EASTERN SHORE
CAPITAL MANAGEMENT
A Division of Moody Aldrich Partners

Small Cap Equity
Second Quarter 2024
COMMENTARY

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.

Shifting Tides, Large to Small

Small Cap Equity Net Performance Statistics Since Inception (3/1/2007 – 6/30/2024)*

	Annualized Alpha (%)	Upside Capture (%)	Downside Capture (%)	Sharpe Ratio	Information Ratio
1 Year	2.5	83.3	84.3	0.3	0.3
5 Year	-1.6	80.4	92.1	0.1	-0.4
10 Year	-0.4	86.9	93.2	0.2	-0.2
SI*	2.0	91.4	89.6	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

In recent months, the economy has offered signals consistent with a soft landing. The latest GDP numbers remain firmly in positive territory, 2.8% growth in the second quarter following 1.4% in the first quarter. On the inflation side, the Fed's preferred measure of inflation, Core PCE, came in at 0.1% month-over-month in June; the annual rate was 2.5%, down from 2.6% last month. These numbers provide confidence to the Fed and the market that progress is being made in the fight against inflation, and markets are now pricing in a 90% probability of a September rate cut.

Thus far this year, large cap stocks have dramatically outperformed their small cap peers, and growth has outperformed value. Concentration of this outperformance has been high, as some large cap technology leaders like NVIDIA have risen dramatically on the promise and the reality of generative artificial intelligence (AI). Companies and countries are aggressively building out their AI computing capabilities, and we view AI as a secular theme with meaningful implications across every sector. Market participants are viewing the largest cap technology companies as the earliest and greatest AI beneficiaries, and many of these companies have seen their share prices appreciate rapidly in response. Certain small cap companies have benefited as well, albeit in a less meaningful way. Year-to-date through June 30th, small caps have underperformed large caps in every sector, with the differential most pronounced in Communication Services, Information Technology, and Financials. Investors clearly perceived the business models of larger companies in each of these sectors as presenting more attractive combinations of growth and stability.

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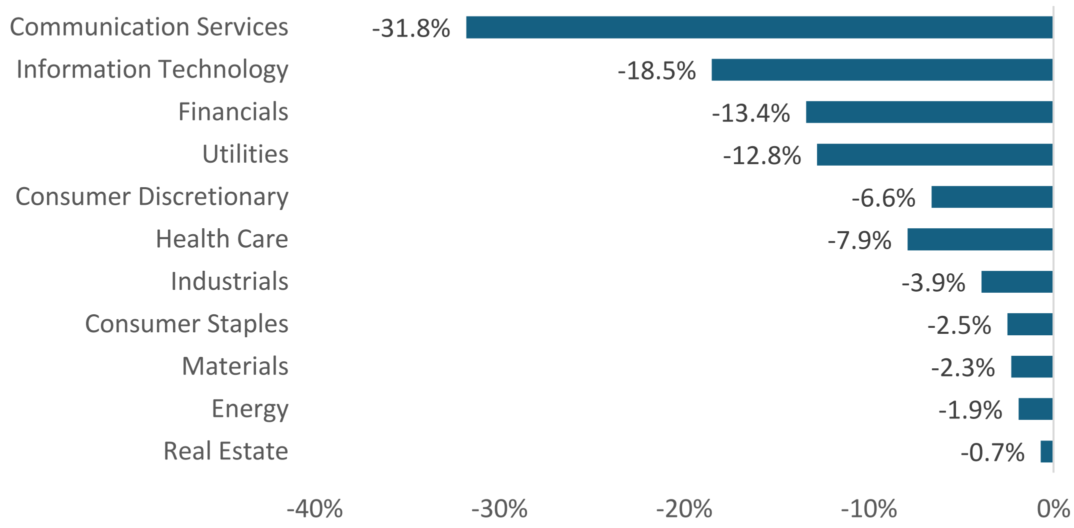
Small-Large Cap Relative Return YTD



Source: Furey Research Partners.

