



Eastern Shore’s approach exploits the **quality anomaly** by investing in stocks at two stages of development: **established quality** stocks and **improving quality stocks**, adjusting the balance between the two based on opportunity set and market environment. The team’s **stock selection technique** is based on the following four components: analysis of business model/corporate culture, length of runway/life stage of company, persistence or improvement in quality fundamentals, and continual assessment of expected value.

Seaworthy

“A ship in harbor is safe — but that is not what ships are built for.” — John A. Shedd

Performance Statistics: Since Inception (3/1/2007 - 9/30/2017)*

	Alpha Annualized	Upside Capture	Downside Capture	Sharpe Ratio	Information Ratio
ESCM Small Cap Equity	5.3	99.2	85.3	0.7	0.9

2017 has presented a challenging environment for active managers. While low correlation environments are typically favorable for stock pickers, the cross currents of macro developments, fundamentals, and valuation have presented investors with no shortage of conflicting signals and potential hazards. We are pleased to have navigated through these conditions successfully thus far this year, and feel that a deeper discussion of the environment is warranted to provide additional context for the strategy’s positioning.

While the U.S. Federal Reserve continues to unwind its balance sheet in a slow deliberate way, the European Central Bank and Bank of Japan continue with their large quantitative easing programs. Because of this, interest rates and liquidity remain very accommodative for global growth. PMIs continue to strengthen globally, particularly in Europe. In the U.S. the September ISM manufacturing Index reached a 13-year high of 60.8. Measures of orders, production and employment all appear strong. The ISM non-manufacturing (services) Index which measures about 70% of the economy was 59.8, the highest since August of 2005.

We are starting to see synchronized global growth for the first time in many years. Another contributor to this strength is the 50% drop in energy prices since 2014, which represents a huge cut in costs for consumers and many businesses. We are also experiencing a global wealth effect as asset prices have reached multi-year highs, driving consumer confidence. Chinese bank lending has also increased sharply, stimulating their economy and creating more demand for many goods and services. While this rise in lending could present issues in the future, for the time being it is helping to fuel ongoing growth.

From a geopolitical perspective we continue to monitor the escalation in tension with North Korea and the challenging political environment in the United States. The market appears to be ignoring the threats of Kim Jong-un, and largely shrugging off developments in Washington as well – though investors continue to watch closely for indications that a tax bill might be forthcoming. While volatility has been conspicuously muted in recent months, developments in either of these areas could cause it to spike upwards.

Recent positive estimate revisions of sales and earnings for the S&P 500 and S&P 600 portend a robust economy. Company management teams having been projecting increasing confidence that business conditions are stable to improving. Multiple data points suggest that overall the fundamentals of the economy remain solid to improving. This provides a stabilizing force for financial markets.

*This information is presented as supplemental to the fully compliant GIPS® presentation, which is available upon request at information@eshorecap.com or by calling (781) 639-2750. Statistics are calculated using gross of fee performance. Performance Statistics are calculated using the Russell 2000 index. The risk free rate used to calculate the Sharpe ratio is the Citigroup 3-month T-Bill.



The question of valuation has increased in complexity as the market has continued to rise. We have all seen articles that blame central bank policies for making the market expensive. While accommodative policies have undoubtedly contributed, many other factors are also in play. The market is trading near historical multiples, but we must bear in mind that conditions today are very different than they were in 2000 or 2007.

Interest rates remain low for structural reasons, and while they may go up some they are likely to stay well below historical averages. Inflation continues to be tame, and this may be structural as well given the influence of the Amazon effect and technology. Interest rates and inflation are key inputs into many valuation models, and reducing assumptions for them in these models may make valuations appear more reasonable. Additionally, we are seeing accelerating GDP growth driving estimates of sales and earnings higher for companies.

We tend to be conservative in valuing companies in our portfolios. We have been trimming holdings that have performed well and are closer to fair value, and have been adding to names where we see more upside. We view the market as fairly valued overall, but continue to find attractively valued opportunities beneath the surface. We remain discriminating with regard to what established and improving quality companies we own and when we own them. This approach has served us well for over a decade, and we are confident that our process will continue to deliver competitive results across both up and down markets going forward.

