SMID SELECT
Portfolio Comments
September 30, 2024

Distinguishing Features

GIM builds the SMID Select portfolio from the bottom-up; sector weightings are secondary to stock selection. At quarter-end, the SMID Select portfolio was overweight in Communication Services, Consumer Staples, and Health Care and Materials versus the Russell 2500 Growth benchmark. The strategy is underweight Information Technology, Industrials, Consumer Discretionary, and Energy, and equal weight in all remaining sectors. The strategy continues to have no exposure to Utilities.

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 behind 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 & Attribution

The Granahan SMID Select strategy returned +4.0% in the third quarter, underperforming the Russell 2500 Growth Index return of +7.0%.

	Top Contributors		Top Detractors
1.	Evolent Health (Health Care, Special Sit.)	1.	Indie Semiconductor (Tech, Pioneer)
2.	Carpenter Technology (Materials, Special Sit.)	2.	Vivid Seats, Inc. (Communication Svs., Special Sit.)
3.	Veracyte, Inc. (Health Care, Core Growth)	3.	Silicon Motion Tech. (Technology, Special Sit.)
4.	Shift4 Payments (Financials, Core Growth)	4.	Chart Industries (Industrials, Special Sit.)
5.	SharkNinja (Consumer Disc., Core Growth)	5.	Symbotic, Inc. (Industrials, Core Growth)

With respect to LifeCycle categories for the quarter, Core Growth names outperformed the benchmark while Pioneers and Special Situations lagged.

Positioning

Our underperformance in the third quarter was largely the result of two of our larger positions, indie Semiconductor and Vivid Seats, each being down approximately 35% in the quarter. We believe investors are being short-sighted on these two stocks. On the contrary, we remain very bullish about the companies' prospects as we head into 2025 and believe our patience will be handsomely rewarded in the coming quarters. Let's discuss both companies.

indie Semiconductor is a next-generation automotive semiconductor company that has developed several designs that improve technology platforms for cars in a way that uses less power and reduces costs versus existing solutions. These products include Advanced Driver Assistance Systems, back-up cameras, driver monitoring and many other applications. In a short while, indie has gone from a private startup to a significant participant in its industry, with a backlog nearing $8 billion. The company was thwarted by declining auto demand and a major inventory correction, pushing out shipments of new models with indie's designs. As this correction winds down, and financing rates start to retreat, results should improve. Looking forward, we see indie as a company that is likely to enjoy a cyclical recovery at the same time as its biggest new design wins start to ramp up. The company should also see significant margin improvements, transitioning from losses to profits. Through our fundamental analysis of the company, we believe indie is likely to be one of the fastest growing semiconductor companies, with $1.00 per share in earnings power. Today indie is trading at around $4 per share. For us, this represents a compelling opportunity going forward, as we see a path to a stock price in excess of $20, with a multiple of 30X $.75. The reward should be worth the wait.

Vivid Seats, a leader in the growing secondary ticket market, is a major new position in 2024. The stock was trading at a steep discount over concerns that a major private equity stakeholder had been selling down its position. We felt this issue would get resolved over time to the benefit of public shareholders, and therefore, we built a meaningful position. We thought Vivid would be a 10-20% growth company, and it was trading at only an 8X EV/ Forward EBITDA multiple, which we consider a low multiple for a company with this kind of high growth / strong free cash flow profile. However, this year's summer concert schedule was lackluster, as it returned to normalcy after 2 years of post-pandemic concert exuberance. Competitor, Live Nation, has said publicly that they are expecting a very strong concert season in 2025. As the primary ticketing agency and venue host for many events, this visibility is very good news for secondary players like Vivid. Furthermore, sporting events continue to be a consistent growth driver for the company, and the 2026 World Cup in North America should also be a nice boost for ticket sales. Particularly important for our thesis is that Vivid is currently setting up a strong infrastructure in overseas markets. These markets are equal in size to the North American market in total and are far less competitive than here at home. Even though profitability is currently being impacted, this will be a great growth driver in 2025 and beyond. We anticipate that the company will continue to aggressively repurchase its shares in the open market. A shrinking share count should amplify the impact of the upcoming robust concert calendar and international 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.

It should not be assumed that any of the securities transactions or holdings discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.