



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

**Smid Cap Equity Net Performance Statistics Since Inception
(12/31/2012 – 6/30/2024)***

	Annualized Alpha (%)	Upside Capture (%)	Downside Capture (%)	Sharpe Ratio	Information Ratio
1 Year	1.9	85.0	86.2	0.3	0.1
5 Year	-0.5	84.9	92.3	0.2	-0.2
10 Year	0.2	91.4	94.0	0.3	-0.1
SI*	0.4	94.0	95.2	0.5	-0.1

**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 2500 index. The risk-free rate used to calculate the Sharpe ratio is the FTSE 3-month T-Bill.*

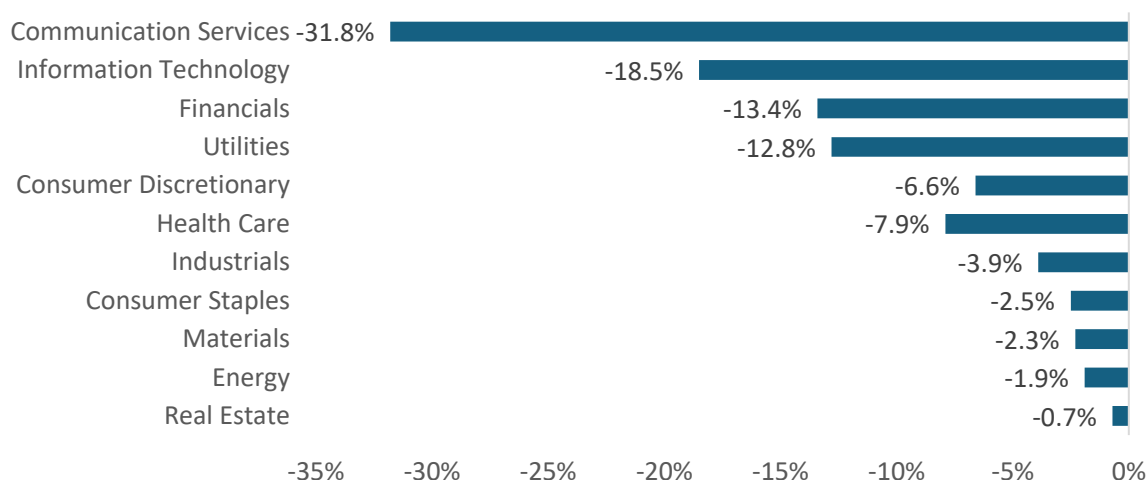
Markets/Economy

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 smid 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 smid 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.



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† (Annualized)
	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Smid Cap Equity (Gross)	-3.3	-0.2	12.2	-3.8	7.9	8.6	11.2
Smid Cap Equity (Net)	-3.6	-0.2	11.2	-4.7	6.9	7.6	10.2
Russell 2500	-4.3	-1.5	10.5	-0.3	8.3	8.0	10.4
Strategy Excess Return (Gross)	1.0	1.3	1.7	-3.5	-0.4	0.6	0.8
Strategy Excess Return (Net)	0.7	1.3	0.7	-4.4	-1.4	-0.4	-0.2

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Second Quarter 2024 Results

During the second quarter of 2024, the Eastern Shore Smid Cap Equity Composite delivered a return of -3.34%/-3.56% gross and net of fees, outperforming the Russell 2500's -4.28% return for the quarter.

Companies with the highest returns on equity (ROE) outperformed lower quality peers 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 2500 significantly year-to-date.

The strongest sector contributors to the Smid Cap Equity strategy's relative performance during the second quarter were Information Technology and Energy. Outperformance in the Information Technology sector was driven by stock selection among semiconductor and software holdings. Relative performance in Energy was largely driven by some strongly outperforming outliers. Sector detractors for the quarter included Health Care and Financials. The strategy lost relative performance within the Health Care sector due to the outliers in pharmaceuticals, biotechnology, and life sciences. The underperformance of a few non-bank financials detracted from relative performance within the Financials sector.

At the individual company level, the two most significant contributors to the strategy's performance for the quarter were household appliance producer SharkNinja (SN) and environmental services firm Clean Harbors (CLH). SharkNinja's stock price has appreciated steadily during the past six months due to strong consumer demand paired with ongoing innovation. Clean Harbors delivered a strong earnings report in early May and continues to see demand increases driven by secular themes such as reshoring and increased environmental regulation. Additional notable contributors for the period included lightweight metal product manufacturer Howmet Aerospace (HWM), biopharmaceutical technology platform company Halozyme Therapeutics (HALO), and aerospace and electronics firm HEICO (HEI.A). We believe that these holdings offer additional upside, and therefore continued to hold them as of quarter end.

The two most impactful detractors from the strategy's performance for the quarter were payment processing firm WEX Inc. (WEX) and pool product distributor Pool Corporation (POOL). WEX experienced a steady stock price decline in anticipation of a weaker macroeconomic backdrop. Other significant detractors included property and casualty insurance company Kinsale Capital Group (KNSL), decking manufacturer Trex Company (TREX), and ride share provider Lyft, Inc. (LYFT). We maintained exposure to four of these holdings as of quarter-end but sold Kinsale in late April due to concerns associated with the outlook for pricing going forward.

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 are also pleased that our additional focus on improving stock selection within the Consumer Discretionary sector – an area that has presented some performance challenges for the strategy during the past three years – appears to have paid off. 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.

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 potential for heightened volatility in this uncertain macroeconomic and geopolitical environment.



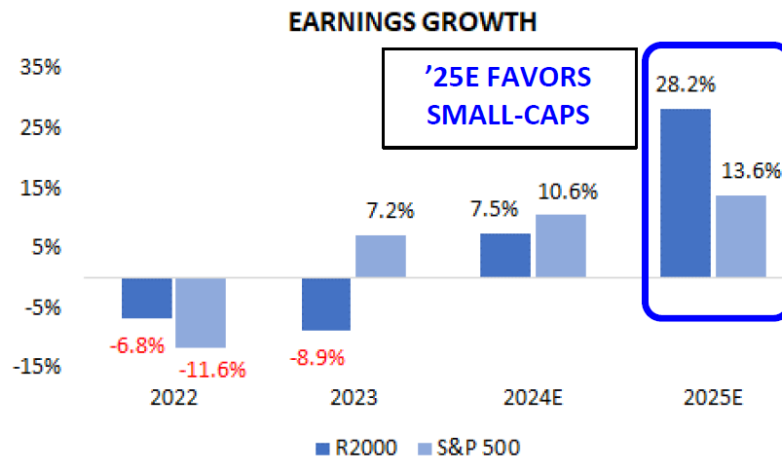
Q2 2024 Top 5 Contributors [†]		
Security	Ticker	Avg. Weight (%)
SharkNinja, Inc.	SN	1.9
Clean Harbors, Inc.	CLH	2.0
Howmet Aerospace, Inc.	HWM	1.8
Halozyne Therapeutics, Inc.	HALO	0.9
HEICO Corp.	HEI.A	1.6

Q2 2024 Top 5 Detractors [†]		
Security	Ticker	Avg. Weight (%)
WEX Inc.	WEX	1.4
Pool Corp.	POOL	1.3
Kinsale Capital Group, Inc.	KNSL	0.7
Trex Company, Inc.	TREX	1.1
Lyft, Inc.	LYFT	0.8

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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.



EASTERN SHORE
CAPITAL MANAGEMENT
A Division of Moody Aldrich Partners

Smid Cap Equity

Second Quarter 2024

COMMENTARY

In terms of a catalyst, we believe that peak rates will provide a sufficient narrative and rationale to the case for smid 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 smid 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.



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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