EASTERN SHORE
CAPITAL MANAGEMENT
A Division of Moody Aldrich Partners

Small Cap Equity

Second Quarter 2026

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.

Rising Tide

Small Cap Equity Net Performance Statistics Since Inception (3/1/2007 – 6/30/2026)*

	Annualized Alpha (%)	Upside Capture (%)	Downside Capture (%)	Sharpe Ratio	Information Ratio
1 Year	9.1	126.5	92.2	3.1	2.1
3 Year	6.2	102.0	84.7	1.0	1.1
5 Year	2.3	98.0	93.2	0.3	0.4
10 Year	1.2	91.4	92.1	0.5	0.0
SI*	2.7	93.7	89.3	0.5	0.4

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 second quarter presented a truly extraordinary market environment. It was the third best second quarter ever for the Russell 2000, which returned 21.4%. It was also by far the best second quarter ever for the Russell 2000 Information Technology sector with a return of 56%. The momentum in the A.I. theme was the dominant factor that drove market performance in small cap stocks amid an active conflict with Iran and oil prices spiking above $110. Year to date, the Russell 2000 is ahead of the S&P 500 by 12.4%: 22.6% vs.10.2% for the S&P 500. This is the largest relative performance gap of small vs. large since 2001. We have been able to participate in the A.I.-driven upside through several small cap companies that contribute to the A.I. value chain. These included holdings from a wide range of sectors including Information Technology, Industrials, Materials, and Energy.

Additional drivers of small cap performance during the quarter included a stellar earnings season and a de-escalation of hostilities in the Middle East. The price of oil declined significantly, contributing to a lower inflation narrative for the second half of the year. We are monitoring the unraveling of recent agreements with Iran closely and will adjust positioning as the situation evolves.

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Performance Summary *(through 6/30/2026)**

	2Q 2026	YTD	1 Year	3 Year (Annualized)	5 Year (Annualized)	10 Year (Annualized)	Since Inception 3/1/2007 (Annualized)
	(%)		(%)	(%)	(%)	(%)	(%)
Small Cap Equity (Gross)	26.6	32.2	54.7	25.3	10.0	12.8	11.6
Small Cap Equity (Net)	26.3	31.5	53.3	24.2	9.0	11.8	10.6
Russell 2000	21.5	22.6	40.8	18.6	7.0	11.6	8.6
Strategy Excess Return (Gross)	5.1	9.6	13.9	6.7	3.0	1.2	3.0
Strategy Excess Return (Net)	4.8	8.9	12.5	5.6	2.0	0.2	2.0

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Second Quarter 2026 Results:

During the second quarter of 2026, the Eastern Shore Small Cap Equity Composite delivered a return of 26.57%/26.28% gross and net of fees, outperforming the Russell 2000's 21.49% return.

The Russell 2000 Growth outperformed the Russell 2000 Value by over 850 basis points during the quarter – an unusually wide performance differential from a style perspective. Higher beta companies strongly outperformed during the quarter, and non-earners outperformed more profitable companies. Once again, the flexibility of our process allowed the strategy to outperform through rapidly evolving market conditions, contributing to the strategy's tenth consecutive quarter of outperformance. Both our Established and Improving Quality segments outperformed the benchmark during the quarter, though most of the outperformance was driven by Improving Quality holdings. The strategy also benefitted from having two holdings announce that they were being acquired during 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. AI-related names contributed significantly to the outperformance in both of these sectors. Sector detractors for the quarter included Utilities and Financials. The strategy's underperformance in the Utilities sector was primarily caused by its being overweight in a deeply underperforming sector, while a few laggards among regional banks contributed to underperformance in the Financials sector.

The team made one meaningful change to sector allocation in the second quarter – increasing exposure to the Information Technology sector by 2.38%. No other sector adjustments equaled or exceeded 2% during the quarter. Turnover was slightly elevated during the quarter due to the Russell Reconstitution and the sales of holdings that were being acquired. We sold a total of 21 holdings and replenished the strategy with 23 new buys. Due to Russell's shift to semiannual reconstitutions going forward, we are unlikely to see second quarter trading activity of this magnitude going forward.

