



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

Smid Cap Equity Net Performance Statistics Since Inception
(12/31/2012 – 9/30/2025)*

	Annualized Alpha (%)	Upside Capture (%)	Downside Capture (%)	Sharpe Ratio	Information Ratio
1 Year	2.6	113.7	102.5	0.4	0.7
5 Year	-3.0	87.6	101.2	0.3	-0.7
10 Year	0.2	91.8	94.4	0.4	-0.1
SI*	0.4	94.9	95.9	0.5	0.0

*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

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 we saw under the prior administration. This kind of backdrop tends to benefit smaller-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.



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† (Annualized)
	(%)	(%)	(%)	(%)	(%)	(%)
Smid Cap Equity (Gross)	12.6	14.0	14.2	9.0	11.0	11.7
Smid Cap Equity (Net)	12.3	13.0	13.2	8.0	10.0	10.7
Russell 2500	9.0	10.2	15.6	12.1	10.5	10.9
Strategy Excess Return (Gross)	3.6	3.8	-1.4	-3.1	0.5	0.8
Strategy Excess Return (Net)	3.3	2.8	-2.4	-4.1	-0.5	-0.2

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Third Quarter 2025 Results

During the third quarter of 2025, the Eastern Shore Smid Cap Equity Composite delivered a return of 12.55%/12.29% gross and net of fees, outperforming the Russell 2500’s 9.00% return for the quarter by over 3%.

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 Smid Cap Equity strategy’s relative performance during the third quarter were Information Technology and Health Care. Data center-related holdings outperformed significantly within the Information Technology sector, while biotechnology holdings outperformed within Health Care. Sector detractors for the quarter included Consumer Staples and Energy. Within Consumer Staples, underperformance was largely caused by two grocery retailers. The strategy’s underperformance in the Energy sector was largely driven by the below-benchmark returns of two oil and gas exploration and production holdings.

At the individual company level, the two most significant contributors to the strategy’s performance for the quarter were biopharmaceutical firm Insmed (INSM) and aerospace and defense company Kratos Defense & Security Solutions (KTOS). Insmed’s share price rose on strong clinical trial results and the FDA’s approval of its drug Brinsupri (brensocatic) for the treatment of treatment of bronchiectasis.



Kratos's stock price climbed on news that the Pentagon is urging key defense suppliers to double or quadruple production rates. Additional notable contributors during the quarter included cryptocurrency mining firm Riot Platforms (RIOT), immunology company argenx SE (ARGX), and thermal management solution provider Modine Manufacturing (MOD). We maintained exposure to all five of these holdings as of quarter end.

The two most impactful detractors from the strategy's performance for the quarter were grocery chain Sprouts Farmers Market (SFM) and specialty insurer Palomar Holdings (PLMR). Sprouts Farmers Market's share price declined on weaker than expected results relative to tough comparisons from strong sales in 2024. Palomar's shares fell on concerns regarding slowing premium growth following the release of weaker than expected data points. Other significant detractors included cloud-based supply chain management service provider SPS Commerce (SPSC), club retailer BJ's Wholesale Club Holdings (BJ), and financial technology company Jack Henry & Associates (JKHY). We maintained exposure to four of these holdings as of quarter end but eliminated our position in 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 2500 in five out of the past eight quarters.

Q3 2025 Top 5 Contributors[†]

Security	Ticker	Avg. Weight (%)
Insmmed, Inc.	INSM	2.8
Kratos Defense & Security Solutions, Inc	KTOS	1.1
Riot Platforms, Inc.	RIOT	1.3
argenx SE	ARGX	2.4
Modine Manufacturing Co.	MOD	1.5

Q3 2025 Top 5 Detractors[†]

Security	Ticker	Avg. Weight (%)
Sprouts Farmers Market, Inc.	SFM	1.0
Palomar Holdings, Inc.	PLMR	0.7
SPS Commerce, Inc.	SPSC	0.8
BJ's Wholesale Club Holdings, Inc.	BJ	1.4
Jack Henry & Associates, Inc.	JKHY	1.0

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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 and smid cap stocks going forward.

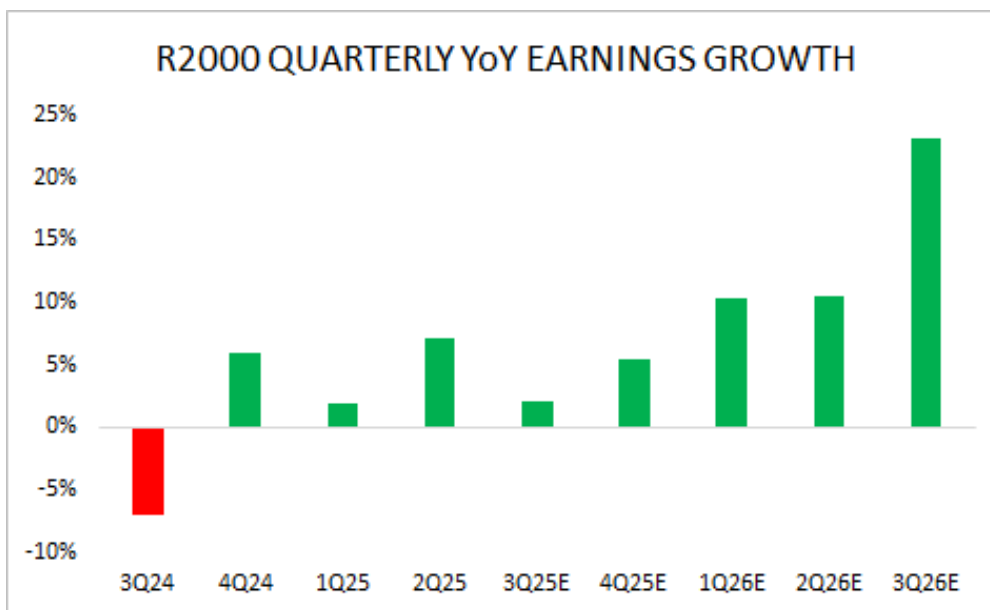


EASTERN SHORE
CAPITAL MANAGEMENT
A Division of Moody Aldrich Partners

Smid Cap Equity

Third Quarter 2025

COMMENTARY



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



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