



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.

Seaworthy

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

	Annualized Alpha (%)	Upside Capture (%)	Downside Capture (%)	Sharpe Ratio	Information Ratio
1 Year	2.1	121.7	108.8	0.7	0.7
3 Year	0.7	94.7	95.9	0.5	-0.1
5 Year	-2.9	87.9	101.2	0.0	-0.6
10 Year	0.2	91.8	94.4	0.4	-0.1
SI*	0.5	95.1	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

US equity market action during 2025 was heavily influenced by significant policy shifts announced by the Trump administration that drove extreme fluctuations throughout the year. These moves were based on announced or implemented policies that remain fluid at the start of 2026, including the “Liberation Day” tariff announcements and the One Big Beautiful Bill Act (OBBBA). Recent actions and announcements from the White House continue to fuel headline risk across markets every week.

The underlying drivers of performance in the smid cap market gyrated along with the reversals in the market. The Russell 2500 Value index outperformed the Growth index by approximately 245 basis points for the year, having significantly outperformed in the first and fourth quarters. The Russell 2500 Growth index dominated in the second and third quarters as the market rebounded off the April lows. Higher quality, more profitable companies outperformed during the first quarter, while non-earners and companies with lower returns on equity (ROE) and returns on invested capital (ROIC) dominated throughout the remainder of the year.

This was the fifth year in a row that large caps have outperformed small caps in the US equity market – historically, large cap has never dominated small for six or more years. Current consensus estimates indicate that small caps will grow earnings at a higher rate than large caps for the first time since 2021, a catalyst which could cause small caps to outperform large in 2026. Additional potential catalysts include the valuation discrepancy between large and small cap, the relatively benign interest rate environment, and the recent increase in mergers and acquisitions.



Performance Summary (through 12/31/2025)*

	4Q 2025	1 Year	3 Year (Annualized)	5 Year (Annualized)	10 Year (Annualized)	Since Inception† (Annualized)
	(%)	(%)	(%)	(%)	(%)	(%)
Smid Cap Equity (Gross)	2.9	16.2	14.4	4.8	10.9	11.7
Smid Cap Equity (Net)	2.7	15.1	13.4	3.8	9.9	10.7
Russell 2500	2.2	11.9	13.7	7.3	10.3	10.9
Strategy Excess Return (Gross)	0.7	4.3	0.7	-2.5	0.6	0.8
Strategy Excess Return (Net)	0.5	3.2	-0.3	-3.5	-0.4	-0.2

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Fourth Quarter 2025 Results:

During the fourth quarter of 2025, the Eastern Shore Smid Cap Equity Composite delivered a return of 2.93%/2.70% gross and net of fees, outperforming the Russell 2500's 2.21% return for the quarter.

Companies with lower returns on equity (ROE) and returns on invested capital (ROIC) significantly outperformed the rest of the smid cap market during the fourth quarter, as they did during much of 2025. Non-earners also outperformed, as did smaller cap Russell 2500 constituents. While these conditions might not appear favorable for our approach given our emphasis on higher quality stocks, the flexibility of our process and the recent uptick in M&A activity within the smid cap universe helped the strategy to outperform net of fees for a third consecutive quarter. Improving Quality holdings within areas such as biotechnology contributed meaningfully to this outperformance.

The most significant positive sector contributors to the Smid Cap Equity strategy's relative performance during the fourth quarter were Health Care and Consumer Discretionary. Biotechnology holdings were the largest contributor to the strategy's outperformance within Health Care, while outliers in specialty retail contributed to outperformance within the Consumer Discretionary sector. Sector detractors for the quarter included Industrials and Consumer Staples. The strategy's underperformance in the Industrials sector was largely driven by investor profit-taking among companies that had performed well year-to-date. Within the Consumer Staples sector, the strategy's grocery and beverage holdings detracted meaningfully from relative performance for the quarter.

The team made four meaningful changes to sector allocation in the fourth quarter – increasing exposure to the Health Care sector by 5.06% and decreasing exposure to the Information Technology, Consumer Discretionary, and Consumer Staples sectors by 3.18%, 2.18, and 2.15% respectively. No other sector adjustments equaled or exceeded 2% during the quarter.

At the individual company level, the two most significant contributors to the strategy's performance for the quarter were biotechnology holdings Insmid (INSM) and Protagonist Therapeutics (PTGX). Insmid's stock rose throughout the year and quarter as the firm executed well on the launch of a recently approved therapy and progressed towards phase 3 testing of another. We added Praxis to the strategy following the release of its full Phase 3 readout in mid-October and were rewarded when the company's stock price increased sharply on news that its pre-New Drug Application (NDA) meetings with the FDA had gone well.