At the individual company level, the two most significant contributors to the strategy's performance for the quarter were communications solutions company MaxLinear (MXL) and data center firm Hut 8 (HUT). Both companies are beneficiaries of AI expansion, and their share prices rose dramatically on strong execution. Additional notable contributors during the quarter included digital infrastructure firm Riot Platforms (RIOT), biotechnology company Oruka Therapeutics (ORKA), and integrated manufacturing provider Sanmina (SANM).

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We sold Sanmina during the quarter due to its high market cap and impending removal from the Russell 2000 but maintained exposure to the other four of these top contributors at the end of the quarter as we feel that each presents further potential for upside.

The two most impactful detractors from the strategy's performance for the quarter were oil and gas exploration and production company Magnolia Oil & Gas (MGY) and Capricor Therapeutics (CAPR). Magnolia's share price fell as oil prices declined in response to the easing of tensions in the Middle East, while Capricor gave back some of its earlier gains due to a combination of an earning miss and some profit-taking on the part of investors. Other significant detractors included aerospace and defense firms Karman Holdings (KRMN) and Kratos Defense & Security Solutions (KTOS) and oil and gas exploration and production company SM Energy (SM). 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, the balance of Improving and Established Quality holdings ended the quarter nearly unchanged at 48% and 52% respectively. This more balanced positioning has helped the strategy to outperform the Russell 2000 during the past two and half years, and we believe that it will continue to serve it well going forward in this rapidly shifting environment.

Q2 2026 Top 5 Contributors†

Security	Ticker	Avg. Weight (%)
MaxLinear, Inc.	MXL	0.96
Hut 8 Corp.	HUT	1.76
Riot Platforms, Inc.	RIOT	1.78
Oruka Therapeutics, Inc.	ORKA	1.44
Sanmina Corporation	SANM	1.52

Q2 2026 Top 5 Detractors†

Security	Ticker	Avg. Weight (%)
Magnolia Oil & Gas Corp. Class A	MGY	1.18
Capricor Therapeutics, Inc.	CAPR	1.35
Karman Holdings Inc.	KRMN	0.46
SM Energy Company	SM	1.18
Kratos Defense & Security Solutions, Inc.	KTOS	0.47

*†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

Financial markets have calmed down significantly since the early stages of the Iran conflict. Oil prices have declined as many countries are finding ways to conserve energy and oil producers have discovered other means to transport crude oil around the Strait of Hurmuz. With the recent re-escalation of hostilities, we will be watching oil prices closely and monitoring the effects of ongoing hostilities on inflation and interest rates, supply chains, and commodity flows. We are cautiously optimistic on the U.S. economy, and we expect strong domestic earnings growth which should be a net positive for the equity market for the balance of the year.

The consensus U.S. GDP forecast for 2026 is currently hovering around 2%, an expectation that we find reasonable. We view this as a benign number for the Federal Reserve, neither too hot nor too cold. The ISM Manufacturing and Services Indices have been solidly in expansion mode for several months now, and recent regional Fed economic surveys have been positive for June. We will be watching the monthly inflation readings closely, with the most recent one in July being lower than expected. We think that the rate of change in inflation will be the key determinant of long-term interest rates and market sentiment.

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Earnings growth has been a bright spot for equities, and we expect this momentum to continue. Current consensus estimates have the Russell 2000 growing about 24% in 2026 and the S&P 500 about 24.5%. We typically view analyst expectations to be over-optimistic, but even high-teens earnings growth should be sufficient to support current valuations. We are encouraged that growth appears to be broadening beyond technology and have added exposure across a range of sectors.

We maintain significant exposure to the A.I. theme but have reduced it recently as the outperformance in this area during the second quarter left many names close to fair value. We have been adding to other areas such as Health Care, Financials and REITs. We are starting to see performance broaden out to these and other areas as the market is noticing the rate of change in forward earnings growth as well. We will continue to take advantage of the flexibility our process affords us by seeking out stocks that offer compelling risk/return trade-offs among Improving and Established Quality companies. We appreciate your interest in Eastern Shore, and we encourage you to reach out with any 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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