EASTERN SHORE
CAPITAL MANAGEMENT
A Division of Moody Aldrich Partners

Small Cap Equity

Third Quarter 2026

COMMENTARY

Eastern Shore seeks to capitalize on a market phenomenon known as the **Quality Anomaly**, which refers to historical mispricing of quality companies that we believe may provide opportunities to seek 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.

Divergences

Small Cap Equity Net Performance Statistics Since Inception (3/1/2007 – 9/30/2026)*

	Annualized Alpha (%)	Upside Capture (%)	Downside Capture (%)	Sharpe Ratio	Information Ratio
1 Year	1.3	128.4	116.2	0.8	0.7
3 Year	3.4	102.5	92.6	0.8	0.6
5 Year	1.1	97.9	96.4	0.2	0.2
10 Year	0.6	91.0	93.5	0.4	-0.1
SI*	2.3	93.4	90.1	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 Eastern Shore Small Cap strategy ended its 10-quarter streak of outperformance vs. the Russell 2000 in the third quarter of 2026. Our quality-oriented process generally causes the strategy to outperform during down markets – as it has in 68% of down quarters for the Russell 2000 since its inception – so we delved particularly deeply into the drivers of relative performance for this quarter. Many of our most significant underperformers had generated notable outperformance earlier in the year, and most were related to the physical buildout of A.I. data centers. They were also concentrated in two sectors, Information Technology and Industrials, which happened to be the worst performing sectors in the benchmark. This negative stock performance diverged markedly from the actual results of these companies, as most reported stellar second quarter earnings. They also reported strong upward estimate revisions, record backlogs, and increased 2027 projected earnings growth. The market always provides investors with opportunities to learn and get better, so naturally we gave explored the factors that led to this divergence and how we can get ahead of something like this in the future.

While we continue to believe that these companies have years of profitable growth ahead of them, we recognize that the infrastructure buildout to support A.I. represents a multi-year opportunity that will not go up in a straight line. Extreme negative headline sentiment is driving the A.I. narrative now, with topics such as state data center moratoriums and circular financing eclipsing the positive results that the companies associated with this theme have been achieving. The ability to instantly buy, sell, or short a basket of stocks with a single click has been driving much of this increased volatility, as have single stock 0DTE (zero days to expiration) options as well as levered ETFs.

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We trimmed our positions in many of these holdings, but not enough to prevent short-term underperformance. We are taking opportunities to utilize this volatility to our advantage as we have done in the past. We are always looking for opportunities to refine our portfolio construction and adjust position sizing to suit the macro environment that we are in.

During the third quarter the S&P 500 and NASDAQ rose low single digits while the Russell 2000 declined 7.2%. While performance had started to broaden out in the small cap universe earlier in the year, this quarter's returns proved much narrower. Both the S&P and NASDAQ would have experienced negative third quarter returns had they not benefitted from the heavily weighted MAG 7 and similar tech darlings. Small cap stocks faced multiple headwinds given persistent inflation, higher oil prices, and rising interest rates.

Performance Summary *(through 9/30/2026)**

	3Q 2026	YTD	1 Year	3 Year (Annualized)	5 Year (Annualized)	10 Year (Annualized)	Since Inception 3/1/2007 (Annualized)
	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Small Cap Equity (Gross)	-11.7	16.7	21.3	21.9	8.1	10.5	10.8
Small Cap Equity (Net)	-11.9	16.0	20.2	20.8	7.2	9.6	9.8
Russell 2000	-7.2	13.7	16.2	17.7	6.3	9.8	8.1
Strategy Excess Return (Gross)	-4.5	3.0	5.1	4.2	1.8	0.7	2.7
Strategy Excess Return (Net)	-4.7	2.3	4.0	3.1	0.9	-0.2	1.7

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Third Quarter 2026 Results

During the third quarter of 2026, the Eastern Shore Small Cap Equity Composite delivered a return of -11.66%/-11.85% gross and net of fees, underperforming the Russell 2000's -7.22% return.

The Russell 2000 Value outperformed the Russell 2000 Growth by approximately 450 basis points during the quarter – a dramatic reversal from the previous quarter. Lower beta companies significantly outperformed, as did lower market cap companies. Higher quality companies also outperformed, albeit more modestly. The strategy benefitted slightly from being overweight lower beta, higher quality companies, but these small relative gains were overshadowed by the impact of our higher market cap bias. Our Established Quality component modestly outperformed Improving Quality during the quarter.

The most significant positive sector contributors to the Small Cap Equity strategy's relative performance during the third quarter were Real Estate and Consumer Discretionary. Real Estate sector performance benefitted from the July announcement that one of our industrial REIT holdings was being acquired, while Consumer Discretionary performance was buoyed by outperformance among retail holdings. Sector detractors for the quarter included Industrials and Information Technology. Underperformance in both sectors primarily came from holdings directly or indirectly tied to the AI theme.

