



FOCUSED GROWTH

Portfolio Comments

June 30, 2024

In the second quarter of 2024, the Granahan [Focused Growth](#) portfolio returned -4.6% compared with the Russell 2000 Growth benchmark return of -2.9%, underperforming by approximately 170 basis points.

Below I discuss the individual portfolio holdings that were top contributors and detractors in Q2:

Q2 Largest Relative Contributors:

- Zeta Global Holdings (ZETA) - Zeta operates a marketing-technology platform that lets advertisers combine their own internal first-party data with third-party data to attract, retain, and cross-sell customers. While Zeta has executed very well and generated strong growth since going public in June of 2021, the stock effectively treaded water through 2023. In 2024, the company has continued to execute, and it has been discovered by investors, rising 61% in Q2. We have cut the position, but it remains a large holding in the portfolio.
- Victory Capital Management (VCTR) - Victory is a holding company for a diverse group of asset managers. VCTR shares rose 13% in Q2 responding to good Q1 results as well as the announcement that Victory is purchasing Amundi's US asset management business and entering into a 15-year mutual distribution agreement with Amundi. We believe the deal makes both strategic and financial sense and expect it will lead to above average earnings growth for Victory over the next several years. We continue to hold a large position in VCTR shares.
- Life Time Group (LTH) - Life Time operates a chain of over 170 fitness clubs in the U.S. which are uniquely positioned as offering services, equipment and experiences closer to a country club than a traditional fitness club. Monthly membership fees are attractive with the added benefit inherent in having access to all clubs nationwide (membership level dependent). LTH shares rose 21% in Q2 as the company reported good Q1 results, and via an impressive and well-attended analyst day and several announcements is giving the investment community greater confidence in the durability of the company's business model and cash flows. We hold a medium position in LTH shares.

Q2 Largest Relative Detractors:

- Sprout Social (SPT) - Sprout, a leader in social media management software, reported disappointing Q1 2024 results. We believe the shortfall stemmed from a function of both internal (go-to-market changes) and external issues (more difficult selling environment). Through our work, we have concluded that the challenges are not thesis changing. Further, we believed the stock was overly discounted and purchased shares on weakness. Thus far this has been a good trade. We recently trimmed the position modestly but maintain a large holding.
- Evolent Health (EVH) - Evolent helps healthcare payers and providers manage complex conditions such as oncology and cardiology with the twin goals of providing better service and lower costs. EVH shares were down 42% in Q2. During the past few months, the company has been experiencing volatility in claims pre-authorizations. It is not clear whether this volatility will result



in a higher claims (and cost) structure for Evolent, but investors have shot first and will find the answers to questions later. Our take is that the company's position remains strong and that its earnings power for 2025 and beyond are likely to be largely unchanged. We have purchased EVH shares on weakness, and it is a relatively large holding in the fund.

- Porch Group (PRCH) - Porch Group, which sells home owners insurance and vertical software for the residential housing market, saw its shares drop 65% in Q2 due to investor fears about worse than expected catastrophic losses from hail storms in Texas--Porch's primary insurance market. We believe these fears are over-blown in the short-term as Porch should have sufficient reinsurance to limit losses and should be much less material in the intermediate and long-term as Porch is close to completing the long-awaited spin-off of its insurance group to a reciprocal structure. We hold a small position in PRCH shares.

A Market of The Haves and The Have Nots

From 2010 until late 2021, amidst a favorable backdrop, small-to-mid cap secular growth stocks were the "belles of the ball." Growth was robust, interest rates were near 0%, inflation was not a concern, and investor appetites were ripe for the risk tolerance perceived in higher duration assets. Since November of 2021, however, these once favorable tailwinds have been fierce headwinds driven by historic interest rate hikes, slowing GDP and overall growth, a spike in inflation, and multiple layers of macro uncertainty. The "average" well-positioned secular growth company has seen its growth slow, earnings estimates cut, and valuation multiples slashed to the point where these once belles of the ball are currently spending their Friday and Saturday nights working in the stockroom at K-Mart, half-watching the fourth season of *Stranger Things* on their cousin's Netflix account.

