EASTERN SHORE
CAPITAL MANAGEMENT
A Division of Moody Aldrich Partners

Small Cap Equity
Second Quarter 2025
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.

Crosswinds

Small Cap Equity Net Performance Statistics Since Inception (3/1/2007 – 6/30/2025)*

	Annualized Alpha (%)	Upside Capture (%)	Downside Capture (%)	Sharpe Ratio	Information Ratio
1 Year	4.5	94.0	83.9	0.3	1.2
5 Year	-1.4	83.2	93.1	0.2	-0.5
10 Year	0.1	86.7	91.4	0.2	-0.1
SI*	2.2	91.6	89.3	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. Inception date is 03/01/07. 2007's return represents a partial year beginning at the inception of the fund on 3/01/2007 and is not annualized. Performance from March 1, 2007 through October 26, 2012 occurred while Robert Barringer was the strategy's sole Portfolio Manager at FBR Asset Management.*

Markets/Economy

Equity markets experienced far more volatility during the first half of 2025 than the -1.8% year-to-date return of the Russell 2000 might suggest. Within the first six weeks of the year, the DeepSeek announcement caused investors to question the need for massive increases in capital expenditure for artificial intelligence (A.I.). The April second tariff announcements caused a substantial selloff in equity markets, causing the Russell 2000 to decline over 15% within a week. Continued uncertainty regarding the massive tax and spending bill brought additional turbulence, as did the lack of visibility regarding inflation and the future path of interest rates.

The market shrugged off these concerns and staged a significant rally in May and June, which recovered nearly all of the Russell 2000's earlier losses. One of the key drivers of this rebound has been the Trump administration's reaction to the market downturn and to criticism about the negative effects that large tariffs would have on businesses and consumers. The president keeps moving the effective dates of the tariffs and continues to negotiate with countries who are bargaining in good faith. The market appears to be taking policy uncertainties in stride, and investors have been taking advantage of corrections to buy stocks that are trading at low valuations. Investors appear to maintain faith that the policies that are ultimately enacted will be manageable for companies and the U.S. economy. While visibility is improving on fiscal and tariff policies, potential risks including ongoing geopolitical conflicts continue to demand attention. Nonetheless, the market has been grinding upwards through volatility and negative headlines.

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Performance Summary *(through 06/30/2025)**

	2Q 2025	1 Year	3 Year (Annualized)	5 Year (Annualized)	10 Year (Annualized)	Since Inception 3/1/2007 (Annualized)
	(%)	(%)	(%)	(%)	(%)	(%)
Small Cap Equity (Gross)	10.6	12.9	11.4	8.6	7.6	9.7
Small Cap Equity (Net)	10.3	11.9	10.4	7.6	6.6	8.7
Russell 2000	8.5	7.7	10.0	10.0	7.1	7.1
Strategy Excess Return (Gross)	2.1	5.2	1.4	-1.4	0.5	2.6
Strategy Excess Return (Net)	1.8	4.2	0.4	-2.4	-0.5	1.6

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Second Quarter 2025 Results

During the second quarter of 2025, the Eastern Shore Small Cap Equity Composite delivered a return of 10.57%/10.32% gross and net of fees, outperforming the Russell 2000's 8.50% return for the quarter.

In a dramatic reversal from the first quarter, the Russell 2000 Growth index outperformed the Russell 2000 Value by approximately 7%. Higher beta stocks strongly outperformed as equity markets surged upwards from their early April lows.

Our Improving Quality holdings, which are earlier in their life cycles, significantly outperformed more mature Established Quality holdings during the second quarter, having lagged them in the first quarter. Both components of the portfolio have outperformed the Russell 2000 year-to-date. As is often the case, stock selection rather than sector allocation was the strongest influence on the strategy's relative performance for the quarter. The most significant positive sector contributors to the Small Cap Equity strategy's relative performance during the second quarter were Information Technology and Industrials. Semiconductor-related firms and software companies outperformed within Information Technology, while outperformance in the Industrials sector was largely driven by companies tied to both residential and non-residential construction.

Sector detractors for the quarter included Materials and Utilities. Within Materials, the strategy's three holdings each significantly lagged the benchmark's performance. The strategy's underperformance in the Utilities sector was largely driven by the below-benchmark returns of two of its electric utilities and one natural gas utility. The team maintained its level of exposure to these two sectors during the quarter and made five meaningful changes to sector allocation in this timeframe: increasing exposure to the Information Technology, Consumer Discretionary, and Industrials sectors by 3.38%, 3.18%, and 2.76% respectively, and decreasing exposure to the Health Care and Financials sectors by 4.45% and 3.84% respectively. No other sector adjustments equaled or exceeded 2% during the quarter.

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At the individual company level, the two most significant contributors to the strategy's performance for the quarter were digital asset mining facility company Core Scientific (CORZ) and data infrastructure firm Credo Technology Group Holding (CRDO). Core Scientific rose in anticipation that its longtime partner CoreWeave (CRWV) might acquire it. On July 7th, CoreWeave announced plans to acquire Core Scientific in an all-stock deal, making Core Scientific the fifth holding in the strategy to announce that it was being acquired year-to-date.