At the individual company level, the two most significant contributors to the strategy's performance for the quarter were biotechnology firm Crinetics Pharmaceuticals (CRNX) and oil and gas exploration and production company SM Energy (SM).

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Crinetics announced its acquisition by competitor Vertex for a substantial premium early in the quarter, while SM benefitted from the rise in oil prices driven by the conflict in the Middle East. Additional notable contributors during the quarter included apparel retailer Abercrombie & Fitch (ANF), biotechnology company First Tracks Biotherapeutics (TRAX), and brokerage firm Marex Group (MRX). We sold Crinetics during the quarter 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 biotech holding Capricor Therapeutics (CAPR) and electrical construction services firm MYR Group (MYRG). Capricor's share price fell in response to negative regulatory scrutiny and an unfavorable FDA advisory committee vote regarding its lead cell therapy candidate, while MYR Group's stock slid with that of peers following strong AI-related performance earlier in the year. Other significant detractors included construction company Argan (AGX), golf equipment maker Acushnet Holdings (GOLF), and industrial equipment manufacturer Terex (TEX). We sold Capricor during the quarter but maintained exposure to the other four of these holdings at quarter-end given their promising fundamentals and potential for share price recovery.

From a positioning standpoint, the team increased the strategy's exposure to Established Quality from 52% to 57%, reducing Improving Quality's weight from 48% to 43%. This shift was prompted by a combination of the relative attractiveness of the opportunity set in each area as well as an appreciation for the increased macro volatility that we are seeing.

Q3 2026 Top 5 Contributors†

Security	Ticker	Avg. Weight (%)
Crinetics Pharmaceuticals, Inc.	CRNX	1.1
SM Energy Company	SM	1.7
Abercrombie & Fitch Co.	ANF	0.9
First Tracks Biotherapeutics, Inc.	TRAX	0.4
Marex Group Limited	MRX	1.8

Q3 2026 Top 5 Detractors†

Security	Ticker	Avg. Weight (%)
Capricor Therapeutics, Inc.	CAPR	0.2
MYR Group, Inc.	MYRG	0.9
Argan, Inc.	AGX	0.5
Acushnet Holdings Corp.	GOLF	1.1
Terex Corp.	TEX	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

The overall outlook for the U.S. economy remains solid, with the majority of economic data reported in the last few weeks pointing to continued expansion. The September ISM Manufacturing index was 54.5, the ninth straight month over 50, signaling expansion. The ISM Services index has been over 50 for the past two years. Capital spending in the U.S. is at multi-year highs as the buildout of A.I. infrastructure accelerates. We are also seeing non-A.I. spending picking up as companies find new opportunities to expand and grow. Employment is on solid footing, and consumer spending has expanded to all-time highs.

Despite these positive developments, we are cognizant of several risks which could lead to slower economic growth. Inflation is accelerating as the ongoing wars in Ukraine and the Middle East have upended global energy supplies. Bond yields are climbing due to positive growth and inflation combined with large and growing global fiscal deficits.

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Although negative sentiment and uncertainty appear likely to persist in the short term, we are optimistic that the mid-term elections and upcoming earnings will provide more visibility going forward and a more positive narrative for risk assets such as equities. Earnings drive stock prices over the long term, and both large and small cap equities are experiencing strong earnings growth in 2026. Additionally, estimates for 2027 have risen significantly. Consensus 2027 earnings growth for the S&P 500 and Russell 2000 are at 17% and 16%, respectively**. Multiples for stocks have contracted due to rising earnings and lower stock prices across many sectors.

If the Iran war ends in resolution and oil and refined products can move freely out of the Strait of Hormuz, global crude oil and product prices would experience a sharp drop. This would lower inflation and most likely cause a reduction in interest rates, which would translate into better earnings and higher equity prices. The earnings reports of A.I. related companies will provide insight into their forward backlogs and guidance which could improve sentiment for these stocks and for equities in general.

We will continue to follow individual companies' fundamentals and valuations while maintaining an awareness of macro dynamics to help determine our optimal mix of established and improving quality companies. We appreciate your interest in Eastern Shore and welcome your questions and feedback.



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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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The strategy focuses on higher quality stocks, which seek to exhibit lower volatility over full market cycles. However, quality stocks remain subject to market risk, can lose value, and may underperform during strong speculative rallies.

Investing involves risk, including the possible loss of principal. No strategy can assure a profit or protect against loss.

Index returns are shown for comparison only. Indices are unmanaged, do not reflect fees or expenses, and cannot be invested in directly.

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