

“When You Come to a Fork in the Road, Take It”

The quote above was attributed to Yogi Berra, the New York Yankee legend who passed away in late September. He was a great man, a war hero, and one of the greatest baseball players of the twentieth century. He is well known for his famous quotes that seem to make little sense or all the sense in the world, depending on your perspective. We found the fork in the road quotation appropriate this quarter given the debate raging over the Fed’s decision-making with regard to interest rates. Will it be ZIRP (zero interest rate policy) indefinitely or higher rates? Which road should we prepare for? In evaluating the situation, we try to filter out the noise and to focus on the overall health of the U.S. economy and the fundamentals and valuations of the companies that we own. Our perspective on rates is that we are effectively at negative real rates today and a 25-50 basis point increase over the next 6-12 months is still extremely accommodative and will not hurt our domestic economy. We did not see the need at this point to make any major adjustments to our portfolio based on the Fed decision.

During the third quarter volatility spiked to a level not seen since 2011. We see three main contributors to this: the China/global growth scare, pending changes to U.S. interest rate policy, and a lack of a true correction in the markets for several years. We are bottom-up stock pickers, but we maintain an awareness of macro events that might influence our portfolio’s performance. Regarding China, a slowdown there will have an impact on global growth, but only a small effect on the U.S. given our low percentage of overall exports to China and emerging markets in general.

With regard to interest rates, several Fed Governors along with Chair Janet Yellen have outlined plans for an extremely slow and deliberate normalization of rates that is likely to take years. While we are likely to see some market dislocation when the first rate hike is announced, we expect that the market will digest the news and move on.

We are in the midst of a correction as we write this commentary. Painful as it is, we anticipate that this pullback will ultimately prove beneficial to the longer term health of the market. We will take advantage of the current volatility to purchase higher-quality stocks at more attractive prices.

Small Cap Equity Strategy Performance

	Total Return (%) as of September 30, 2015					
	3 Month	YTD	1 Year	3 Year*	5 Year*	Since Inception* (3/1/2007)
ESCM Small Cap Equity (Gross)	-9.27	-3.54	4.80	14.54	15.82	10.61
ESCM Small Cap Equity (Net)	-9.33	-3.77	4.47	14.11	15.15	9.81
Russell 2000 Index	-11.92	-7.73	1.25	11.02	11.73	5.33

*Performance periods greater than one year are annualized.

The Eastern Shore Small Cap Equity Strategy posted a return of -9.27% gross of fees (-9.33% net) for the quarter, outperforming the Russell 2000’s -11.92% return by approximately 265 basis points gross of fees. The strategy’s emphasis on quality holdings – companies with higher profitability, lower debt, and more stable earnings – contributed to its downside protection during the quarter, as it has throughout the strategy’s 8+ year history. Year to date, the strategy is well over 400 basis points ahead of the Russell 2000 gross of fees, with a -3.54% gross return (-3.77% net) vs. -7.73% for the Russell 2000. As we have mentioned in the past, the strategy can be expected to generate its strongest relative performance during volatile and uncertain markets such as this.

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From an attribution perspective, the strategy delivered its strongest outperformance in the Healthcare, Producer Durables, and Materials sectors.

Healthcare was one of the hardest hit sectors with biotechnology and pharmaceutical companies most impacted. We were underweight these industries by a third on average during the quarter, resulting in strong relative performance within the sector. We lowered these industries from 8% of the portfolio to 4.6% over the course of the quarter, and acted on our view that the market was giving too much credit to certain companies ahead of important catalytic trial dates. While these allocation moves proved beneficial to relative performance, their contribution was dwarfed by the impact of individual stock selection. Holdings such as biopharmaceutical firm ZS Pharma (ZSPH), which we sold when it spiked up over 25% on a rumor that it was being acquired, contributed meaningfully to the strategy's outperformance for the quarter.

Within the Producer Durables sector, our transportation holdings continue to deliver strong results. JetBlue Airways (JBLU) provides a good example of the type of holding our process draws us to, specifically one with a corporate culture that is conducive to improvement in return on invested capital. The firm's new management team has implemented changes that have driven improvements in margins and return on invested capital, causing the stock price to appreciate approximately 27% during the quarter. We sold our position towards the end of September as JetBlue is now too large to be considered a small cap stock.

