



Eastern Shore exploits a market phenomenon known as the **Quality Anomaly**: the consistent mispricing of quality companies that leads to their outperformance over time. The strategy holds two types of companies: Established and Improving Quality. Established Quality businesses maintain stronger balance sheets and profitability, and therefore tend to have lower risk of capital loss. Improving Quality companies are experiencing positive change in quality drivers. Overall, the team favors businesses with long runways for future growth, trading at attractive valuations.

Obstacles into Opportunities

"It is natural that we face obstacles in pursuit of our goals. But if we remain passive, making no effort to solve the problems we meet, conflicts will arise and hindrances will grow. Transforming these obstacles into opportunities is a challenge to our human ingenuity." – Dalai Lama

**Small Cap Equity Net Performance Statistics Since Inception
(3/1/2007 – 9/30/2022)***

	Annualized Alpha (%)	Upside Capture (%)	Downside Capture (%)	Sharpe Ratio	Information Ratio
1 Year	-0.7	104.8	104.4	-1.1	-0.4
5 Year	-2.1	83.5	95.6	0.0	-0.4
10 Year	0.3	91.9	94.6	0.4	-0.1
SI*	2.1	92.4	89.9	0.4	0.3

**This information is presented as supplemental to the GIPS Report, which is available upon request at information@eshorecap.com or by calling (781) 639-2750. Statistics are calculated using net of fee performance. Performance Statistics are calculated using the Russell 2000 index. The risk-free rate used to calculate the Sharpe ratio is the FTSE 3-month T-Bill. Contains performance from predecessor firm. See important notes at the end of this document*

Markets/Economy

The geopolitical and financial outlook for the world has seldom, if ever in our lifetimes, been as complicated as it is today, nor have the stakes been higher. The interconnectedness of international relations and markets has become glaringly obvious in the day-to-day vicissitudes of global trade, asset prices, inflation, and interest rates. The offsetting influences that these factors can exert on small cap companies across varying industries increases the complexity of the situation, throwing both the potential magnitude and directionality of stock price reactions into question.

We have always incorporated an awareness of the macroeconomic backdrop into our fundamental, bottom-up stock picking approach, as we recognize that each business will respond to changes in the broader environment in different ways. We are evaluating key economic data points and constructing potential scenarios for the global economy over the next 1-2 years. The path of interest rates appears to have hit an important inflection point. US interest rates peaked during the 1980s and have been on a downward path until recently. Our overarching goal is to determine how a pivot into a potentially long-term rising interest rate environment could affect the fundamentals, sentiment, and valuation of each stock in our portfolios.

The performance of US small cap equities during the third quarter can be divided into two distinct and almost equal periods. During the first half of the quarter, the Russell 2000 posted a gain of 18% - followed by a decline of over 16% during the quarter's final six weeks. Lower quality companies dominated in the first half, led by long duration, highly shorted, and unprofitable companies. During the downturn in the second half of the quarter, higher quality companies did not outperform nearly enough to offset the strong performance of lower quality factors earlier in the period. The third quarter, therefore, proved a rare instance of a period in which low-quality factors outperformed when the Russell 2000 generated a negative return.



Performance Summary (through 9/30/2022)*

	3Q 2022	YTD	1 Year	3 Year (Annualized)	5 Year (Annualized)	10 Year (Annualized)	Since Inception† (Annualized)
	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Small Cap Equity (Gross)	-3.8	-29.7	-24.8	1.5	2.0	9.1	8.9
Small Cap Equity (Net)	-4.0	-30.2	-25.5	0.6	1.1	8.1	7.9
Russell 2000	-2.2	-25.1	-23.5	4.3	3.6	8.6	6.3
Strategy Excess Return (Gross)	-1.6	-4.6	-1.3	-2.8	-1.6	0.5	2.6
Strategy Excess Return (Net)	-1.8	-5.1	-2.0	-3.7	-2.5	-0.5	1.6

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Third Quarter 2022 Results

During the third quarter of 2022, the Eastern Shore Small Cap Equity Composite delivered a return of -3.77%/-3.99% gross/net of fees vs. the Russell 2000's -2.19% return.

Higher quality businesses – companies with higher and more stable returns on equity, returns on invested capital, and margin profiles – have typically outperformed in market downturns in the past. This relationship was reversed in the third quarter, as the lowest ROE and ROIC quintiles of stocks in the Russell 2000 were the only segment of businesses that generated positive returns for the quarter. Non-profitable businesses in areas such as Health Care contributed significantly to this dynamic, as this was the strongest performing sector in the benchmark for the quarter. We continue to see very high-quality businesses trading at valuations deeply below their 5-year averages, and we view these conditions as unsustainable. We have taken advantage of this dislocation by adding many outstanding new holdings to the strategy in recent months.

