



FOCUSED GROWTH

Portfolio Comments

September 30, 2026

In Q3 of 2026, the [Granahan Focused Growth portfolio](#) returned -6.9% (net), ahead of the Russell 2000 Growth benchmark's -9.4%. The quarter presented challenges for small caps. Oil prices and interest rates rose, the Fed raised rates for the first time in three years, and market leadership rotated away from the higher growth, longer duration assets that characterize most of our holdings. Against that backdrop, the portfolio's holdings had a strong earnings season, with the significant majority of companies meeting or exceeding expectations on both results and guidance, and stock selection carried the quarter.

Year-to-date, the portfolio is up +12.4% (net), ahead of the benchmark's +10.7%. This letter discusses what drove the quarter, the changes we made in the portfolio, and our latest thinking on AI, which we believe remains the most important dynamic in the market.

Attribution – Highlights and Lowlights

Stock selection drove outperformance in Q3, led by our Financials holdings, while several Industrials holdings tied to the AI buildout were the largest drag.

Q3 Largest Relative Contributors:

- **Victory Capital (VCTR)** – Victory is a diversified asset manager with a growing ETF franchise and a strong international distribution partnership with Amundi. The stock rose +32% in the quarter, adding +235 basis points to relative performance. The company reported a record Q2 with long-term net inflows of roughly \$4 billion against expectations near zero, adj. EPS up 41% year over year, and that it completed the integration of Pioneer and delivered the full targeted cost savings ahead of schedule. Management also raised its long-term margin target and noted that flows accelerated into Q3. Since its IPO in 2018, Victory's management team, in our view, has demonstrated exceptional capabilities in capital allocation (particularly in M&A) and in executing its plan. We believe the company has strong prospects for growth and is relatively insulated from AI disruption. VCTR ended the quarter as our second largest holding.
- **Zeta Global (ZETA)** – Zeta operates an AI-powered marketing cloud that helps large consumer brands acquire, retain, and grow customers using Zeta's proprietary consumer data. The stock rose +60%, contributing +216 basis points, after its 20th consecutive beat-and-raise quarter: revenue grew +44% and management raised 2026 guidance across the board. According to management, adoption of Athena, Zeta's AI agent, is accelerating, and the company's heaviest AI users are growing faster and retaining better than the rest of the base. Partnerships with Palantir (new), OpenAI and Snowflake broaden the opportunity beyond marketing. Zeta is an example of what we call an underappreciated AI beneficiary. Although we recently trimmed the position given the share price rise, ZETA remains a large holding.
- **Porch Group (PRCH)** – Porch provides vertical software for the home services industry, and, through the Porch Reciprocal Exchange, homeowners insurance informed by proprietary data



on roughly 90% of U.S. homes. The stock rose +11%, adding +166 basis points, as Q2 results again demonstrated the earnings power of the reciprocal model: policies written grew +38% year over year, adj. EBITDA (excluding the reciprocal) more than doubled, and management raised full-year guidance for the second time this year. Reinsurance costs declined and the reciprocal's capital base continues to build, which supports growth into 2027 and beyond. We slightly trimmed the position on strength, and Porch remains our largest holding.

Q3 Largest Relative Detractors:

- **FTAI Aviation (FTAI)** – FTAI sells and leases CFM56 engine modules and is building a differentiated engine maintenance franchise. The stock fell -38%, detracting -151 basis points. Q2 results were mixed: the company reduced its leasing guidance as it shifts that business toward an asset-light, fee-based model, and margins ran below expectations as FTAI prioritized market share with large airline customers. The stock was also caught in the Q3 selloff in stocks connected to AI data centers, despite FTAI Power (whereby the company refurbishes and converts old airplane engines into power generators) signing an initial \$1.5 billion order with a hyperscaler. We continue to view the core engine business as a long-duration compounder and the power generator program as underappreciated. FTAI is a modestly above-average position.
- **Forgent Power Solutions (FPS)** – Forgent designs and manufactures electrical distribution equipment for data centers, the power grid, and energy-intensive industrial facilities. The stock fell -33%, detracting -106 basis points, as AI infrastructure stocks de-rated on higher interest rates and renewed questions about the pace of data center spending. The company reported strong operating results: fiscal Q4 (June) was the strongest quarter in the company's history, with bookings of \$1.5 billion, its first direct order from a frontier AI lab, and initial fiscal 2027 guidance well above the plan laid out at the February IPO. We cut the position meaningfully during the quarter, largely before the decline, as the expected return had compressed after the stock's run in the first half. FPS is a below-average position.
- **indie Semiconductor (INDI)** – indie designs sensing and processing chips for automotive safety systems (radar, vision and in-cabin sensing), with emerging exposure to robotics and photonics. The stock fell -35%, detracting -97 basis points, as semiconductors sold off and investors remained cautious on indie's China exposure and cash burn ahead of its planned sale of its Wuxi subsidiary. Q2 revenue grew +24% and beat expectations, Q3 guidance implies roughly +30% growth, and radar and vision design wins are moving into production. The next several quarters should show whether those ramps deliver the operating leverage we expect. We continue to own an average-sized holding.

