

Q2 2022 BLUE Quarterly Review

By Connor Doak

Performance

All of the Riverwater BLUE models had negative absolute returns during the second quarter yet outperformed their respective benchmarks on a relative basis. With the broad stock market down 15.5% and the aggregate bond market down 4.7%, once again, there was no place to hide on an absolute basis. As expected, the more aggressive models performed the worst, and the most conservative model, Riverwater BLUE Sustainable Income, was the best performing model during the quarter.

As stated above, all models outperformed their benchmarks. The reasons for the better relative performance are two-fold. First, the bond positions within these portfolios tend to have less interest rate sensitivity. When interest rates rise, having less interest rate exposure helps limit the downside in bond prices. This is exactly what happened over the last 3 months. The other large contributor to performance was the underlying performance of our stock funds. Many of the mutual funds used within the portfolio have strategies that place more of an emphasis on preserving capital when markets sell off sharply.

However, over the trailing 12 months, the results are more mixed. The two bond-heavy models are outperforming, also primarily due to the lower exposure to rising interest rates that has been caused by inflation. The more aggressive stock-focused models are underperforming, primarily due to the performance from the international stock funds. These funds have struggled relative to their indexes due to the exposure many of them have to emerging markets and lower weightings to the best performing sector -energy. Taking a step back to an even longer time frame, all the models are outperforming their respective blended benchmarks, primarily due to the underlying investment manager performance.

Environmental and Social Impact

Despite the turmoil in markets over the last 6 months, one thing that never falters is the Riverwater BLUE portfolio's commitment to making a positive impact on people and planet. One example is within the Domini Impact International Equity fund's investment in Randstad. Randstad is a Netherlands based company providing HR services and flexible work arrangements. Following the Russian invasion of Ukraine, Randstad launched an employment portal to connect refugees throughout Europe with job openings translated into Ukrainian, thus reducing a large barrier for work faced by many of these refugees.

On the environmental side, the TIAA-CREF Core Impact Bond fund invested in the first of its kind Wildlife Conservation Bond issued by the World Bank. The proceeds from this bond are used to support the efforts to conserve endangered species, specifically black rhinos, that play a critical role in maintaining the biodiversity of the ecosystem. What makes this bond unique is that the total proceeds from the loan may increase depending upon the success of the program. This provides further upside potential if various conservation criteria are met, contrary to most bonds that only pay out the original loan amount plus interest.

Thank you for your ongoing support of Riverwater Partners and the Riverwater BLUE portfolios.

Disclosures:

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