Future Pathways

Portfolio Comments
September 30, 2024

Distinguishing Features

The GIM Future Pathways portfolio focuses on US companies that promote sustainability, in addition to meeting traditional financial benchmarks for investment. As such, GIM builds the Future Pathways portfolio from the bottom-up, and sector weightings are secondary to stock selection. During the period, the Future Pathways portfolio remained overweight Industrials, Consumer Staples, Health Care. We are underweight the Russell 2500 Growth benchmark in all other sectors. The portfolio has no exposure to Utilities, Communication Services, Real Estate, or Materials.

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 & Attribution

The Granahan Future Pathways strategy returned +6.7% in the quarter, slightly lagging the +7.0% return of its Russell 2500 Growth benchmark. Challenges in the quarter were largely tied to selection in Industrials and Information Technology. Selection in Health Care and Consumer Staples were positives this quarter, but not enough to offset the portfolio's detractors. With respect to sustainable objectives, Health Care Outcomes & Cost, Water & Food, and Social Justice & Opportunity holdings nicely outperformed the return of the benchmark while Pollution Reduction and Clean Energy holdings underperformed.

Top Contributors	Top Detractors
1. Evolent Health (Health Care Outcomes & Cost)	1. Montrose Environmental Group (Pollution Reduction)
2. Exact Sciences (Health Care Outcomes & Cost)	2. Chart Industries (Clean Energy)
3. Veracyte (Health Care Outcomes & Cost)	3. Array Technologies Clean Energy)
4. Axon Enterprise (Social Justice & Opportunity)	4. DexCom (Health Care Outcomes & Cost)
5. Ameresco (Clean Energy)	5. Silicon Motion Technology (Energy Efficiency)

Positioning

Clean Energy is likely to remain one of the most important investment objectives in the portfolio. During the third quarter we made one of the largest changes to the composition of the holdings in this objective to date. During the quarter we reduced our position in **Array Technologies** by close to 600 basis points and reallocated that investment across several other holdings in the Clean Energy space including **Nextracker**, **Enphase Energy**, and **HA Sustainable Infrastructure Capital (HASI)**. Ultimately, with all the external pressures which impact the solar space we came to the conclusion that a reallocation to the category leaders would be beneficial. In the case of Nextracker, they seem to be much more aligned with project developers that are successfully moving forward with Utility Scale projects than Array. In the case of HASI, as a financing partner for projects, they are also aligned with stronger partners in the space. They have recently earned investment-grade status with their debt and formed a new strong partnership with KKR, which will lead to more opportunities.

Finally, we are excited to have **Enphase Energy** back in the portfolio. Enphase has been one of the strategy's' largest contributors since inception and has continued to be the market leader in microinverters in residential solar space. As we approach the end of a massive inventory correction, Enphase should enjoy a nice cyclical recovery in the United States. It is also a likely beneficiary of an upcoming new product in the battery storage space. To date, Tesla has been a strong competitor to Enphase and will continue to play that role. It is our belief, however, that Enphase's next generation storage product will be extremely competitive with Tesla starting in 2025, which should lead to a nice acceleration in its storage sales. Put together, we believe the adjustments to the portfolio in Clean Energy will provide much better diversification in a basket of stocks that are higher quality than earlier in the year.

We continue to have **First Solar** as our largest weight in the Clean Energy space. Our view on First Solar continues to be very bullish given its strong position as the only major American-owned and American manufactured brand in the solar module space. While there continues to be political uncertainty surrounding the election and Inflation Reduction Act, it's difficult to imagine tariffs decreasing or U.S. manufacturing (particularly by First Solar) being put at risk, especially since First Solar's facilities are located either in solidly "Red" states or "Battleground" states.

Lastly**,** we were pleased to see **Evolent Health** become a key contributor to the strategy in Q3 after a tough Q2 which we discussed in last quarter's commentary. Much of this success is because Evolent was successful in raising prices with its customers to help offset rising prevalence in some of its markets. This erased much of the fear that hit the stock earlier in the year.   While some of the volatility may persist, we continue to believe that over the long term Evolent is one of the most important companies in our investment universe for both improving health outcomes and lowering cost. As Evolent continues to execute successfully on both of these objectives, the company should continue to expand its partnership agreements with key payors over time leading to strong growth in both revenues and EBITDA.

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