Additional notable contributors during the quarter included three additional biotechnology holdings: central nervous system therapy developers Axsome Therapeutics and Praxis Precision Medicines (PRAX), and genetic disease-focused BridgeBio Pharma (BBIO). We maintained exposure to all five of these top contributors at the end of the quarter as we felt that they offered additional upside given their therapies' large total addressable markets and increasing probabilities of additional FDA approvals.



The two most impactful detractors from the strategy's performance for the quarter were cryptocurrency mining computing provider Riot Platforms (RIOT) and cloud-based software firm AppFolio (APPF). Riot's high correlation to cryptocurrency valuations caused its stock price to fall during the month of November, while AppFolio declined sharply in October following the discovery of a data breach. Other significant detractors included cloud-based web design company Nutanix (NTNX), financial services platform Robinhood Markets (HOOD), and electronic and communication products firm Teledyne Technologies (TDY). We maintained exposure to all five of these holdings at quarter-end given their attractive fundamentals and upside potential.

From a positioning standpoint, the balance of Improving and Established Quality holdings ended the quarter at roughly 44% and 56% respectively, reflecting a shift of roughly 5% from Improving Quality to Established. The flexibility of our process in allowing us to invest in both types of stocks has contributed meaningfully to the strategy's outperformance in six out of the past eight quarters, and we believe that it will continue to serve it well going forward in this uncertain environment.

Q4 2025 Top 5 Contributors [†]		
Security	Ticker	Avg. Weight (%)
Insmid, Inc.	INSM	3.8
Protagonist Therapeutics, Inc.	PTGX	2.2
Axsome Therapeutics, Inc.	AXSM	1.5
Praxis Precision Medicines, Inc.	PRAX	0.9
BridgeBio Pharma, Inc.	BBIO	1.5

Q4 2025 Top 5 Detractors [†]		
Security	Ticker	Avg. Weight (%)
Riot Platforms, Inc.	RIOT	1.1
AppFolio, Inc.	APPF	1.4
Nutanix, Inc.	NTNX	0.8
Robinhood Markets, Inc.	HOOD	1.3
Teledyne Technologies, Inc.	TDY	1.8

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Full Year 2025 Results:

During 2025, the Eastern Shore Smid Cap Equity Composite delivered a return of 16.15%/15.10% gross and net of fees, outperforming the Russell 2500's 11.90% return for the year.

Keeping the strategy's exposure to earlier-stage Improving Quality holdings above our historical average throughout the year contributed meaningfully to the strategy's outperformance of over 3%. Although the Established Quality component outperformed Improving Quality when the Russell 2500 declined nearly 7.5% during the first quarter, the Improving Quality segment delivered significant outperformance throughout the remainder of the year. Heightened M&A activity contributed meaningfully to this outperformance: all four of the holdings that announced that they were being acquired out of the strategy during the year were Improving Quality stocks.

The most significant sector contributor to the Smid Cap Equity strategy's outperformance in 2025 was the Health Care sector. The strategy's biotechnology holdings were the primary driver of this outperformance: our focus on firms with therapies in the later stages of clinical trials fueled outsized stock-specific returns as these companies met key trial endpoints. The Information Technology sector was another significant positive contributor to the strategy's relative return, as several of our AI-related holdings significantly exceeded investor expectations.



The two largest sector detractors for the year were Consumer Staples and Materials. Underperformance within the Consumer Staples sector was largely driven by lagging holdings on the distribution side, though food and beverage holdings also weighed on relative returns. Much of the strategy's underperformance in the Materials sector came from the strategy's underexposure to precious metals and its overexposure to construction materials.

The top three largest individual stock contributors to the strategy's performance were biotechnology firms Insmid (INSM), Protagonist Therapeutics (PTGX), and BridgeBio (BBIO). As described earlier, each of these made significant progress in clinical testing as the year progressed, de-risking their businesses by improving visibility. Additional notable contributors during the year included network technology firm Ciena (CIEN) as well as financial services platform Robinhood Markets (HOOD). We maintain exposure to each of these holdings because we believe that their unique competitive advantages and large addressable markets provide them with additional upside potential.

