EASTERN SHORE
CAPITAL MANAGEMENT
A Division of Moody Aldrich Partners

Small Cap Equity

Third 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.

Making Headway

Small Cap Equity Net Performance Statistics Since Inception (3/1/2007 – 9/30/2025)*

	Annualized Alpha (%)	Upside Capture (%)	Downside Capture (%)	Sharpe Ratio	Information Ratio
1 Year	4.4	97.7	87.7	0.5	0.8
5 Year	-0.7	85.9	93.3	0.3	-0.3
10 Year	0.2	87.2	91.8	0.4	-0.2
SI*	2.2	91.7	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

The third quarter of 2025 was another strong one for equity markets. Several factors contributed to the rally — solid second-quarter earnings, expectations of multiple Fed rate cuts, resilient economic growth, and fading concerns about a broader trade and tariff war. The April 2nd "Liberation Day" tariffs and the market's sharp negative reaction now feel like a distant memory.

With investor confidence on the rise, we're seeing clear signs of risk appetite returning. IPO activity has picked up meaningfully — 273 deals so far in 2025 compared to just 158 at this time last year — and M&A activity is also stronger, supported by a more favorable regulatory environment than what we saw under the prior administration. This kind of backdrop tends to benefit small-cap investors, and the quarter reflected that dynamic: the Russell 2000 gained 12.4%, outpacing the S&P 500's 7.8% return.

A few themes stood out this quarter:

1. The AI Trade:
Artificial intelligence continued to dominate market headlines. Several multi-billion-dollar data center projects were announced, boosting companies across the AI value chain. Many reported expanding multi-year order backlogs — a key driver of performance for the quarter. We own several companies in our portfolio that benefit directly and indirectly from this theme.

2. Power Generation and Infrastructure:
Holdings tied to power generation also performed well. The surge in electricity demand from data centers, crypto mining, and re-shoring efforts is highlighting the need for massive grid investment. This long-term buildout will span natural gas, solar, wind, and nuclear - a multi-year theme likely to create periodic waves of opportunity and volatility. We are participating via companies in industrials, energy, and utilities.

CONTINUED >>

3. The Debasement Trade:
Finally, the "debasement trade" gained traction as investors, companies, and central banks sought protection from currency erosion. Gold, silver, and major cryptocurrencies like Bitcoin and Ethereum all posted impressive year-to-date gains.

Portfolios without exposure to these areas likely struggled to keep pace with the broader indices during the quarter.

Looking ahead, the setup for equities into the fourth quarter and 2026 remains constructive, though not without risk. We are evaluating developments with care, and we remain focused on driving strong long-term risk-adjusted returns across the portfolio.

Performance Summary *(through 09/30/2025)**

	3Q 2025	1 Year	3 Year (Annualized)	5 Year (Annualized)	10 Year (Annualized)	Since Inception 3/1/2007 (Annualized)
	(%)	(%)	(%)	(%)	(%)	(%)
Small Cap Equity (Gross)	12.7	15.6	17.5	10.7	9.9	10.2
Small Cap Equity (Net)	12.4	14.6	16.4	9.7	8.9	9.2
Russell 2000	12.4	10.8	15.2	11.6	9.8	7.7
Strategy Excess Return (Gross)	0.3	4.8	2.3	-0.9	0.1	2.5
Strategy Excess Return (Net)	0.0	3.8	1.2	-1.9	-0.9	1.5

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.*

Third Quarter 2025 Results:

During the third quarter of 2025, the Eastern Shore Small Cap Equity Composite delivered a return of 12.67%/12.41% gross and net of fees, slightly outperforming the Russell 2000's 12.38% return for the quarter.

Higher beta stocks strongly outperformed during the third quarter as equity markets continued to climb from their early April lows. Lower return on equity (ROE) companies outperformed significantly, presenting a challenging environment for our quality-oriented approach. Our Improving Quality holdings, which are often earlier in their life cycles, significantly outperformed our Established Quality holdings for a second quarter in a row, putting them significantly ahead of the Established Quality component of the strategy year-to-date.

The most significant positive sector contributors to the Small Cap Equity strategy's relative performance during the third quarter were Health Care and Industrials. Biotechnology holdings outperformed within Health Care, while outperformance in the Industrials sector was largely driven by companies tied to aerospace and defense. Sector detractors for the quarter included Consumer Staples and Materials. Within Consumer Staples, underperformance was largely caused by two outliers, a food company and a fragrance manufacturer. Similarly, the strategy's underperformance in the Materials sector was largely driven by the below-benchmark returns of a specialty chemical holding and a construction materials company, as well as by being underweight in outperforming areas such as precious metals.

At the individual company level, the two most significant contributors to the strategy's performance for the quarter were aerospace and defense company Kratos Defense & Security Solutions (KTOS) and bitcoin mining firm Riot Platforms (RIOT).

CONTINUED >>

Kratos's stock price climbed on news that the Pentagon is urging key defense suppliers to double or quadruple production rates. Riot Platforms rose on increased data center demand for capacity with access to power, a competitive advantage for the firm. Additional notable contributors during the quarter included fuel cell manufacturer Bloom Energy (BE), biotechnology company Merus N.V. (MRUS), and semiconductor firm Rambus (RMBS). We maintained exposure to all five of these holdings as of quarter end, though we trimmed positions in Bloom Energy, Rambus, and Riot Platforms to reduce risk and lock in gains.

