



Eastern Shore exploits a market phenomenon known as the **Quality Anomaly** which refers to the consistent mispricing of quality companies that leads to their outperformance over time. The strategy focuses on higher quality stocks which tend to have lower volatility and lower risk of capital loss. The strategy also invests in companies experiencing positive change in quality drivers and prefers those with long runways for future growth. Valuation discipline is used to enhance returns.

A Narrow Escape

**Small Cap Equity Net Performance Statistics Since Inception
(3/1/2007 – 3/31/2024)***

	Annualized Alpha (%)	Upside Capture (%)	Downside Capture (%)	Sharpe Ratio	Information Ratio
1 Year	1.8	89.0	90.5	0.7	-0.1
5 Year	-1.0	83.0	92.5	0.2	-0.3
10 Year	-0.3	87.9	93.5	0.3	-0.2
SI*	2.1	91.6	89.7	0.4	0.3

**This information is presented as supplemental to the GIPS Report, which is available [here](#). Statistics are calculated using net of fee performance. Net of fee performance was calculated by retroactively applying the highest model fee for the composite (.90%). 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 U.S. economy appears to have avoided the broad-based recession that has been forecasted for the past 18 months. As we have mentioned in past quarters, many industries have experienced individual recessions – yet in aggregate, the economy has had positive overall growth over the past two years. The ISM manufacturing PMI entered expansionary territory by exceeding 50 during the month of March, after having remained below this threshold for the past 17 months. The impact of this development seems likely to be overshadowed by fluctuations in inflation, interest rates, and consumer sentiment, which appear likely to drive corporate earnings and market sentiment going forward.

While much attention has been made of concentration in the large cap space, narrow leadership within small cap has been largely overlooked. The Russell 2000 Information Technology sector was up 12.8% in the first quarter of 2024, more than double the index's 5.2% return. This outperformance was driven by two heavily-weighted index constituents: Super Micro Computer (SMCI), which rose 255%, and MicroStrategy (MSTR), up 170%.

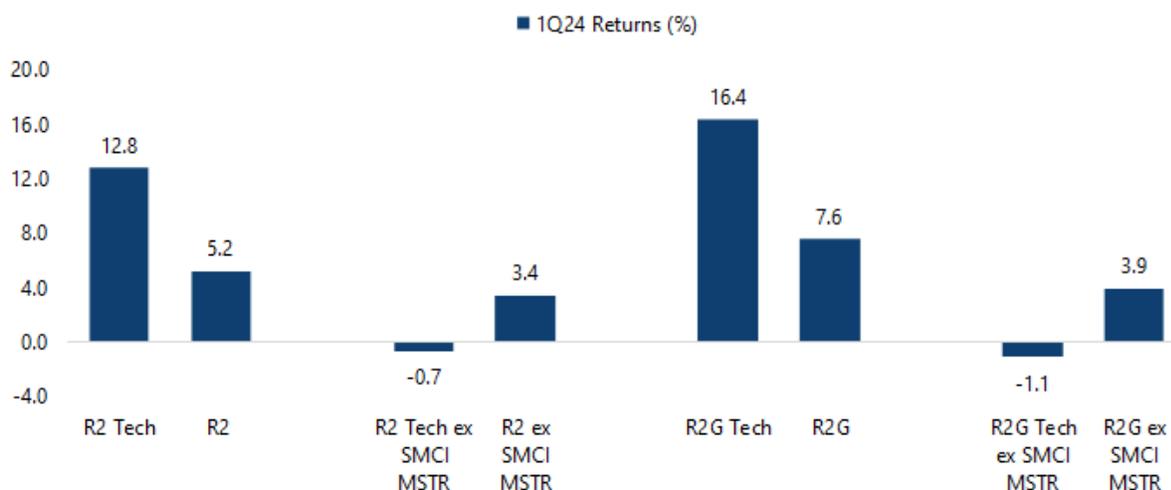
These two companies reflected two of the biggest themes in small cap in the first quarter, artificial intelligence (AI) and cryptocurrency. To put their impact into perspective, the Russell 2000 Information Technology sector would have returned -0.7% without these two companies. As the following chart indicates, the influence of these two stocks on index performance has been extraordinary.



Performance Summary (through 3/31/2024)*

	1Q 2024	1 Year	3 Year (Annualized)	5 Year (Annualized)	10 Year (Annualized)	Since Inception 3/1/2007 (Annualized)
	(%)	(%)	(%)	(%)	(%)	(%)
Small Cap Equity (Gross)	7.6	20.5	-0.4	7.1	7.5	9.8
Small Cap Equity (Net)	7.3	19.4	-1.3	6.2	6.6	8.8
Russell 2000	5.2	19.7	-0.1	8.1	7.6	7.4
Strategy Excess Return (Gross)	2.4	0.8	-0.3	-1.0	-0.1	2.4
Strategy Excess Return (Net)	2.1	-0.3	-1.2	-1.9	-1.0	1.4

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Source: FactSet; FTSE Russell; Jefferies

Much investor attention has been focused on mega-cap AI-related companies such as Nvidia, but we are finding ways to gain exposure in small cap as well. We identified Super Micro Computer as a key supplier in the AI arms race, and while we trimmed the name nine times, our strategy was overweight for most of the quarter. The company offers many attributes of an Established Quality company – including double-digit revenue growth, return on equity, gross margin, and EBITDA margin – and it traded at a reasonable valuation when we initially bought it in May of 2023. We also maintain some semiconductor and hardware exposure associated with the AI theme and hold some engineering and construction companies that are involved in semiconductor fabrication plant and datacenter construction. It is early in the evolution of AI, and we continue to look for new opportunities that are associated with this secular theme.