The two most impactful detractors from the strategy's performance for the quarter were footwear company Deckers Outdoor (DECK) and cloud-based supply chain management service company SPS Commerce (SPSC). Deckers declined on concerns that sales of its Hoka athletic shoes were decelerating, as well as on fears that tariffs would meaningfully impact the company's profitability. SPS Commerce has faced challenges in integrating recent acquisitions while transitioning its business model to meet the needs of a broader customer base. Other significant detractors for the year included vaccine developer Vaxcyte (PCVX), construction materials producer Knife River (KNF), and high-protein snack firm Simply Good Foods (SMPL). We sold Vaxcyte and Simply Good due to the relative attractiveness of other opportunities, but we maintained exposure to the other three given their potential upside from these levels.

2025 presented a challenging environment for quality-oriented investors, particularly given the outperformance of stocks of companies with lower profitability and higher betas. We would not typically expect to outperform under conditions such as these, and we attribute the strategy's strong relative performance to three key drivers: 1) the flexibility of our approach, which allowed us to have exposure to areas such as biotechnology; 2) the strategy's exposure to themes in areas such as artificial intelligence infrastructure and aerospace/defense; 3) the increase in M&A activity and the higher premiums being paid for smid cap acquisition targets. We are cautiously optimistic as we enter 2026, as prospects for smid cap stocks appear strong given the interest rate outlook, the health of the consumer, and improving earnings growth expectations. We remain mindful of the risks that this environment presents and will continue to take advantage of the flexibility of our process to capture returns on the upside and to preserve capital on the downside in the quarters to come.

2025 Top 5 Contributors [†]		
Security	Ticker	Avg. Weight (%)
Insmid, Inc.	INSM	2.2
Protagonist Therapeutics, Inc.	PTGX	1.7
BridgeBio Pharma, Inc.	BBIO	1.
Ciena Corp.	CIEN	0.9
Robinhood Markets, Inc.	HOOD	1.0

2025 Top 5 Detractors [†]		
Security	Ticker	Avg. Weight (%)
Deckers Outdoor Corp.	DECK	0.9
SPS Commerce, Inc.	SPSC	0.9
Vaxcyte, Inc.	PCVX	0.3
Knife River Corp.	KNF	1.3
Simply Good Foods Co.	SMPL	0.7

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EASTERN SHORE
CAPITAL MANAGEMENT
A Division of Moody Aldrich Partners

Smid Cap Equity

Fourth Quarter 2025

COMMENTARY

Outlook:

Our overall outlook for the U.S. economy in 2026 is cautiously optimistic. The effects of tariffs on the economy and on smid cap companies have been less severe than expected since the “Liberation Day” tariff announcement in April of 2025 due to numerous carve-outs and exemptions. Some industries are being affected more significantly than others, and we are seeing some of those costs being passed on to the consumer. Despite these price increases, we see inflation trending downwards in 2026 as energy prices have fallen and housing costs are gradually declining as well. The labor market is more balanced, and the Fed’s more dovish stance appears likely to become even more accommodative after a new Fed Chair is sworn in this May.

Fiscal tailwinds should benefit the U.S. economy as well. The accelerated depreciation provisions and retroactive tax cuts in the OBBB Act passed last July should translate into higher tax refunds for consumers and more capital investment from companies. While the economy is not the stock market, this economic backdrop should support strong sales and earnings growth for U.S. companies.

Risks:

While this environment presents many reasons for optimism going into 2026, we remain aware of the many potential risks to our positive outlook. Our primary concern is that inflation could re-accelerate, given that the U.S. is actively easing monetary policy and increasing fiscal stimulus in a strong economy and job market. This could push up inflation, which would likely increase longer term interest rates. This could result in multiple compression for stocks and potentially a reduction in economic growth. The market assumption regarding interest rates is for several short-term rate cuts by the Fed and a well-behaved longer-term rate structure that would be positive for mortgage rates and housing. If this assumption proves wrong, the broader economy and the stock market could experience significant disruption.

Political risk is also rising, both domestically and globally. We are experiencing increasing political uncertainty in the U.S. given the unpredictable actions being taken by the White House. The potential loss of Fed independence, tension between the U.S. and Europe over Greenland, and the ongoing conflicts in Russia/Ukraine and in the Middle East could have meaningful long-term consequences. Any unanticipated military action in Taiwan, or Cuba would certainly increase global equity risk premiums, as would an escalation of unrest in Venezuela.

In summary, we maintain an overall positive view of the U.S. economy and markets but are cognizant of the risks that could alter our outlook. We appreciate your interest in Eastern Shore, and we wish you health, success, and happiness in 2026.



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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COMMENTARY

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