

Responsible Investment Process

January 2020

Purpose

Riverwater Partners believes Responsible Investment is in the best interest of our clients, our firm, our communities, and our society. Therefore, we integrate Environmental, Social, and Governance (ESG) policies, practices, and outcomes, alongside more traditional investment criteria, when we evaluate potential investment candidates. We are long-term investors; therefore, we believe it is imperative to consider the long-term risks and opportunities which Environmental, Social, and Governance issues may present to the businesses in which we invest.

Many believe one must sacrifice financial gain to achieve real economy gain; however, history has shown that companies that incorporate ESG policies and practices into running their businesses generate superior returns versus companies that do not. These better business practices generally result in meaningful financial gain in the form of increased revenue (as customers want to support the efforts) and/or decreased expenses (as a result of lower energy consumption, for example) or potential liability (reputation risk), resulting in superior returns over the long term.

Riverwater Partners seeks best-in-class ESG efforts generally; additionally, Riverwater invests in companies that have not yet made a significant commitment to ESG (perhaps because they are unaware of its benefits to all stakeholders), if they will engage with us regarding improving their ESG policies and practices. This ESG momentum is intended to bring about enhanced real economy benefits, and ultimately, better financial outperformance.

Riverwater Partners Three Pillar Approach to Responsible Investment

Riverwater Partners uses a Three Pillar Approach when evaluating a company's ESG efforts:

I. Due Diligence

Riverwater Partners screens for certain negative business practices and therefore avoids companies that derive a significant portion of their profits from tobacco, pornography, illegal drugs, gambling, and unconventional weapons.

Riverwater Partners analysts and portfolio managers research current ESG efforts of companies, gathering information from sustainability reports, financial statements, corporate disclosures, and press releases. In addition, we inquire about ESG efforts when we speak with management directly.

Riverwater Partners considers a company's ESG efforts, and willingness to work toward greater ESG efforts, as part of its decision to establish, maintain, or eliminate a position. We take into account a company's industry, size, age, peers, and willingness to do more, when evaluating their ESG policies and practices. For example, a Financial Services company may not be able to make as significant an impact with its Environmental efforts as an Industrial company can; however, its Social and Governance efforts may have significant impact.

Riverwater Partners maintains a proprietary database of the ESG efforts of the companies in which we hold positions, those under consideration, and peer companies. Companies receive points for having a sustainability report, for inclusion in ESG Indices, and for the nature of their business being socially responsible, in addition to these ESG factors:



Companies receive a score (maximum of 25) reflecting their ESG efforts. Scores are then weighted by industry, allowing comparison of efforts based on industry relevance. Scores are then weighted by company size, recognizing that ESG efforts are costly and time consuming, particularly for smaller companies. Data is used to compare companies and track progress toward ESG impact.

Riverwater Partners screens outside managers used for market niches which we don't invest directly (i.e. fixed income, emerging markets) for ESG. Using publicly available information, and through interviews with external managers, we consider an external manager's investment policy in order to determine if their practices align with our objectives. This includes their definition of ESG, how the ultimate decision makers incorporate ESG, and financial and real economy impact.

Riverwater Partners incorporates specific client-mandated preferences regarding ESG, as needed.

II. Engagement

Riverwater Partners engages company Executives and Boards regarding their ESG efforts, or lack thereof, in order to assist them in understanding the benefits of, and in initiating and/or improving their ESG efforts. It is our goal to promote greater impact over time with respect to improved corporate governance, fair treatment of all stakeholders, improved environmental practice, and ultimately, superior financial outcomes and real economy benefits.

Riverwater Partners documents and follows up on our engagement efforts. If a company is unresponsive or unwilling to improve its ESG efforts, we will consider selling our position.

Riverwater Partners votes proxies for portfolio companies according to our Proxy Voting Policy, which favors management and shareholder resolutions that align with our ESG views.

III. Collaboration

Riverwater Partners collaborates with local, regional, and national organizations to inform and become informed regarding ESG issues and practices, and to increase our collective impact in moving companies toward business practices that reduce risk and enhance opportunity, benefit all stakeholders, and ultimately result in superior financial performance and real economy benefits. Riverwater Partners is a member of US SIF, CDP Worldwide, Seventh Generation Interfaith Coalition for Responsible Investment, ICCR, Ceres, and is a signatory of United Nations PRI. In addition, Riverwater Partners is a Certified B Corp. Membership in these organizations provides us with thought leadership on best practices, current trends, and impact, which enables us to focus our ESG lens effectively.