We recognize that investor preference for large cap may have been partially influenced by the many sources of risk in today's market. Geopolitical tension remains high, with conflicts in Europe and the Middle East appearing far from peaceful resolution. Political regimes around the world are undergoing significant change, heightening uncertainty. Domestically, the 2024 presidential election has already emerged as one of the most surprising and dramatic in US history. The future trajectories of inflation, the labor market, and interest rates remain far from certain, and news relating to them cause ripples across the equity market on a weekly basis. While this headline-related noise can be distracting, we appreciate that it creates opportunities for active managers. We therefore remain both nimble and vigilant in these turbulent times.

Performance Summary *(through 6/30/2024)**

	2Q 2024	YTD	1 Year	3 Year (Annualized)	5 Year (Annualized)	10 Year (Annualized)	Since Inception 3/1/2007 (Annualized)
	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Small Cap Equity (Gross)	-2.9	4.5	12.6	-2.7	5.5	6.8	9.5
Small Cap Equity (Net)	-3.1	4.0	11.6	-3.6	4.5	5.9	8.5
Russell 2000	-3.3	1.7	10.1	-2.6	6.9	7.0	7.1
Strategy Excess Return (Gross)	0.4	2.8	2.5	-0.1	-1.4	-0.2	2.4
Strategy Excess Return (Net)	0.2	2.3	1.5	-1.0	-2.4	-1.1	1.4

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Second Quarter 2024 Results

During the second quarter of 2024, the Eastern Shore Small Cap Equity Composite delivered a return of -2.86%/-3.08% gross and net of fees, outperforming the Russell 2000's -3.28% return for the quarter.

Companies with the highest returns on equity (ROE) outperformed lower quality peers significantly during the quarter, and lower beta companies meaningfully outperformed higher beta firms. Conditions such as these are generally favorable for our approach and provided a tailwind during the quarter. Our Established Quality holdings outperformed our Improving Quality holdings for the quarter, though both components of the portfolio are outperforming the Russell 2000 year-to-date. Growth companies were once again in the lead, though by a smaller margin than in the previous quarter: the Russell 2000 Growth index outperformed the Russell 2000 Value by 73 basis points for the second quarter, placing it over 5.3% ahead of the Russell 2000 Value index year-to-date.

The strongest sector contributors to the Small Cap Equity strategy's relative performance during the second quarter were Information Technology and Consumer Discretionary. Outperformance in the Information Technology sector was driven by stock selection among semiconductor and software holdings. Relative performance in Consumer Discretionary was largely driven by outperformers in retail and household products. Sector detractors for the quarter included Health Care and Communication Services. The strategy lost relative performance within the Health Care sector due to the outliers in pharmaceuticals biotechnology and life sciences. The underperformance of the strategy's sole holding in Communication Services 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 aerospace products firm FTAI Aviation Ltd. (FTAI) and data infrastructure connectivity company Credo Technology Group Holdings (CRDO). FTAI's stock price has risen steadily throughout the past year, with gains driven by robust growth in its aerospace and aviation leasing businesses. Credo Technology's stock price rose sharply following a strong earnings report, and continued to climb as investors gained a greater appreciation of the company's role in supporting AI proliferation going forward. Additional notable contributors for the period included medical technology firm TransMedics Group (TMDX), western apparel retailer Boot Barn (BOOT), and household appliance producer SharkNinja (SN). We maintain exposure to four of these holdings given their remaining upside potential but sold SharkNinja ahead of the Russell reconstitution given that its market cap exceeded the range of the rebalanced index.

The two most impactful detractors from the strategy's performance for the quarter were electrical infrastructure component manufacturer AtKore Inc. (ATKR) and information technology solution provider Super Micro Computer Inc. (SMCI). Both of these holdings had performed strongly during the previous quarter, but experienced declines when their earnings reports fell short of investors' expectations during the second quarter. Other significant detractors included online travel company TripAdvisor (TRIP), biopharmaceutical firm Iovance Biotherapeutics (IOVA), and industrial REIT Terreno Realty Corp. (TRNO). We maintain exposure to three of these holdings given their attractive fundamentals and valuations. We sold Super Micro Computer (SMCI) for exceeding the market cap range of the reconstituted Russell 2000 and sold Iovance due to the disappointing sales of the company's new melanoma therapy.

Our decision to increase our exposure to earlier-stage Improving Quality holdings coming into 2024 appears to have paid off during the second quarter, particularly given that this shift resulted in a slight bias towards higher growth companies. We continue to seek out compelling, attractively valued opportunities across our investment universe, favoring those that appear best positioned to become or remain market leaders in their industries.