We have never held MicroStrategy, as we are not comfortable with its business model. MicroStrategy's shares have evolved into a proxy for Bitcoin, and we do not believe that anyone can accurately assess the real and appropriate values of cryptocurrencies at this time. We therefore remain on the sidelines, as we feel that the risk outweighs the reward. To benefit from the overall cryptocurrency trend, we are gaining peripheral exposure through key suppliers to hyperscale data centers and crypto miners.



First Quarter 2024 Results

During the first quarter of 2024, the Eastern Shore Small Cap Equity Composite delivered a return of 7.55%/7.32% gross and net of fees, outperforming the Russell 2000's 5.18% return for the quarter.

Companies with the highest market caps within the Russell 2000 emerged as the clear leaders for the quarter. Higher-quality businesses within our universe generally tend to be larger, as is reflected in the meaningful outperformance of companies with higher returns on invested capital (ROIC) and returns on equity (ROE): the top quintile in the index by both metrics outperformed the lowest by over 11%. As we have mentioned in the past, conditions such as these are generally favorable for our approach. Our Improving Quality holdings outperformed for the quarter, though they lagged the Established Quality component during the down month of January.

Growth companies were strongly in the lead, with the Russell 2000 Growth index outperforming the Russell2000 Value by over 450 basis points for the quarter. Small cap companies with higher multiples generally outperformed those with lower ones, while companies with higher revenue growth outperformed slower growers. From a sector perspective, the Russell 2000 Growth benefited from being underweight Financials and overweight Information Technology holdings relative to the Russell 2000 Value.

The strongest sector contributors to the Small Cap Equity strategy's relative performance during the first quarter were Industrials and Real Estate. Outperformance in the Industrials sector was driven by stock selection among capital goods holdings serving a broad range of end markets. Relative performance in Real Estate was largely driven by stock selection across both REITs and real estate management and development holdings. Sector detractors for the quarter included Health Care and Information Technology. The strategy lost relative performance within the Health Care sector due to outliers in health care equipment and biotechnology. Similarly, the underperformance of a few holdings within the Information Technology sector's software and services industries detracted from relative results within this area.

At the individual company level, the two most significant contributors to the strategy's performance for the quarter were information technology solution provider Super Micro Computer (SMCI) and mechanical and electrical contracting services firm Comfort Systems USA (FIX). Investors view Super Micro Computer as a direct beneficiary of developments in artificial intelligence (AI), which fueled its over 255% gain during the quarter. Comfort Systems USA rose over 50% on a strong earnings report which demonstrated an uptick in customer demand and a significant increase in visibility. Additional significant contributors for the period included component manufacturer BWX Technologies, Inc. (BWXT) and biopharmaceutical firms Viking Therapeutics, Inc. (VKTX) and CymaBay Therapeutics, Inc. (CBAY). BWX moved higher during the quarter as they reported their Q42023 earnings ahead of the consensus and gave 2024 guidance that was also above expectations. VKTX announced positive data from its weight loss drug that could put it in the lead in the category. CBAY was acquired by Gilead (GILD), helping boost its stock price in the quarter. We maintained exposure to four of these top contributors as of quarter-end but sold CymaBay given that we did not expect the company to receive an offer higher than Gilead's.

The two most impactful detractors from the strategy's performance for the quarter were regional banks Columbia Banking System, Inc. (COLB) and Independent Bank Corp. (INDB). Both holdings performed strongly during the previous quarter when rates appeared poised for a first-half rate reduction but gave back these gains in early 2024, as these prospects diminished. Other significant detractors during the quarter included biotechnology firms Pacific Biosciences of California, Inc. (PACB) and Cytokinetics, Inc (CYTK) as well as healthy nutrition company Simply Good Foods (SMPL). Timing was poor for PACB in terms of what the market seemed to be looking for and persistent negative sentiment was reflected in its relative strength. Cytokinetics had an upcoming trial readout and timing can be difficult when it comes to binary outcomes in biotechnology. We were able to buy the stock after its announcement, but the short-term momentum remained negative. SMPL declined significantly on Atkins weakness and the issue appears to be largely tied to management's focus on innovation at Quest at the expense of Atkins.



We see potential for recovery across four of these holdings and therefore maintain exposure to them. We sold Pacific BioSciences of California given the persistently negative sentiment driving the company’s performance and that of its peers. We are watching the company carefully and may re-establish a position at a more attractive entry point.