Credo's share price had fallen after the DeepSeek announcement in February cast doubts on the need for data centers to support AI expansion in the United States but recovered during the second quarter as investors recognized the firm's advantageous positioning as a growing player in the data center interconnect market. Additional notable contributors during the quarter included aerospace and defense company Leonardo DRS (DRS), commercial specialty contractor services provider Limbach Holdings (LMB), and home service plan provider Frontdoor (FTDR). We sold Leonardo DRS due to its high market cap ahead of the Russell index reconstitution, but we maintained exposure to the other four of these holdings as we felt that they offered additional upside.

The two most impactful detractors from the strategy's performance for the quarter were web-based investment portfolio platform provider Clearwater Analytics Holdings (CWAN) and oil and gas exploration and production firm SM Energy (SM). Clearwater's share price slid during the first six weeks of the quarter as investors weighed the potential impact of the new administration's policies on its business, while SM Energy's shares declined rapidly along with those of peers as the price of crude oil slid in April and May. Other significant detractors included biopharmaceutical holdings Edgewise Therapeutics (EWTX) and Axsome Therapeutics (AXSM), as well as oil and gas exploration and production company Magnolia Oil & Gas (MGY). We maintained exposure to all five of these holdings at quarter-end given their promising fundamentals and potential for share price recovery.

From a positioning standpoint, we have shifted the balance of the portfolio slightly towards Improving Quality. Our style positioning remains relatively neutral, and we continue to avoid large active industry exposures. This more balanced positioning has helped the strategy to outperform the Russell 2000 for the past six quarters, and we believe that it will continue to serve our clients well as we continue into the second half of this year.

Q2 2025 Top 5 Contributors†

Security	Ticker	Avg. Weight (%)
Core Scientific, Inc.	CORZ	1.0
Credo Technology Group	CRDO	0.8
Leonardo DRS, Inc.	DRS	1.8
Limbach Holdings, Inc.	LMB	0.8
Frontdoor, Inc.	FTDR	1.3

Q2 2025 Top 5 Detractors†

Security	Ticker	Avg. Weight (%)
Clearwater Analytics Holdings, Inc.	CWAN	2.1
SM Energy Company	SM	0.5
Edgewise Therapeutics, Inc.	EWTX	0.3
Axsome Therapeutics, Inc.	AXSM	1.4
Magnolia Oil & Gas Corp.	MGY	1.1

*†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.*

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Outlook

The market does not like uncertainty, and we had plenty of it in the first half of 2025. We are becoming more optimistic that this is abating now and will continue to improve going forward. The recently signed tax bill improves visibility across several key areas, and its stimulus elements should support growth. The tariffs most likely to be enacted won't be nearly as high as investors feared a couple of months ago. The tariffs will most likely prove manageable for higher quality small cap companies, and we believe that most of their impact has already been priced into markets. Another positive is that recent economic data has been stable, and the most recent jobs report beat expectations. On a final upbeat note, several Fed Governors indicated in recent speeches that they might be open to cutting rates sooner rather than later.

These developments have helped to alleviate uncertainty for markets, and as a result daily volatility as measured by the VIX has dropped significantly. While we have seen longer dated bond yields continue to fluctuate, overall bond volatility is lower as well. We view geo-political risk in Ukraine and the Middle East as potential drivers of volatility in the months to come.

Both the S&P 500 and NASDAQ reached all-time highs in early July, but the small cap Russell 2000 remains roughly 10% below the closing high reached in November of 2024. We are encouraged that expectations are set quite low as the second quarter earnings season begins. Analysts aggressively lowered earnings estimates earlier in the year when tariff uncertainty was at its peak. Individual companies have been issuing guidance that we consider conservative, and many have suspended guidance altogether. Because of this, we anticipate positive earnings surprises across many areas of the market. We don't expect much multiple expansion and believe that earnings will serve as the key driver of near-term positive returns.

We believe small caps could outperform in the second half for a couple of reasons. First, we saw small cap earnings cut more severely than large, meaning that they are more likely to exceed expectations. Small cap stocks are also trading at significantly more attractive valuations relative to their large cap counterparts.

There are certainly many risks that could cause us to revise this base case. As tariffs work their way through supply chains, we could see inflation start to re-accelerate. If inflation expectations increase and the deficit expands further, long-term interest rates may rise. Higher rates and inflation would likely compress equity valuations. We could also see companies unable to pass on increased inflationary and tariff costs, resulting in reductions in their margins and earnings. Another risk is that the decrease in immigration could lead to a shortage of workers in certain industries, driving up wage inflation.

We continue to focus on established quality companies that offer visible sales and earnings growth and are less economically sensitive, as well as improving quality companies that have visible catalysts and operating leverage in an expanding economy. This balance of quality and opportunity has served the strategy well during the past six quarters. Please do not hesitate to contact us for more detail – we wish you a wonderful summer and we thank you for your interest in Eastern Shore.

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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