Put another way, stocks are either blessed to be on the short list of "Haves"; or are on the much longer list of "Have Nots." As we and others have documented, the "Haves" bucket" has included the Mag 7 and AI Infrastructure "winners" (such as Nvidia (NVDA) Meta (META) in large cap, and Super Micro (SMCI) and Vertiv (VRT) in small cap) and a narrow list of "other" stocks that have captured investor interest for idiosyncratic reasons (such as MicroStrategy (MSTR) Coinbase (COIN), Abercrombie & Fitch (ANF) and Sweetgreen (SG).

Meanwhile, the "Have Not" bucket is spilling over with a wide range of companies. Among these, we believe, are a significant number of "desert island-worthy" companies whose valuations are meaningfully disconnected with their earnings power. Many of these companies have some common characteristics which enable us to group them in one of three buckets below. In each category, investors broadly are shunning companies with these characteristics, leading to some particularly attractive investment opportunities. We list a few of the investments in the Focused Growth portfolio which fit the category:

Estimates Have/Will be Cut, but Long-term Earnings Power and Stock Risk/Reward are Compelling	Special Situations - Too Complicated for the Market Today, Should be Clearer in 6-9 Months	Executing Well, Market Just Hasn't Cared...But We Believe It Will
<ul style="list-style-type: none"> • Globant (GLOB) • Smartsheet (SMAR) • Evolent Health (EVH) • Sprout Social (SPT) • Porch Group (PRCH) • Indie Semiconductor (INDI) • Kura Sushi (KRUS) 	<ul style="list-style-type: none"> • Kornit (KRNT) • Porch Group (PRCH) • Phreesia (PHR) • Enovix (ENVX) 	<ul style="list-style-type: none"> • Oddity Labs (ODD) • Genius Sports (GENI) • Magnite (MGNI) • Marex (MRX) • Paylocity (PCTY)



AI Through the Lens of History

As we have discussed in the past, we believe AI is going to be hugely transformative and impactful across virtually every segment of the economy and our lives. As noted above, the stock market has thus far anointed AI winners as those companies central to or in the supply chain of the infrastructure build of Hyperscale AI Data Centers. It is our belief that, as with every transformative technology, it is unclear in these early days who the ultimate "winners" will be from AI. History reminds us that often those stocks that the stock market initially anoints as the "winners" of transformative technologies, are often not in the long-term. Consider:

Some of the Early Anointed Winners In Transformative Technologies



We believe many of the companies in the Focused Growth portfolio, despite not participating in the initial infrastructure wave of spending, stand to enjoy significant positive impact from AI in the coming quarters and years. We discussed a number of these in our [Q1 commentary](#).

Some Content to Consider: 1960's History, A Stunning Turnaround, Gathering, and Letting it Be

[An Unfinished Love Story: A Personal History of the 1960s](#). Historian Doris Kearns Goodwin gives us a unique view into the journey she had with her husband Richard Goodwin, who played a very significant role as a speech writer and advisor to some of 1960's most significant players including JFK, LBJ, RJK and others. I found the parallels of the late 1960's with today made it a particularly timely listen.

[American Icon- Alan Mulally and the Fight to Save Ford Motor Company](#) - What a terrific (true) story! Written by Bryce G Hoffman, who covered the automotive industry for *The Detroit News*, the story of how a Boeing lifer led the remarkable turnaround of Ford during the Global Financial Crisis is full of great leadership lessons and is a page-turner to boot.

[The Art of Gathering - How We Meet and Why it Matters](#) - Priya Parker's book provided me with a welcome framework for thinking about a gathering's purpose and how to optimize them both in my personal and professional lives.



Lyrics (a [book](#)) and *Life in Lyrics* (a [podcast](#)) by Paul McCartney and Paul Muldoon - The book is a keepsake - a two volume treasure in which McCartney devotes a single page to give you the story behind the music of 154 songs. Each podcast episode focuses on a single song. I particularly enjoyed [this one, 22 minutes about the origins and context of Let it Be](#).

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". The signature is fluid and cursive, with a large initial 'A' and a smaller 'Beja' written in a more compact style.

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