



FOCUSED GROWTH

Portfolio Comments

September 30, 2025

The [Granahan Focused Growth](#) portfolio had a rough Q3, declining -0.8% versus +12.2% gain for the Russell 2000 Growth benchmark. That setback followed a strong first half: year-to-date through September 30, 2025, the portfolio was +13.2%, retaining a respectable 150 basis point lead on the benchmark. Nevertheless, Q3 was a very difficult quarter.

Attribution – Highlights and Lowlights

The quarter's relative underperformance was driven by stock selection. Below are the top contributors and detractors.

Q3 Largest Relative Contributors:

- **Porch Group (PRCH)** - Porch provides home owners insurance, software and other services for the residential housing market. PRCH shares rose +42% contributing 206 basis points to performance. Porch posted strong Q2 results and again raised 2025 EBITDA guidance. We continue to believe that the company is in the early stages of taking advantage of its strong data advantage in the home owner's insurance market. We believe the stock's expected return and risk/reward remain attractive and hold a large position in PRCH shares.
- **Comfort Systems (FIX)** - Comfort Systems, a leading provider of mechanical, electrical, and plumbing contracting services, rose +54% and contributed 100 basis points for the quarter. The company continues to execute exceptionally well, benefitting from the wave of data center, manufacturing, and infrastructure investment across the U.S. We maintain an above-average position in FIX shares.
- **Centrus Energy (LEU)** - Centrus, a supplier of enriched uranium for the nuclear power industry, rose +69% contributing 99 basis points to performance in the quarter. The company is uniquely positioned at the center of a renewed focus on nuclear energy in the U.S. With its pioneering work in high-assay low-enriched uranium (HALEU), Centrus is the only U.S. company currently licensed and producing this next-generation fuel, which will be essential for small modular reactors (SMRs). We view Centrus as an asymmetric opportunity benefiting from both geopolitical tailwinds and a structural shift toward clean, reliable energy, and hold an above-average position in LEU shares.

Q3 Largest Relative Detractors:

- **Oddity Tech (ODD)** – Oddity is an online direct-to-consumer beauty and wellness company using AI to deploy targeted molecules, attract and retain customers, and



personalize product recommendations. ODD shares fell -18%, detracting -188 basis points from performance. The stock pulled back despite reporting strong Q2 results and guidance which we attribute to profit-taking after a strong rise in Q2 and a stock sale by Oddity's private equity sponsor Catterton. The company recently soft launched its third brand Methodiq, initially targeting acne, eczema and other skin-related issues. We believe Oddity's brands and platform have significant growth potential and retain a large position in ODD shares.

- **Kura Sushi (KRUS)** - Kura operates a chain of 78 revolving sushi bar locations in the U.S. KRUS shares declined -31%, detracting -138 basis points from performance on fears of a consumer slowdown. We continue to like the differentiated model, believe the company has substantial growth potential, and have added to our position. We currently hold a medium-sized holding.
- **Marex (MRX)** - The company's shares fell -15% contributing negative -129 basis points to performance. The company was subject to a short report which, although largely without merit in our opinion, nonetheless appears to have caused some temporary impact to Marex's business. We have cut our position to below-average.

More on Q3

Quarters of meaningful underperformance happen. Often they are driven by one or two large holdings that stumble due to fundamental issues. That was not the case in Q3. Instead, a wide range of factors collectively led to poor relative results. Simply put, Q3 was a quarter in which investors bid up stocks in a few narrow sub-sectors at the expense of most others. The Focused Growth portfolio was weighed down by having too many holdings in sub-sectors that were out of favor and not enough in those that were in favor.

We encountered notable headwinds within Technology. We were modestly overweight software relative to the benchmark (which hurt performance) and had three good-sized holdings—Toast, Magnite, and SPS Commerce—that fell 15–20%. Of the three, only SPS Commerce had a fundamental shortfall. Meanwhile, within software, the benchmark was led by three quantum computing stocks—IonQ, Rigetti Computing, and D-Wave Quantum—that rose an average of 157% during the quarter.

Similarly, in hardware, stock selection was weak, and while we have exposure to AI, it wasn't enough. In some areas which were strong performers (alternative energy, construction, and defense), we had good exposure and strong stock selection. However, several other sub-sectors that rose sharply—metals and mining, robotics, satellites, crypto, and biotech—were areas in which we had little or no exposure.

We were also overweight consumer stocks and had poor selection there, both of which hurt performance. Finally, a handful of stocks that were strong performers in the first half of 2025 (e.g., Axon, Oddity, Toast) retreated 10-20% in Q3 despite no fundamental issues.



AI Momentum

There is much debate about whether we're experiencing an AI bubble. We think the reality is more nuanced. As we've noted before, AI will be hugely transformative. The spending to build out AI data centers is unprecedented in scale—mind-blowing, even—but we wouldn't call it a bubble at this stage. The mega-cap companies driving this buildout (Google, Microsoft, OpenAI, Meta, Amazon, and others) have both the capital and the conviction that they have no choice. AI is existential. If they don't spend and adapt, they risk irrelevance within five years.

Wall Street estimates U.S. hyperscalers will invest between \$250–500 billion in AI data centers in 2025, with cumulative investment reaching into the trillions by decade's end. With hyperscalers still short on capacity and most enterprises still at the proof-of-concept stage, we believe this generational infrastructure buildout remains in its early innings.