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 fragrance company Interparfums (IPAR). Clearwater's share price has remained under pressure during the past two quarters due to earnings and guidance misses as well as integration risk associated with recent acquisitions. Interparfums declined on a weaker than expected earnings report, as well as on concerns about the strength of the consumer. Other significant detractors included financial trading solutions provider Virtu Financial (VRTU), biotechnology firm Replimune Group (REPL), and specialty insurance company Palomar Holdings (PLMR). We maintained exposure to three of these holdings as of quarter end but eliminated our positions in Repligen and Palomar Holdings to invest the proceeds in opportunities that offered better visibility.

From a positioning standpoint, we have shifted the balance of the portfolio slightly towards Improving Quality given the richness of the opportunity set at this time. 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 seven quarters.

Q3 2025 Top 5 Contributors†

Security	Ticker	Avg. Weight (%)
Kratos Defense & Security Solutions, Inc.	KTOS	1.5
Riot Platforms, Inc.	RIOT	1.4
Bloom Energy Corp.	BE	0.5
Merus N.V.	MRUS	1.2
Rambus, Inc.	RMBS	1.1

Q3 2025 Top 5 Detractors†

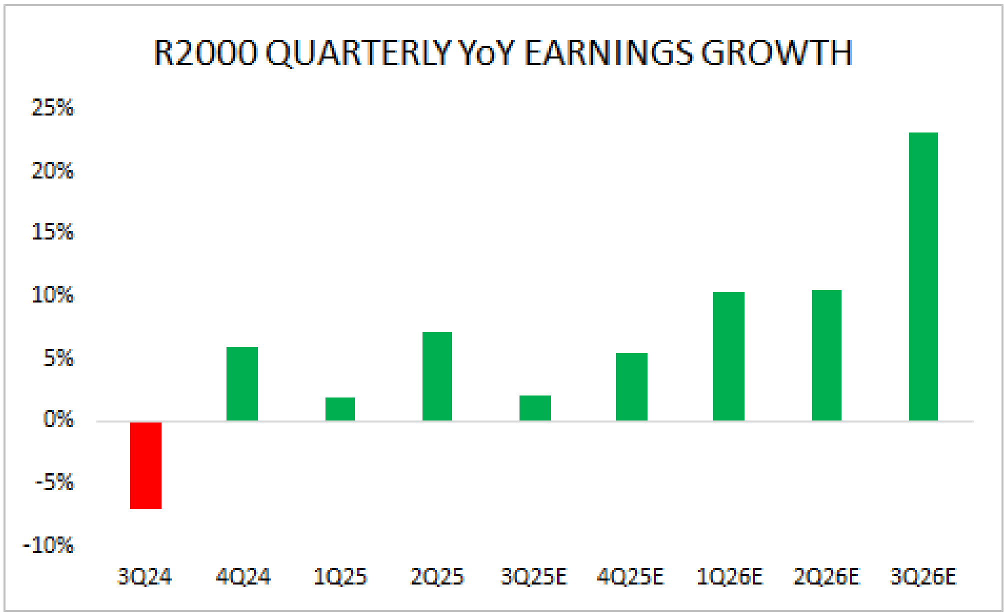
Security	Ticker	Avg. Weight (%)
Clearwater Analytics Holdings, Inc.	CWAN	1.7
Interparfums, Inc.	IPAR	1.0
Virtu Financial, Inc.	VIRT	1.2
Replimune Group, Inc.	REPL	0.1
Palomar Holdings, Inc.	PLMR	0.6

*†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 released data points have left us cautiously optimistic that the economy remains on firm footing overall. The outlook for earnings is still positive, and earnings growth for small caps is finally set to eclipse the growth of large caps for the first time since 2021. The acceleration of projected earnings growth for the Russell 2000 should provide a tailwind for small cap going forward.

CONTINUED >>



Source: Furey Research Partners & Factset

Diving deeper into the macro picture, we see a growing economy and an accommodative Fed that is now easing financial conditions. While these conditions bode well for the economy and sentiment, there is a risk that they may cause inflation to re-accelerate. We also have yet to see the full effects of the tariffs imposed earlier this year. We view these potential inflationary pressures as the most significant risk for markets going forward. If inflation rises meaningfully above 3% we could see the Fed pause additional rate cuts, which could weigh on already stretched equity multiples.

We are also watching the long end of the yield curve closely. Even if the Fed were to lower short-term rates a couple more times before year end, it does not have any control over longer term rates. If inflation re-accelerates, longer term bond yields could rise – putting stress on the economy and compressing equity multiples.

We will monitor the data closely and adjust our portfolios accordingly. Our flexible process allows us to pivot towards offense or defense, enabling our team to manage volatility and to take advantage of opportunities as they arise. Thank you for your support of Eastern Shore – please do not hesitate to contact us if you have any questions.

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

Disclosures

†The information provided in this report 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 report 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. The information is presented as supplemental to the GIPS Report, which is available **here**.

The information contained in this document is subject to updating and verification and may be subject to amendment. No representation or warranty is expressed as to the accuracy of the information contained and no liability is given by Eastern Shore Capital Management as to the accuracy of the information contained in this document and no liability is accepted for any such information. This document and the information contained within it are confidential and intended solely for the use of the individual or entity to whom they are addressed. If you are not named addressee, you should not disseminate, distribute, or copy this document or any of the information contained within it.

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.

If you are not the named addressee you should not disseminate, distribute or copy this document or any of the information contained within it. If you are not the intended recipient you are notified that disclosing, copying, distributing or taking any action in reliance on the contents of this information is strictly prohibited.