At the same time, the newly imposed tariffs are expected to place upward pressure on prices, even as several economic indicators reflect declining business and consumer confidence. While the underlying fundamentals of the U.S. economy remain relatively resilient, uncertainty surrounding the Trump administration’s evolving agenda has weighed on investor sentiment and contributed to increased market volatility. In this environment, shifting policy narratives are likely to sustain a higher level of uncertainty, making it more challenging to forecast the near-term impact on corporate earnings.

Performance Discussion

For the first quarter of 2025, the Granahan Discoveries strategy returned -17.2%, slightly outperforming the Russell Microcap Growth Index return of -17.8%, but underperformed the secondary benchmark, the Russell 2000 Growth Index, which returned -11.1%. With regards to Life Cycles this quarter, Special Situations were the largest penalty to performance followed by Pioneers and Core Growth.

Top Contributors	Top Detractors
1. 908 Devices (Health Care, Pioneer)	1. Harvard Bioscience (Health Care, Special Sit)
2. Titan Machinery (Industrials, Special Sit)	2. Columbus McKinnon (Industrials, Special Sit)
3. Chefs’ Warehouse (Consumer Staples, Core Growth)	3. Pliant Therapeutics (Health Care, Pioneer)
4. OrthoPediatrics Corp. (Health Care, Core Growth)	4. Digimarc Corp. (Info Technology, Pioneer)
5. SI-BONE (Health Care, Pioneer)	5. Kura Sushi USA, Inc. (Consumer Disc, Pioneer)

Below we discuss these top contributors and top detractors:

Top Contributors in Q1:

- **908 Devices (MASS):** The company's stock surged following the divestiture of its desktop portfolio to Repligen for \$70 million, effectively doubling its cash position and allowing a



focused shift toward handheld device markets. While we applaud the value-creating transaction, we eliminated the stock given the valuation relative to the remaining business.

- **Titan Machinery (TITN):** Titan Machinery's stock saw a positive reaction to its earnings report due to the successful reduction of inventory during the quarter. We believe this proactive inventory management is a strategic move to better position the company in a subdued demand environment. Subsequent to the end of 1Q, we eliminated the position given concerns about tariffs and the outlook for softer demand.
- **The Chefs' Warehouse (CHEF):** The company's stock experienced an uptick driven by record revenue achievements and improved profit margins and there is a high degree of confidence in the company's sustained growth through market expansion and digital investments. While the fundamentals are attractive, we eliminated the position given the rich valuation coupled with concerns about consumer spending.
- **OrthoPediatrics (KIDS):** The stock responded favorably to the company's strong financial performance that was driven primarily by organic growth in Trauma and Deformity and Scoliosis products, as well as the addition of Boston O&P. Given the strong relative stock performance, we trimmed the position.
- **SI-BONE (SIBN):** SI-BONE's stock appreciated following the announcement of record financial results for Q4 2024 and optimistic guidance for 2025. The company expects revenue growth of 17%, and anticipates achieving positive adjusted EBITDA in the latter half of 2025. We trimmed our position given the stock's outperformance.

Top Detractors in Q1:

- **Harvard Bioscience (H BIO):** The company reported weakening conditions in its business given reduced purchasing by U.S. academic customers. The outlook for 2025 was below expectations to reflect the ongoing uncertainties in NIH funding and academic research spending. While there are near-term uncertainties, we continue to hold the position as the stock price severely overestimates the near-term risks.
- Uncertainties surrounding U.S. tariff policies and investor apprehension toward **Columbus McKinnon's** strategic acquisition of Kito Crosby Limited weakened the stock. The merger will yield over \$70 million in annual net cost synergies enhancing operational efficiency while also increasing the company's exposure to recurring consumable revenue that should reduce the cyclicity of the overall company. We continue to hold the stock.
- **Pliant Therapeutics (PLRX):** The company's stock declined sharply following the emergence of an unexpected safety signal related to its pulmonary fibrosis drug, Bexotegast. In light of this development, we exited our position.
- **Digimarc Corp (DMRC):** The company reported a disappointing quarter and announced a strategic pivot in its business after failing to come to terms with Walmart on an expected transformational deal that management had expected. Given the disappointing outcome, we exited the position.



- **Kura Sushi (KRUS):** The company reported first quarter results that were disappointing with comparable restaurant sales growth of a modest 1.8% and a decline in customer traffic given the impact on one-time events during the quarter. We maintain our position given its innovative, tech-driven dining experience and strong unit expansion opportunity that will drive long-term growth.

Outlook

The current investment landscape for small cap growth stocks is characterized by both uncertainty and opportunity. The Trump administration's strategy to address the country's fiscal challenges, centered on reducing government waste, fraud, and unnecessary spending, has introduced a new dynamic into the market. At the same time, the administration's efforts to re-industrialize the U.S. economy, particularly through the use of tariffs, have fostered a more protectionist trade environment, adding volatility to global supply chains and dampening investor sentiment. While these initiatives aim to enhance long-term fiscal health, they also contribute to near-term unpredictability as federal programs and agencies undergo restructuring.

Nevertheless, this uncertain backdrop creates compelling opportunities for small cap growth investors. Many innovative small cap companies continue to demonstrate strong fundamentals, including robust revenue growth, scalable business models, and unique market positions, yet are trading at historically attractive valuations due to broader macroeconomic concerns. Market dislocations can provide long-term investors with the chance to establish and build positions in high-potential businesses before sentiment recovers. As capital begins rotating back into growth-oriented equities in anticipation of economic stabilization, small caps—especially in technology, healthcare, and industrials—could deliver meaningful returns. Accordingly, we remain focused on the underlying fundamentals of the businesses we invest in and believe that current market volatility presents an opportunity to position the portfolio for long-term success.

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