Small Cap Equity Strategy Performance

Total Return (%) as of September 30, 2017							
	3 Month	YTD	1 Year	3 Year**	5 Year**	10 Year**	Since Inception** (3/1/2007)
ESCM Small Cap Equity (Gross)	7.84	16.28	25.33	14.57	16.61	11.68	12.29
ESCM Small Cap Equity (Net)	7.73	15.91	24.79	14.13	16.16	10.93	11.54
Russell 2000 Index	5.67	10.94	20.74	12.18	13.79	7.85	7.63

**Performance periods greater than one year are annualized.

During the third quarter of 2017, the Eastern Shore Small Cap Equity Strategy rose 7.8% gross of fees (7.7% net), outperforming the Russell 2000's 5.7% return by approximately 2% net of fees. Year-to-date, the strategy has outperformed the Russell 2000 by approximately 5% net of fees (16.3%/15.9% gross/net of fees vs. the Russell 2000's 10.9%).

Lower ROE and lower market cap stocks slightly outperformed other groups during the quarter. This represented a slight headwind for the strategy given that its quality orientation typically results in a portfolio that is biased towards higher ROE and higher market cap companies. However, strong stock selection across the quality and market cap spectrum more than offset the impact of this allocation effect.

As noted earlier, correlations between stocks remained low during the quarter. Return dispersion across sectors appeared deceptively low for the quarter, as sector returns varied more widely on a month by month basis. While the spread between the top and bottom performing sector for the quarter was under 10%, it was over 12% for the month of August and over 17% for the month of September. Dispersion was wide at the industry level as well: within the Russell 2000 Consumer Discretionary sector, for example, Restaurants were down over 6% for the quarter while Casinos were up over 17%.

The strongest contributors to the strategy's relative performance during the quarter was the Technology sector, though three other sectors – Consumer Discretionary, Financial Services, and Materials – each contributed approximately 40 basis points to the strategy's relative return as well.

CONTINUED »



Within Technology, strong stock selection among semiconductor companies was the main driver of outperformance. As a reminder, the strategy has maintained an overweight to semiconductor-related companies given that these firms have been experiencing a decoupling from the PC cycle as a consequence of the incorporation of semiconductors into a broadening array of products.

Within the Consumer Discretionary sector, the strategy has derived strong results by holding companies that are well insulated from the Amazon effect. Malibu Boats (MBUU) represents a strong example of such a holding: the firm produces recreational boats, and has benefitted from the shift in consumer spending from material possessions towards experience-oriented expenditures. The strategy has remained underweight in specialty retail, where we continue to see significant secular and regulatory risks. The shift to online shopping has led to significant declines in foot traffic to stores, resulting in the closure of many stores and malls. Additionally, the protectionist mentality of the Trump administration could lead to regulatory developments such as border taxes which could further weaken these businesses.

The strategy benefitted modestly from having no exposure to the Consumer Staples sector, as this sector underperformed all others for the quarter. We remain cautious on this area given that we feel these names trade at premium valuations due to their historical low volatility. In recent quarters many of these names have experienced large swings in performance given the uncertainty associated with Amazon's entry into this area and changing consumer behaviors. While we continue to seek out opportunities that could offer a compelling trade-off of risk and return, at present we feel most comfortable remaining void in this area.

The sole sector detractor for the quarter was Health Care. The strategy continued to see strong results in this area from the two themes we have been emphasizing among drug companies, outsourcing and heightened FDA approval rates driven by improved science, increased transparency, and exciting and promising new therapies. Several holdings leveraged to these themes were up over 30% for the quarter. The positive impact of these stocks was offset by the underperformance of a small number of firms that experienced company-specific setbacks during the quarter.

The strategy's established quality component currently represents approximately 51% of its weight, with the balance in improving quality and less than 2% in cash. Valuations among established quality names have been stretched in some areas, causing the opportunity set among improving quality companies to look more compelling. As a result, the weight of the established quality component remains below its long term average of approximately 62%. The balance of the two components could shift back towards its historical norm if more attractively valued opportunities became available on the established quality side.

