



US SMALL CAPS: BIG CHANGE AND INNOVATION PRODUCE BIG OPPORTUNITIES

Granahan's veteran portfolio managers highlight the US Small Cap growth sectors where innovation and disruption provide investment opportunities.



Drew Beja, CFA, PM (left)
Granahan US Focused Growth Fund



Gary Hatton, CFA, PM (right)
Granahan US Small Cap Discoveries Fund

We live in a world of rapid change. Where there is change, there is opportunity. And there is an abundance of opportunity in the US small cap market, where innovation and disruption drive big changes that ultimately touch most everyone across the globe.

Granahan Investment Management ("GIM") is a small cap investment boutique that seeks to capitalize on such opportunities. The firm's team of small cap experts carefully construct portfolios with stocks of companies positioned to sustain high growth for many years. The investment strategies are designed to capture this growth through disciplined processes, which include in-depth research and leveraging extensive networks developed over decades.

Fishing in Well-Stocked Ponds

"As investors, we believe it makes sense to

go where the growth is," says Drew Beja, GIM Partner and portfolio manager for the Granahan US Focused Growth Fund. "It is akin to fishing in a pond full of fish--why would we fish anywhere else?"

For GIM, that means focusing on companies operating in evolving areas such as cloud-based software, cybersecurity, medical devices, and biotech – sectors showing rapid change that are rich with innovative and disruptive companies. Think Genzyme (IPO 1986), Tesla (2010), Vertex Pharmaceuticals (1991), LinkedIn (2011), and Salesforce (2004). These, and many more market leaders, ran through the small cap indices and became much larger companies.¹

Biotech and Med-Tech – "Still in the Early Stages"

Gary Hatton, GIM co-founder and portfolio manager for the Granahan US Small Cap Discoveries Fund, has been investing in health-tech for over 35 years. The groundbreaking genome project in the early 2000's forced development of new skills and technologies akin to those from the space race of the 1960's. Further breakthroughs are enabling us to understand the biology of disease and begin to develop exciting therapeutics." Hatton notes, "What has been uncovered in biotech and med-tech so far is breathtaking. But believe it or not, I think we're still in the very early stages."

Growth Amidst an Uncertain World

Rapid change doesn't just mean innovation. Changes in the global outlook can create uncertainty -- including today's worries about the future of interest rates, debt levels, tax reform, and political turmoil. History tells us that in times of uncertainty, select US small caps offer opportunities, as they are more nimble. Smaller companies provide solutions to increase productivity; thus, they can often flourish even in times of mediocre economic growth.

Drew Beja expands, "We look for companies with very strong customer value propositions, that are superbly managed, have strong balance sheets, and are positioned to sustain high growth somewhat irrespective of the economic cycle"

GIM's team of small cap experts use their experience and extensive networks to continually uncover and vet companies. But, Beja adds, "Finding companies positioned to sustain high growth is only the first step. Our discipline then turns to stock valuation, leaning heavily on risk/reward – we seek to own the stocks of these companies when risk/reward is attractive (and to not own the stocks when it isn't)."

Hatton sums it up, "As small cap experts, we uncover quality companies that are changing the world, both in small ways, and in ways we couldn't even ponder 10 or 20 years ago. It's a privilege to provide our clients with investment portfolios that capitalize on this innovation."

¹ Holdings are for informational purposes only and are subject to change daily.

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