Small caps experienced a reversal in style leadership during the third quarter, with the Russell 2000 Growth index outperforming the Russell 2000 Value by nearly 5% - following seven straight quarters of underperformance. Lower price/book stocks underperformed for the quarter, though the lowest quintile remains nearly 20% ahead of the highest year-to-date. The strategy's Improving Quality holdings – those undergoing a transformation caused by innovation or a shift in strategy – outperformed our more stable Established Quality holdings by over 7% during the quarter, helped in part by outliers in the Health Care and Energy sectors.

On a relative basis, the strongest sector contributors to the Small Cap Equity strategy's performance were Industrials and Consumer Staples. Within Industrials, the strategy benefitted from the outperformance of rental and leasing services company WillScot Mobile Mini Holdings (WSC), engineering and construction services company Comfort Systems USA, Inc. (FIX), and engineered equipment manufacturer Chart Industries, Inc. (GTLS). Among Consumer Staples holdings, standouts in terms of relative performance included warehouse club retailer BJ's Wholesale Club Holdings, Inc. (BJ) and packaged food manufacturer Lancaster Colony Corporation (LANC).

Sector detractors for the quarter included Health Care and Information Technology. Within Health Care, life sciences equipment producer Azenta (AZTA), scientific and technical instrument firm Mesa Laboratories (MLAB), and biotechnology firm Maravai Lifesciences Holdings (MRVI) were the largest detractors from sector performance for the quarter. Significant detractors within the Information Technology sector included semiconductor firms SiTime Corporation (SITM), analog and mixed signal semiconductor producer Semtech Corporation (SMTC), and integrated circuit manufacturer Silicon Laboratories Inc. (SLAB).



At the individual company level, the top two largest contributors to the strategy's performance were medical device company Shockwave Medical (SWAV) and bioprocessing technologies and solutions firm Repligen (RGEN). Shockwave is among the fastest growing medical technology companies in the US; the firm's earnings results and guidance exceeded expectations, sending its share price to new highs. Repligen delivered a similarly strong report, helping its share price to rise by approximately 75% from mid-June to mid-August. We have trimmed Shockwave and sold Repligen to lock in gains. Other significant contributors for the quarter included clinical-stage biopharmaceutical company Karuna Therapeutics (KRTX), bio-preservation tools manufacturer BioLife Solutions (BLFS), and oil and gas exploration and production firm Chord Energy Corporation (CHRD).

The two most impactful detractors from the strategy's performance were life sciences equipment producer Azenta (AZTA) and precision timing company SiTime (SITM). Azenta's shares slid on reports of slower-than anticipated demand during the quarter, while SiTime's shares declined due to having reduced its growth targets from 50% to 35% because of slowdowns across its mobile, Internet of Things, and consumer end markets. Other significant detractors for the quarter included scientific and technical instrument firm Mesa Laboratories (MLAB), biopharmaceutical company Axsome Therapeutics (AXSM), and integrated circuit manufacturer Silicon Laboratories (SLAB).

We are excited about the opportunities that recent market dislocation has created and took advantage of the volatility during the quarter by adding several new holdings to the strategy. We continue to evaluate the risks and catalysts that each of our holdings are exposed to and are integrating new information on an ongoing basis. We are seeing early signs that investors are shifting their attention from sector and factor-based trading towards individual company fundamentals, and we firmly believe that higher quality stocks are particularly well-positioned to outperform across a range of potential market scenarios that could unfold in the months to come.

Q3 2022 composite results: -3.77%/-3.99% gross/net of fees vs. Russell 2000 -2.19%

Q3 2022 Top 5 Contributors [†]			
Security	Ticker	Avg. Weight (%)	Contribution (%)
Shockwave Medical, Inc.	SWAV	1.5	0.5
Repligen Corp.	RGEN	0.4	0.4
Karuna Therapeutics, Inc.	KRTX	0.7	0.4
BioLife Solutions, Inc.	BLFS	0.8	0.3
Chord Energy Corp.	CHRD	1.6	0.3

Q3 2022 Top 5 Detractors [†]			
Security	Ticker	Avg. Weight (%)	Contribution (%)
Azenta, Inc.	AZTA	1.6	-0.6
SiTime Corp.	SITM	0.9	-0.5
Mesa Laboratories, Inc.	MLAB	1.4	-0.4
Axsome Therapeutics, Inc.	AXSM	0.8	-0.3
Silicon Laboratories, Inc.	SLAB	2.4	-0.3

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Outlook

Both the U.S. and the global economy appear likely to experience economic contraction in the quarters to come. No one can accurately gauge the magnitude of the potential downswing, but the U.S. will likely fare better than most other countries for a variety of reasons.

Regarding the U.S. specifically, the Fed and all its Governors have remained consistent in their message that they will not waver in their quest to reduce inflation to their targeted 2% level. They insist that they will raise interest rates despite potentially causing a recession. The Fed has just begun its quantitative tightening program of reducing its balance sheet, which will further tighten financial conditions. These actions have lagged effects, so by the time the evidence of damage emerges, the economy may already be heading into a recession.



