



## SMALL CAP ADVANTAGE

### Portfolio Comments

September 30, 2024

#### Distinguishing Features

GIM builds the [Small Cap Advantage](#) portfolio from the bottom-up; sector weightings are secondary to stock selection. As of September 30, 2024, the Small Cap Advantage portfolio was overweight its Russell 2000 Growth benchmark in Technology, and Utilities. We are underweight the benchmark in Industrials, Energy, and Consumer Discretionary and equal weight all other sectors. The portfolio has no exposure to Energy or Consumer Staples.

#### Commentary

##### Market Environment

The most significant macroeconomic development during the quarter was the Federal Reserve’s decision to cut interest rates by 50 basis points in September. While a reduction in rates is certainly welcome, macroeconomic and geopolitical concerns continue to weigh on investor sentiment, and small cap stock returns continue to lag those of large caps.

Part of the reason small caps have lagged since the Fed cut rates may have been doubts about the economy. Inflation looks to be headed in the right direction, and jobs growth suggests an economic ‘soft landing.’ The outlook is not without risk, however. Tensions in the Middle East are escalating, US elections are weeks away, and wage growth is up some, all concerns for the market. A strong jobs market and re- acceleration in wage growth could mean fewer rate cuts than expected, however, overall, the macro picture remains positive.

##### Performance

The Granahan Small Cap Advantage strategy returned +11.2% in Q3, nicely outperforming the +8.4% return of its Russell 2000 Growth benchmark. Selection in Financials, Industrials, and Health Care contributed positively for the quarter. The largest detractor for this quarter came from stock selection in the Technology sector.

With respect to LifeCycles, Core Growth and Special Situation categories outperformed the benchmark, while Pioneers lagged this quarter.

#### Top Contributors

1. Zeta Global Holdings (Financials, Core Growth)
2. Genius Sports (Industrials, Pioneer)
3. Evolent Health (Health Care, Special Situation)
4. Axon Enterprise (Industrials, Core Growth)
5. Exact Sciences (Health Care, Core Growth)

#### Top Detractors

1. indie Semiconductor (Technology, Pioneer)
2. Topgolf Callaway (Consumer Disc., Core Growth)
3. Veeco Instruments (Technology, Special Situation)
4. PROS Holdings (Technology, Core Growth)
5. Sprout Social (Technology, Core Growth)



## Outlook

Earnings growth in our small companies has been hampered by slowing top line growth comparisons versus the pandemic era hyper-growth, as well as interest rate hikes that hindered customers' ability to spend.

*“Small cap three-year returns turned meaningfully negative, something that has happened only four times since 1978. Such periods of stagnation are followed by strong recoveries. One thing we know about the market is that it moves in cycles. Large caps have been leading for over 13 years now, which is relatively long compared to history. Small-cap trailing 10-year relative return versus large-cap is near an 80-year low. These lows have been reached multiple times in the past and each time it looked as if small caps had been left for dead, only for them to recover strongly in the forward years. The question is when will the recovery begin.” Furey Research, October 7, 2024.*

Sales growth is beginning to recover with the outlook for 2025 strong for both revenue and earnings growth. We believe the companies in the portfolio are operating well with their secular demand drivers, pricing power and low financial leverage.

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