A Strong Earnings Season in a Weak Tape

Earnings season was strong for the Focused Growth portfolio as a significant majority of our holdings met or exceeded expectations on both results and guidance. The decline in stock prices came from valuation multiples rather than earnings. Oil moved from the low \$70s to above \$100 per barrel as hostilities around the Strait of Hormuz resumed, the 10-year Treasury yield rose more than 80 basis points to its highest level since 2007, and the Fed raised rates by 25 basis points in September. Valuation multiples compressed across most sectors, and the compression was generally more severe in small



caps and in anything connected to AI. Within the market, leadership rotated from momentum and high beta toward value and quality, nearly the reverse of Q2.

Although we are not top-down investors, we pay close attention to macro factors which inform both scenarios for individual holdings and portfolio construction. And there are plenty of macro forces that bear watching including geopolitical volatility and wars in the Middle East and elsewhere, high oil prices, inflation, and elevated interest rates (on this point strategist Jim Furey recently noted that small caps have performed well during several periods of rising interest rates in the past, particularly when higher rates coincided with stronger economic growth). We are also mindful that next month's mid-term elections could shift control of Congress to the Democrats and impact a wide range of policies. As of this writing, Polymarket places the probabilities of Democrats taking the House, Senate and both chambers at 91%, 64% and 62% respectively--FWIW, I'd take the under on the latter two. That all said, while it is important to be aware of the macro environment, we aim to invest in businesses that can grow through it and to stay disciplined on price: identify Desert Island worthy companies, apply a valuation framework centered on probability-weighted Expected Return and Risk/Reward, construct the portfolio carefully, and manage risk.

AI: Still the Most Important Dynamic

AI continues to move at a breakneck pace, and most signs point to businesses finding value in it and adopting it. One big development during the quarter was the emergence of personal AI agents. Among these are: Muse from Meta, which quickly became one of the most downloaded consumer apps; Dots from OpenAI, launched at its developer conference in late September; Grok bots from xAI; and Instinct, a 2025 startup whose agent already handles over \$1 billion a year in transactions on behalf of its users (for more on the story of Instinct, see the link in "Content Corner" below). Personal agents have rough edges, and most of us are not yet ready to hand an agent our credit card and email inbox. However, today's personal agents provide a glimpse of a user-friendly tool that could facilitate the unleashing of the tremendous power of AI to the mainstream market. This in turn has the potential to meaningfully reshape where value accrues across commerce, advertising and many other sectors.

The quarter also brought reminders of the risks of both AI generally (more on this below) and AI stocks. A sharp mid-September selloff in chip and data center stocks followed highly publicized concerns about the pace and safety of frontier model development. Permitting, supply chain bottlenecks in power equipment and memory, and new regulation also threaten to slow the buildout. We expect the public release of Anthropic's S-1 to be an important moment for the market, as the filing will give investors a gauge into real AI demand and the economics underlying the leading AI company. We expect it to be scrutinized closely and are inclined to think it will be a positive catalyst. We are positioned accordingly with a slight overweight position in AI infrastructure relative to the benchmark.

Picks and Shovels for Biotech

As we noted in the Q2 letter, during Q2 we invested in a group of companies that stand to benefit from AI's impact on the biotech sector while trying to avoid the binary risk of individual drug programs. As a whole, this group did well in Q3 and spans several areas of biotech discovery, manufacturing and diagnostics. Repligen (RGEN) supplies consumable products used in biologic drug manufacturing while Twist Bioscience (TWST) manufactures synthetic DNA for research and drug discovery and is increasingly



perceived by Wall Street as an AI beneficiary. GRAIL (GRAL) develops the Galleri multi-cancer early detection blood test. An FDA advisory committee voted in late September that the test's benefits outweigh its risks, which we believe bodes well for approval early next year. Ligand Pharmaceuticals (LGND) collects royalties on a diversified portfolio of partnered therapies; we added to the position as we gained conviction in the company. We continue to believe AI has the potential to accelerate the discovery of new therapies, and that the tools and platforms in the discovery and manufacturing workflow are a durable way to participate. Given the strong moves, we trimmed TWST and GRAL and started a new position in Cryoport (CYRX), which provides temperature-controlled logistics and storage for cell and gene therapies and should benefit as those therapies expand.

