



## MICROCAP GROWTH

### Portfolio Comments

March 31, 2025

#### Distinguishing Features

GIM builds the [Microcap Growth](#) portfolio from the bottom-up; sector weightings are secondary to stock selection. The portfolio’s Health Care weighting moved from a significantly overweight position versus the Index to an almost equal weighted position (35% versus 34%). The portfolio is overweight Consumer Discretionary, Information Technology, Consumer Staples, and Industrials and equal weight to the benchmark in Real Estate. The portfolio has no exposure to Utilities, Energy, Communication Services, or Materials.

#### 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 Microcap Growth strategy returned -21.1%, trailing the Russell Microcap Growth Index return of -17.8%. 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. <b>908 Devices</b> (Health Care, Pioneer)	1. <b>Pliant Therapeutics</b> (Health Care, Pioneer)
2. <b>OrthoPediatrics Corp.</b> (Health Care, Core Growth)	2. <b>Harvard Bioscience</b> (Health Care, Special Sit)
3. <b>Kiniksa Pharma.</b> (Health Care, Pioneer)	3. <b>Digimarc Corp.</b> (Info Technology, Pioneer)
4. <b>Chefs’ Warehouse</b> (Consumer Staples, Core Growth)	4. <b>Columbus McKinnon</b> (Industrials, Special Sit)
5. <b>AnaptysBio, Inc.</b> (Health Care, Pioneer)	5. <b>Spire Global</b> (Industrials, Special Sit)

#### 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.
- **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.

- **Kiniksa Pharma (KNSA):** The stock performed well in the quarter primarily due to robust performance of its lead product, ARCALYST. The company's expectation for strong growth and cash flow generation is being rewarded by investors. While we are optimistic about the outlook for the company, we used the strength in the stock to trim our position.
- **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 trimmed the position given concerns about consumer spending.
- **AnaptysBio (ANAB):** The company's stock responded favorably to positive developments in its clinical pipeline with lead candidate, rosnilimib, delivering positive results on a Phase 2b rheumatoid arthritis trial. Given our positive outlook for the stock, we increased our position.

#### Top Detractors in Q1:

- **Pliant Therapeutics'** stock declined sharply following the emergence of an unexpected safety signal related to its pulmonary fibrosis drug, Bexotegrast. In light of this development, we exited our position.
- **Harvard Bioscience (HBIO):** 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.
- **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.
- 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.
- **Spire Global (SPIR):** The company's stock was weak in the quarter given a delay in the sale of the maritime business that was important for debt reduction and strategic realignment of the company. We increased our weighting given the attractive outlook for its satellite data analytics business and the expectation that signs of the deal closing will serve as a catalyst.



## 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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