Our results within the Materials sector received a boost from the July announcement of the acquisition of aerospace/automotive composite manufacturer Cytec Industries (CYT) for a 29% premium. We had held this stock in the portfolio since late 2012, and believe that it exemplifies the characteristics we look for among improving quality holdings: prudent capital allocation decision-making by the management team caused the firm to experience a meaningful positive inflection in terms of margins and return on equity, developments which were reflected in the stock's dramatic price appreciation over time.

The examples above illustrate the important role that improving quality holdings play within the portfolio. Companies that post persistently high quality results or show meaningful improvements in their quality metrics do not go unnoticed by the markets. They often attract interest from strategic or financial buyers or grow out of our capitalization range. We believe that our inclusion of these improving quality holdings is a meaningful differentiator in the way we look at the quality spectrum.

Outlook

The third quarter serves as a reminder of how swiftly volatility can escalate, and we remain vigilant in monitoring our portfolio for both risks and opportunities. There is a lot to consider going into the fourth quarter and 2016, to include the path of interest rates, China and emerging markets, Russia, developments in the Middle East, and the ongoing politics and posturing that accompany the U.S. Presidential cycle. For example, recently the healthcare sector and the biotechnology and drug industries have been negatively impacted by comments regarding perceived unreasonable drug price increases. We are evaluating a range of different scenarios which hinge upon the outcome of next year's election. All of these influences could potentially alter the risk profile of financial markets. We are continually assessing our portfolio's positioning from a sector and industry perspective, and are at all times emphasizing companies with durable business models that can consistently produce solid earnings and cash flow.

We would not be surprised if the market staged a fourth quarter rally or became range-bound for the remainder of the year. We continue to believe that the U.S. is the best house in a stagnant global neighborhood, and that small cap firms have an advantage over large given their lower exposure to international markets and currencies. Small cap companies have offered superior revenue and earnings growth vs. large for the past

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few quarters, and we expect this trend to continue into 2016. We believe that the U.S. economy remains on track to produce solid 2-3% GDP growth in 2015.

We are not making any drastic changes to the portfolio at this time. We will continue to utilize our proven investment process to help us build a high quality portfolio of well-run companies with durable business models.

It has been nearly three years since the official launch of Eastern Shore Capital Management, and we are proud of what we have accomplished so far. Our performance has remained strong in both absolute and relative terms, and our results continue to rank at the top of our peer universe since the strategy's March 2007 inception. We appreciate the support we have received from organizations we have built relationships with over the past three years, and our clients in particular: we consider it an honor to manage money on your behalf. Please do not hesitate to contact us if you have any questions, or if you would be interested in additional information.

Thank you for your interest in and support of Eastern Shore.

ROBERT C. BARRINGER, CFA
CIO, Partner & Portfolio Manager
rbarringer@eshorecap.com

JAMES M. O'BRIEN, CFA
Partner, Portfolio Manager
jobrien@eshorecap.com

SARAH L. WESTWOOD, CFA, CMT
Partner, Portfolio Manager
swestwood@eshorecap.com



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The Eastern Shore Capital Management Small Cap Equity Composite contains all fully discretionary equity accounts managed in the Small Cap Equity style which seeks capital appreciation through stock selection by investing in 70-120 stocks with market capitalizations approximating those of the Russell 2000 index at purchase. For comparison purposes, the Eastern Shore Capital Management Small Cap Equity composite performance is measured against Russell 2000 index. There is no minimum account size for this composite. Previous to July 1, 2014 The Eastern Shore Capital Management Small Cap Equity Composite was known as the The Eastern Shore Capital Management Small Cap Core Composite. The strategy is managed by Eastern Shore Capital Management, a division of Moody Aldrich Partners.

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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.

For the period of March 1, 2007 through October 26, 2012, the performance presented occurred while Robert Barringer was the strategy's sole Portfolio Manager at FBR Asset Management. There is no guarantee that returns achieved by FBR Asset Management will be generated by Eastern Shore Capital Management.

Returns are presented gross and net of management fees and include the reinvestment of all income. Beginning March 1, 2007, net of fee performance was calculated by retroactively applying the composite fee schedule. Net of fee performance after October 26, 2012 is calculated using actual management fees. More information about such fees and expenses applicable to a client's investment are generally available in the Form ADV Part 2A of Moody Aldrich Partners, LLC, which is publicly available and upon request and provided to every client (along with Form ADV Part 2B) prior to investment. Actual returns may vary from the performance information presented. All performance numbers are expressed in US Dollars. This product does not use leverage, derivatives or short positions in its portfolio. †2007's return represents a partial year beginning at the inception of the fund on 3/01/2007 and is not annualized.

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