The Portfolio through an AI Lens

As discussed in recent letters, one of the tools we employ as part of our portfolio construction process is a four-bucket framework for evaluating each holding through an AI lens. During Q3 we reduced direct AI infrastructure exposure where stocks had run ahead of fundamentals on an expected return basis. For example, we cut Forgent (FPS), TTM Technologies (TTMI) and Onto Innovation (ONTO), and exited Modine (MOD). We added to AI-insulated businesses and underappreciated beneficiaries where we believed meaningful upside remained underpriced in such stocks as Zeta (ZETA), Figure Technology (FIGR), and Ligand Pharmaceuticals (LGND). Approximate portfolio weights currently:

- 1. Direct AI beneficiaries – 12%, down from 15% last quarter end**
 - Examples: Silicon Motion (SIMO), Forgent (FPS), TTM Technologies (TTMI), JFrog (FROG)
- 2. Companies relatively insulated from AI disruption – 53%, up from 52%**
 - Examples: Victory Capital (VCTR), Marex (MRX), Kura Sushi (KRUS), Life Time (LTH), Repligen (RGEN)
- 3. Underappreciated AI beneficiaries – 31%, up from 27%**
 - Examples: Porch (PRCH), Zeta (ZETA), Axon (AXON), Genius Sports (GENI)
- 4. Companies perceived to have higher AI risk – 2%**
 - Examples: Magnite (MGNI)

Content Corner

The AI Debate

A very important societal debate is underway about the pace and future of artificial intelligence. On one side are those warning of potentially catastrophic, even existential, risks. During the quarter Anthropic researcher Jacob Coxon quit and wrote a widely publicized post on X warning of the dangers of AI. Geoffrey Hinton, a Nobel laureate and one of the pioneers of AI, has estimated a 10%–20% probability that AI could ultimately cause human extinction. On the other side are those, including President Trump and former White House AI Czar David Sacks, who argue these concerns are overblown and that excessive regulation could jeopardize America's leadership in the AI race with China.

I believe we need to do both: maintain America's leadership in developing this extraordinary technology while establishing meaningful safeguards against its potentially devastating consequences. These goals need not be mutually exclusive. I am cautiously encouraged by some constructive recent first steps toward greater industry cooperation and oversight, although a great deal more remains to be done. For



those interested in exploring these issues further, here are three recent interviews I found particularly worthwhile:

1. [Bill Gates on The Ezra Klein Show —A Blunt Warning on A.I. \(September 29, 2026\)](#). Gates discusses the threats posed by AI, including cyberattacks, bioterrorism, and widespread job displacement, and argues that industry self-regulation alone will be insufficient.
2. [Jensen Huang, CEO of NVIDIA, on The Ezra Klein Show--Has Alarmism Gone Too Far? \(September 23, 2026\)](#). Huang offers a contrasting perspective on AI safety and regulation, arguing that fears of catastrophic outcomes have become exaggerated and that innovation should not be constrained by broad, premature regulation. This is a particularly interesting discussion given NVIDIA's central role in the AI revolution.
3. [Dario Amodei, CEO of Anthropic, on CBS Sunday Morning \(September 13, 2026\)](#). An important conversation with the leader of *the* leading AI company about the extraordinary potential of AI, the speed of its development, as well as the critical challenges and risks. Many critics contend that Amodei doesn't really believe what he says about the dangers posed by AI and that his warnings are purely self-serving. Watch the interview and *you be the judge*.

Also worth listening to:

A podcast: [Noah Shinn - Building Instinct: The Personal Agent](#), an Invest Like the Best interview with the 23-year-old founder of Instinct. Shinn describes an agent that acts for its users by text, call or email, with its own phone and computer, and argues that much of software will eventually collapse into a single agent-mediated interface. His view that travel, food delivery and other consumer businesses must prepare for an agent-driven marketplace is relevant to several holdings, and his refusal to adopt an ad-supported model is a useful lens on where trust and value will sit in the agent era.

A novel -- no AI here! [The Calamity Club - Author Kathryn Stockett](#) follows-up her hugely successful debut novel [The Help](#) with another winner. Calamity Club is about a captivating 11 year old orphan named Meg and a sisterhood of women determined to improve their individual and collective lots in life in Mississippi during the Great Depression.

Thank You

On behalf of the entire team at Granahan Investment Management, I'd like to express my gratitude for entrusting us with the management of your capital, which is managed alongside our own.

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 3Q26 - Annualized

	3Q26	YTD	1-Yr.	5-Yr.	10-Yr.
GIM Focused Growth Composite – Net	-6.9%	12.4%	0.9%	-1.1%	16.8%
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 Focused Growth Composite has had a performance examination for the periods January 1, 2012 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 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.