The Fed recently published its September Summary of Economic Projections, which calls for an economic soft landing while it continues to raise interest rates. We view the Fed's projections as optimistic, as it will be difficult to tighten financial conditions this much and assume that the unemployment rate only goes up to 4.4% and real GDP is 1.2% in 2023. The housing market is already deteriorating due to its interest rate sensitivity. Third quarter earnings season is just beginning and should provide fresh data on how specific companies and industries are navigating their way through the current challenges and what they expect in the immediate future.

While the U.S. could potentially experience a recession in the next few quarters, a lot of bad news is already priced into many industries and stocks. 2023 aggregate earnings estimates are likely still too high, but much of the difference has already been discounted in the markets. As we assess our current holdings and potential new ideas, we are evaluating their prospects and potential earnings trajectories in a weaker economy next year. We believe that many companies in our portfolio are priced for a severe recession, which we view as an unlikely scenario. Many other holdings offer significant sales visibility for next year, as they operate in less discretionary end markets or have a high proportion of contracted revenue for 2023 and beyond. The importance of understanding each holding's outlook for sales and earnings heavily outweighs the value of determining whether the economy has technically slipped into a recession.

Looking forward to next year, we anticipate an uneven scenario in which some industries and companies will fare much better than others. Housing and most companies tied to consumer spending will likely find the next several quarters particularly challenging. One area we believe will outperform in 2023 is non-residential construction. The \$1T infrastructure bill that passed in late 2021 is just beginning to kick in. Many companies have committed to reshoring and diversifying their supply chains and manufacturing to reduce the impact of sanctions, tariffs, and COVID lockdowns in China. The recently passed Inflation Reduction Act provides many incentives for green energy and electric vehicles (EVs). Many companies have recently announced that they will be building EV and battery plants in the U.S. By providing incentives for semiconductor plants in the U.S., the CHIPS Act has already motivated several firms to announce plans to open multi-billion-dollar U.S. factories. Many of our holdings across a range of industries are well-positioned to take advantage of these opportunities.

Several key inflation measures appear to have peaked but remain at high levels. The Fed will need to see this downward trend continue and employment start to cool before they are likely to alter their path of aggressive interest rate hikes.

Our team has invested in many market and economic cycles during the past few decades. We will remain true to our process and take advantage of opportunities that arise in this increased volatility. The market has proven a good discounting mechanism in the past and usually bottoms ahead of the trough of the economic cycle. Few, if any, investors called the March of 2009 market bottom: the environment was highly uncertain back then, but much of the negative news had been priced in. Our process and patience have been rewarded in the past, and we have no reason to expect otherwise going forward.

What will the economy look like on the other side of this tightening cycle? Investors will need to adjust to higher inflation and interest rates, but these are not uncharted waters. The U.S. economy performed well economically with higher rates and inflation in the 1990s, and we are confident that it can prosper with moderately higher inflation and yields. Market turbulence has accompanied economic changes in the past, and we feel confident that better conditions lie before us. In the meantime, we are exploiting the opportunities that recent market dislocation has created and look forward to delivering stronger results as investors pivot back towards superior businesses with sustainable earnings power. We appreciate your patience during this challenging time, and we welcome your questions and feedback.



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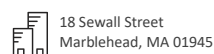


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The Eastern Shore Capital Management Small Cap Equity Composite contains all fully discretionary equity accounts managed in the Small Cap Equity style which seeks capital appreciation through stock selection by investing in 70-100 stocks with market capitalizations approximating those of the Russell 2000 index at purchase. For comparison purposes, the Eastern Shore Capital Management Small Cap Equity composite performance is measured against Russell 2000 index. There is no minimum account size for this composite. Prior to July 1, 2014 The Eastern Shore Capital Management Small Cap Equity Composite was known as The Eastern Shore Capital Management Small Cap Core Composite. The strategy is managed by Eastern Shore Capital Management, a division of Moody Aldrich Partners.

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Past performance is not necessarily indicative of future results. This document includes returns for the Russell 2000 index. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. This index is not intended to be a direct benchmark for a particular strategy, nor is intended to be indicative of the type of assets in which a particular strategy may invest. The assets invested in on behalf of a client will likely be materially different from the assets underlying this index and will likely have a significantly different risk profile. Performance statistics, portfolio characteristics, portfolio holdings and other information included in this presentation are targets only and may change without notice to the client. The value of investments can go down as well as up. A client may not get back the amount invested.

For the period of March 1, 2007 through October 26, 2012, the performance presented occurred while Robert Barringer was the strategy's sole Portfolio Manager at FBR Asset Management. Net of fee performance was calculated by retroactively applying the highest model fee for the composite (.90%). There is no guarantee that returns achieved by FBR Asset Management will be generated by Eastern Shore Capital Management.

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