Our decision to adopt a more balanced approach going into 2023 helped the strategy to hold up well during the atypical market environment that we experienced last year. We chose to increase our exposure to earlier-stage Improving Quality holdings coming into 2024 and have been rewarded with outperformance as conditions have become more normal. We believe that the strategy is well-positioned for a range of potential market scenarios, and we remain vigilant regarding timing and position-sizing given ongoing macroeconomic and geopolitical uncertainty.

Q1 2024 Top 5 Contributors [†]		
Security	Ticker	Avg. Weight (%)
Super Micro Computer, Inc.	SMCI	1.2
Comfort Systems USA, Inc.	FIX	1.1
BWX Technologies, Inc.	BWXT	1.7
Viking Therapeutics, Inc.	VKTX	0.4
CymaBay Therapeutics, Inc.	CBAY	0.8

Q1 2024 Top 5 Detractors [†]		
Security	Ticker	Avg. Weight (%)
Columbia Banking System, Inc.	COLB	1.4
Independent Bank Corp.	INDB	1.4
Pacific Biosciences of California, Inc.	PACB	0.3
Cytokinetics, Inc.	CYTK	0.9
Simply Good Foods Co.	SMPL	1.7

[†]The information provided above should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in an account’s portfolio at the time you receive this presentation or that securities sold have not been repurchased. The securities discussed do not represent an account’s entire portfolio and, in the aggregate, may represent only a small percentage of an account’s portfolio holdings. 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. A complete list of all securities recommended during the preceding year is available upon request. Past performance is not indicative of future results. The information is presented as supplemental to the GIPS Report available [here](#). Top Contributors and Detractors are considered Extracted. Attribution total return for portfolio differs from composite results due to attribution methodology not taking intraday trading into account. Return data presented gross of fees. Past performance is not indicative of future returns.

Outlook

Inflation data has remained above consensus forecasts for the past few months, causing significant volatility in the market despite positive employment and economic data points. The current debate in the market appears to center on whether robust economic growth is possible with 3% core inflation. We believe that the answer is yes. During the 1990s, the US experienced strong economic growth and a positive stock market during a period characterized by elevated inflation and higher rates – a situation very much like the one we have experienced during the past several months.

Recent comments from several Fed Governors have sounded cautious regarding rate cuts, but at the same time express little appetite for additional rate hikes. We believe that the directionality of rate moves has more impact on the markets than the timing of the eventual cuts. The market appears to believe that policy is restrictive enough to keep potential hikes out of the equation.

Our base case for 2024 is for inflation to moderate and reach a range of 2-3% by year end. The Fed would most likely be comfortable with these levels and would be slow to reduce rates significantly. The economy can grow 2-3% under these conditions, and the outlook for corporate earnings remains relatively solid. The market can perform well in this scenario if corporate earnings meet expectations.

Regarding potential risks, a broader escalation of the conflict in the Middle East remains most prominent. The recent hostilities between Iran and Israel could escalate, driving oil prices higher. This could cause inflation to spike, potentially triggering a global recession. Further negative developments involving Russia and/or China pose risks as well.



EASTERN SHORE
CAPITAL MANAGEMENT
A Division of Moody Aldrich Partners

Small Cap Equity

First Quarter 2024

COMMENTARY

Another risk for markets is the possibility that corporate earnings do not live up to expectations. Much of the rally since last October has been driven by multiple expansion. A disappointing earnings season could sour investor sentiment, potentially causing a correction in the market.

We have not made any drastic changes to our positioning in recent months. We are emphasizing exposure to high quality companies with ample visibility and long runways for future growth. We have shifted the balance of Established and Improving Quality companies slightly towards the Improving Quality side, as we have been favoring stocks that should do well in a range of scenarios. We appreciate your interest in Eastern Shore, and we welcome your questions and comments.



Robert Barringer,
CFA
CIO, Partner, &
Portfolio Manager



James O'Brien,
CFA
Partner &
Portfolio Manager



Sarah Westwood,
CFA, CMT
Partner &
Portfolio Manager

OFFICE CONTACT



18 Sewall Street
Marblehead, MA 01945



Phone
(781) 639-2750



Fax
(781) 639-2751

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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.

Strategy Performance, Strategy Characteristics, Strategy Sector Weights, and Top Holdings, Strategy Statistics are reflecting the aggregate composite for the strategy. As such, individual accounts performance, weights, statistics, and characteristics may vary. †Inception date is 03/01/07. For the period of March 1, 2007 through October 26, 2012, the performance presented occurred while the Portfolio Manager was at a prior firm. Performance for this period has been calculated using custodial transactions for the fund while it was managed as a mutual fund (FBRYX) at FBR Asset Management. Eastern Shore Capital Management has met the requirements for claiming performance record portability and keeps the appropriate books and records as well as a portability memo on file. The Eastern Shore Capital Management Small Cap Equity Composite has undergone a portability examination for the period of March 1, 2007 through October 26, 2012. A client's return will be reduced by the advisory fees as described in Form ADV Part 2A and other expenses incurred by the account. For example, an annual advisory fee of .90% compounded quarterly over 3 years will reduce a gross 28.92% annual return to a net 28.1% annual return. Actual returns may vary from the performance information presented.

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