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Looking forward to the second half of the year, we believe that the strategy is well positioned for a range of potential market scenarios. We are exercising caution regarding our risk exposures and position-sizing given the probability of heightened volatility in this uncertain macroeconomic and geopolitical environment.

Q2 2024 Top 5 Contributors†

Security	Ticker	Avg. Weight (%)
FTAI Aviation Ltd.	FTAI	1.3
Credo Technology Group Holding Ltd.	CRDO	0.9
TransMedics Group, Inc.	TMDX	0.4
Boot Barn Holdings, Inc.	BOOT	1.0
SharkNinja, Inc.	SN	1.1

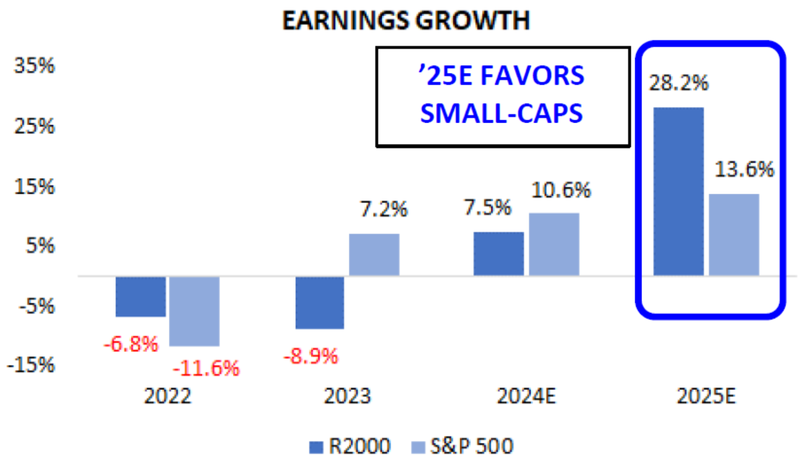
Q2 2024 Top 5 Detractors†

Security	Ticker	Avg. Weight (%)
Atkore, Inc	ATKR	1.1
Super Micro Computer, Inc.	SMCI	0.3
TripAdvisor, Inc.	TRIP	0.7
Iovance Biotherapeutics, Inc	IOVA	0.4
Terreno Realty Corp.	TRNO	1.2

*†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

Recently, inflation numbers have decelerated and have reversed the "higher for longer" narrative that dominated rate discussions earlier this year. We believe that there is a compelling case to be made for small caps given the long underperformance as well as the extreme valuation differences. Additionally, the estimated 2025 earnings growth rate of small cap stocks is nearly double that of large cap stocks, as shown on the chart below.



Source: Furey Research Partners.

In terms of a catalyst, we believe that peak rates will provide a sufficient narrative and rationale to the case for small caps. We believe that the market will start to price in the outsized positive impact that lower rates will have on small companies given that small cap stocks are longer duration assets and are more sensitive to capital costs. As is typically the case, the challenge will be to identify those companies that will benefit the most from these secular tailwinds.

We anticipate that relative performance will improve across a broad range of sectors as the year unfolds, and that small companies will be rewarded for their superior growth potential going forward. We are stock pickers at heart, and we recognize that election years are typically characterized by above-average volatility – particularly in the fourth quarter. This strengthens our conviction that conditions during the second half of the year will be favorable for our flexible approach. Historically, our strategy has tended to generate its strongest outperformance during periods of market disruption. Our Established Quality holdings generally help preserve capital during periods of downside volatility, as they did in the fourth quarter of election year 2008. Should the opposite occur, our Improving Quality holdings can help the strategy keep up with a market rally, as they did following Donald Trump's election in the fourth quarter of 2016.

Our positioning from a sector and style perspective remains relatively neutral in this environment, consistent with the more balanced approach that we adopted going into 2023. The strategy ended the quarter more heavily weighted towards Improving Quality holdings (43.3%) relative to our long-term average (36.9%), though we reduced exposure to this component slightly during the second quarter. We have structured the strategy to offer both downside protection and upside potential, and we are excited about the opportunities to come as visibility improves towards the end of the year. We are grateful for your support of Eastern Shore, and we welcome your feedback and questions.

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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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