In Q3, stocks of companies in the hyperscaler supply chain were bid up sharply. This includes companies involved in energy production, which are now viewed as intertwined with AI data centers. We own several such names—Comfort Systems (FIX), Centrus Energy (LEU), Semtech (SMTC), and Nextracker (NXT)—but not enough to fully capture the move. During Q3 we initiated positions in three additional investments, Ameresco (AMRC), an energy solutions provider with growing exposure to AI data centers; Rambus (RMBS), a semiconductor licensing firm with IP tied to HBM (high-bandwidth memory) and other key AI components; and Modine (MOD), a designer of advanced thermal management systems increasingly used for data center cooling. Each is seeing accelerating growth and expanding margins. Overall, our analysis indicates the portfolio is now modestly overweight AI relative to the benchmark, a position we are comfortable with.

Momentum Areas Beyond AI

AI was important, but as noted, this is a market increasingly driven by a relatively narrow set of high-momentum sub-sectors—quantum computing, space, critical minerals, drones, robotics, and biotech—where we have limited exposure. We're living in an era of accelerated innovation, and many investors are funding purchases of momentum stocks by selling other sectors.

Amplifying this dynamic are rising retail participation in individual stocks and ETFs. While it remains to be seen how long this momentum market persists, some of these companies are likely long-term secular winners. As such, we are redoubling our efforts to identify promising companies within these emerging areas, while remaining disciplined and true to our time-tested Focused Growth investment process.

Recent changes to the portfolio have included trimming our exposure to consumer and software, and adding very selectively to AI and certain emerging secular growth areas. A recent example of an investment in a momentum area—crypto/blockchain—is Figure Technology (FIGR). Figure uses blockchain to originate, service, and trade financial assets, starting with home equity line of credit (HELOC) loans. Tokenization—the process of putting real-world assets on the blockchain—holds the promise of a more efficient, transparent, and democratic financial system. By reducing transaction costs, improving speed and auditability, and enabling



programmable contracts, tokenization could transform capital markets. We believe Figure is well-positioned as an enabler and beneficiary of this secular trend. Although Figure is member of the market's momentum basket these days, we believe it is firmly a desert island worthy company and still presents an attractive risk/reward based on a probability-weighted distribution of scenarios.

Positioning and Outlook

If technological disruption weren't enough, investors must also contend with considerable geopolitical and policy uncertainty—from wars and tariffs, a U.S. Government shutdown, to inflation and the domestic militarization of ICE (Immigration & Customs Enforcement) and the National Guard.

Fortunately, the Focused Growth investment philosophy has been battle-tested through a wide variety of markets and crises since its inception in 2007. As a reminder, the process consists of four steps:

1. Identify **“desert island-worthy” companies**—those we believe will be much larger in 5–7 years.
2. Apply a **strict valuation framework** centered on probability-weighted expected return and risk/reward.
3. Emphasize **careful portfolio construction and allocation**.
4. Maintain rigorous **risk management**.

Having a clear framework around what we own, why we own it, and what it's worth is always critical, but especially during periods of extreme momentum. These times call for mindfulness about the distinction between *stocks* and *companies*. It means adding selectively to names that remain desert island-worthy yet are out of favor, while introducing new names that meet our quality criteria and offer compelling risk/reward. We are actively evaluating opportunities in high-momentum areas like critical minerals and quantum computing, but remain disciplined: even if a company meets our desert island worthiness standards, its stock must still meet our expected-return framework. Historically, we've used volatility as a tool for long-term value creation, and we intend to continue doing so.

Content

Before concluding, I want to share a few pieces of content I found interesting:

[Rolex – Acquired Podcast](#). Warning, this is five hours but I couldn't turn it off. Very thoroughly researched, it walks through the fascinating story of one of the world's most prestigious brands.

[The Criminal Enterprise Run by Monkeys](#) – At the Uluwatu Temple in Bali, a popular site with tourists, macaques monkeys snatch valuable items (phones, wallets, sunglasses) from tourists and hold them “hostage,” only returning the goods when human handlers (called pawang) sufficiently bribe them with fruit or eggs. Researchers found that the



monkeys can differentiate between high-value items and low-value items, suggesting a kind of rudimentary economic decision making capacity.

OpenAI Podcast – [Open AI x Broadcom and The Future of Compute](#) – I could have chosen any of the 8 podcasts so far released here, but I selected this one as it gives a glimpse into one of the ways chip systems *could* evolve to broaden beyond the Nvidia eco-system.

Conclusion

We remain long-term bullish on AI and impressed by innovation across sectors. These secular shifts are powerful engines of value creation and societal progress. Yet, we also recognize they won't advance in a straight line, nor will stock prices. In addition, the market's narrow focus on the sectors discussed above, are leaving many opportunities in other sectors. While we cannot predict macro trends or momentum cycles, we can continue to execute the Focused Growth process, which has served us well through many market regimes. Our aim is to use volatility to our advantage and create long-term value. On behalf of the entire team at Granahan Investment Management, thank you for your trust and partnership. As always, our capital is invested alongside yours with conviction.

Sincerely,

A handwritten signature in black ink, appearing to read 'A. Beja'.

Andrew L. Beja, CFA

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Focused Growth Composite Trailing Period Returns 3Q25 - Annualized					
	3Q25	YTD	1-Yr	5-Yr	10 Yr
GIM SC Focused Growth Composite – Net	-0.8%	13.2%	23.8%	7.8%	19.3%
Russell 2000 Growth Index	12.2%	11.7%	13.6%	8.4%	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, 2023. 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, 2023. 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.