EASTERN SHORE
CAPITAL MANAGEMENT
A Division of Moody Aldrich Partners

Smid 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

Smid Cap Equity Net Performance Statistics Since Inception (12/31/2012 – 9/30/2026)*

	Annualized Alpha (%)	Upside Capture (%)	Downside Capture (%)	Sharpe Ratio	Information Ratio
1 Year	-6.1	103.3	126.1	0.5	-0.8
3 Year	-0.3	98.5	101.9	0.7	-0.2
5 Year	-3.7	92.2	105.8	0.0	-0.8
10 Year	0.3	94.5	96.1	0.4	-0.1
SI*	0.1	95.5	97.6	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

The Eastern Shore Smid Cap strategy underperformed the Russell 2500 in a down market during the third quarter of 2026. Our quality-oriented process generally causes the strategy to outperform during market declines, 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 smid 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. Smaller 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† (Annualized)
	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Smid Cap Equity (Gross)	-11.3	10.5	13.7	17.8	4.3	11.5	11.9
Smid Cap Equity (Net)	-11.5	9.8	12.7	16.8	3.4	10.5	10.9
Russell 2500	-6.4	14.9	17.4	17.7	7.5	10.8	11.4
Strategy Excess Return (Gross)	-4.9	-4.5	-3.7	0.1	-3.2	0.7	0.5
Strategy Excess Return (Net)	-5.1	-5.1	-4.7	-0.9	-4.1	-0.3	-0.5

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Third Quarter 2026 Results

During the third quarter of 2026, the Eastern Shore Smid Cap Equity Composite delivered a return of -11.32%/-11.52% gross and net of fees, underperforming the Russell 2500's -6.37% return.

The Russell 2500 Value outperformed the Russell 2500 Growth by approximately 600 basis points during the quarter – a dramatic reversal from the previous quarter. Lower beta companies significantly outperformed during the quarter, 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 Improving Quality component modestly outperformed Established Quality during the quarter.

The most significant positive sector contributors to the Smid Cap Equity strategy's relative performance during the third quarter were Real Estate and Consumer Discretionary. Real Estate sector performance benefitted from stock selection across a range of property types, while Consumer Discretionary performance was buoyed by outperformance of outliers among retail and appliance 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 data storage firm Everpure (P). Crinetics announced its acquisition by competitor Vertex for a substantial premium early in the quarter, while Everpure benefitted from a strong earnings report paired with a significant second hyperscaler win. Additional notable contributors include cloud data management solution provider Rubrik (RBRK), biotechnology company Protagonist Therapeutics (PTGX), and semiconductor firm Semtech (SMTC).

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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 foundational technology solution provider MKS (MKSI) and specialty metals firm Carpenter Technology (CRS). MKS shares declined amid a broad semiconductor and technology sector sell-off, while the sell-off in Carpenter Technology's shares appears to have been caused by concerns regarding valuation following the stock's substantial 1-year climb. Other significant detractors included infrastructure construction service firm MasTec (MTZ), NAND flash technology company Sandisk (SNDK), and convenience store/gas station business Casey's General Stores (CASY). We sold Sandisk 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 held the strategy's exposure to Established Quality steady at approximately 59% while maintaining Improving Quality's weight at 41%. As always, this allocation was driven by the relative attractiveness of the opportunity set in each area rather than a reflection of a top-down view.

Q3 2026 Top 5 Contributors†

Security	Ticker	Avg. Weight (%)
Crinetics Pharmaceuticals, Inc.	CRNX	0.92
Everpure, Inc.	P	0.72
Rubrik, Inc.	RBRK	0.85
Protagonist Therapeutics, Inc.	PTGX	1.64
Semtech Corp.	SMTC	0.45

Q3 2026 Top 5 Detractors†

Security	Ticker	Avg. Weight (%)
MKS Inc.	MKSI	1.3
Carpenter Technology Corp.	CRS	1.7
MasTec, Inc.	MTZ	1.0
Sandisk Corp.	SNDK	0.1
Casey's General Stores, Inc.	CASY	1.8

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Outlook:

The overall outlook for the U.S. economy remains solid, with most economic data points 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.



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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Past performance is not necessarily indicative of future results. This document includes returns for the Russell 2500 index. The Russell 2500 Index measures the performance of the small to mid-cap segment of the U.S. equity universe, commonly referred to as "smid" cap. The Russell 2500 is a subset of the Russell 3000® Index. It includes approximately 2500 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.

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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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