Q3 Top 5 Contributors		
Security	Avg. Weight (%)	Contribution (%)
Entegris, Inc. (ENTG)	1.97	0.56
FibroGen, Inc. (FGEN)	0.77	0.42
Insmmed Incorporated (INSM)	0.53	0.42
Littelfuse, Inc. (LFUS)	2.06	0.37
Neurocrine Biosciences, Inc. (NBIX)	1.19	0.36

Q3 Top 5 Detractors		
Security	Avg. Weight (%)	Contribution (%)
NuVasive, Inc. (NUVA)	0.85	-0.35
Spirit Airlines, Inc. (SAVE)	0.34	-0.23
Clovis Oncology, Inc. (CLVS)	1.37	-0.22
Cambrex Corporation (CBM)	2.25	-0.21
Dorman Products, Inc. (DORM)	0.38	-0.18

Outlook

Given the evidence we have seen of better economic growth in most regions of the world, we have confidence from a fundamental perspective that the markets can continue on a positive path. Our optimism is somewhat tempered as to the degree of upward potential attainable in the

CONTINUED »



near to medium term, however. Markets have come a long way in the past 12 months and we would not be surprised to see stock prices consolidate or volatility escalate. Despite strong economic data geo-political developments could disrupt market performance in the U.S. and other regions of the world. The political situation in the U.S. remains challenging, and uncertainty prevails as to whether tax reform or a new healthcare bill can be passed. New trade regulations proposed by the administration could also represent a negative for many industries.

On the positive side, management teams in general have stayed remarkably focused and resilient, and have been prudent in managing their businesses and controlling what they can control. Legislative progress in areas such as tax reform would be a net positive.

In terms of our current positioning, we maintain a significant exposure to semiconductor related companies. Our thesis in this area continues to play out: due to the proliferation of mobile devices, the internet of things, industrial automation, self-driving autos, etc., the addressable market for semiconductors has grown exponentially. These companies have therefore experienced a meaningful decoupling from the P.C. replacement cycle that had driven volatility in this space in the past. The industry has become less cyclical and companies are focusing on specific niches and technologies that are driving margins and returns higher. The group is in the midst of getting re-rated higher because of these positive attributes. The strategy also maintains significant exposure to aerospace companies, specifically component manufacturers that sell to other suppliers or OEMs Boeing and Airbus. These businesses have many of the quality characteristics that we look for: high barriers to entry in the form of FAA certification, strong visibility conferred through multi-year contracts, and high returns on invested capital and cash flow.

Overall we continue to own and look for high quality businesses that hold up well in volatile times and businesses undergoing meaningful positive change that is not yet reflected in their valuation. Our focus on the risk/return profile of every opportunity enables us to build a solid portfolio that is well prepared to weather a variety of market conditions. We appreciate your support and welcome your questions and feedback.

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

The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed do not represent an account's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings. It should not be assumed that any of the securities transactions or holdings discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein. A complete list of all securities recommended during the preceding year is available upon request. Past performance is not indicative of future results. The calculation methodology for the contributions to performance and a list showing all holdings' contribution to the overall strategy's performance during the measurement period is available upon request at information@eshorecap.com or by calling (781)-639-2750. The information is presented as supplemental to the fully compliant GIPS® presentation, which is available upon request.

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 70-100 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.

Eastern Shore Capital Management claims compliance with the Global Investment Performance Standards (GIPS®). Eastern Shore Capital Management is a division of Moody Aldrich Partners, LLC. Moody Aldrich Partners, LLC is an independent SEC registered investment adviser. The firm maintains a complete list and description of composites, policies for valuing portfolios, calculating performance and preparing compliant presentations, which is also available upon request.

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.

The information contained in this document is subject to updating and verification and may be subject to amendment. No representation or warranty is expressed as to the accuracy of the information contained and no liability is given by Eastern Shore Capital Management as to the accuracy of the information contained in this document and no liability is accepted for any such information. This document and the information contained within it are confidential and intended solely for the use of the individual or entity to whom they are addressed. If you are not named addressee you should not disseminate, distribute or copy this document or any of the information contained within it.

If you are not the intended recipient you are notified that disclosing, copying, distribution or taking any action in reliance on the contents of this information is strictly prohibited.