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S1 01:03 Thank you for joining. We will be starting the webinar in about two minutes.

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S1 02:37 Hello, this is Matthew Drvaric. Thank you for joining us this afternoon and welcome to the Riverwater Partners Q1 2022 webinar. All participants will be in listen-only mode. To review the agenda for the call today, I will provide a brief firm update. Given it is our inaugural call. Adam Peck, our Cofounder and Chief Investment Officer, will walk through our philosophy and process, the economic environment, address drivers of performance and walk through the portfolio decisions during the quarter. Cindy Bohlen, our Chief Mindfulness Officer, will discuss our current ESG efforts. After today's presentation, there will be an opportunity to ask questions. If you are at your computer, please submit your questions in the questions chat box located at the bottom of your webinar control panel. Please note this event is being recorded and the replay will be made available. Riverwater Partners was founded in 2016 in Milwaukee with the mission statement, "To make the world a better place by growing wealth through sustainable investing." We are proud to be a signatory to the United Nations Principles of Responsible Investment, a certified B Corporation, and 100% employee-owned. The firm's unique differentiator is our approach to ESG in the small value space through focused portfolios of 20 to 35 holdings. Our smidge strategy is the only offering in the small value category with a five year track record. Our diverse investment team of four professionals has over 60 years of combined investment experience spanning different generations, experience with both value and growth discipline, and personal belief. In addition to team diversity, each member is personally invested alongside our clients. And we believe these factors are critical to the results that are generated. During the quarter, we continued to grow our team to 11 by welcoming a new client services associate, Elizabeth Stangel. As an emerging manager, we continued to invest in new software focused on distribution, and are now available on the investment platform. We finished the quarter with about 850 million in firm assets, no debt on the balance sheet. At this time, I will turn it over to Adam to introduce our philosophy and process. Adam.

S2 04:40 Right. Thank you, Matt. And thank you all for joining us. Happy to have our inaugural update call again. I'm Adam Peck, and I'm the lead portfolio manager on both of our small-cap value products. In the most simplified form, our philosophy is we're business owners, not stock traders. We call our philosophy the three-pillar approach, and that's buying superior businesses with exceptional management teams at a fair price, with companies that are either engaged or are open to ESG metrics. So what's a superior business? At the end of the day, a superior business is one that has high economic returns, whether that's returns on invested capital [inaudible]. And how do you get high returns? Essentially, it's like Warren Buffett's castle analogy with the moat around it. You want to have some type of competitive advantage, whether that's driven by [inaudible] forces, which are forces like rivalry in an industry, or private substitution, or barriers to entry, recurring revenue. We're just looking for great businesses. Secondarily, you want distinguished management teams. And at the end of the day, boil that down to just two main points. One, we want management teams to think and act like owners. And so, how does that happen? Well, either they have large investments in the companies themselves, or they have a high multiple of stock owned versus their salary. And secondarily, we want management teams that are good capital allocators. And as a small-cap company, one of the most important jobs of a CEO is to allocate capital. Any one of us were put in charge of Coca-Cola, it would be very difficult for us to bankrupt Coca-Cola. But when put in charge of a small-cap company, it's not that difficult to get wide-eyed, lever up the balance sheet with a lot of debt to do an acquisition, and to really ruin capital returns. So those are what we were looking for at the end of the day in management team.

S2 06:33

And then attractive valuation, we look at valuation six ways to Sunday. We will analyze price-to-earnings ratios, price to sales, EV-to-EBITDA. We'll look at some of the parts. We compare companies to their valuation history to competitors in the space. Maybe we're looking for hidden assets. At the end of the day, though, what we really want to see for the vast majority of the companies that we invest in is do they generate free cash? Does it grow over an economic cycle? And can they fund their business without having to source capital from the equity or debt markets? So moving on to our process, we start with a universe of roughly 3,300 companies that are between 250 million and 20 billion. Typically we're buying companies between 250 million and probably around high single digits to 10 billion, but we'll let them grow up to 20, maybe plus 20 billion. Those 3,300 companies actually shrink down to around 800 when you look for companies that over an economic cycle, call it 10 years, can grow their sales just more than 0% and earn their cost of capital, which we roughly say, return on equity perspective is about 10%. So from 3,000 to 800. From those 800, we meet with hundreds of management teams a year. We read as much as possible. We work with Wall Street looking at their street research, going to their conferences, and from that, we create a watch list of around a 100 names, which then filters down into a portfolio. But the way it gets to the portfolio is the [inaudible]. The research team meets weekly, three times a week to discuss every stock position, to discuss new buys, companies we want to sell or trim. And generally, we are looking for unanimous decision. And historically, we've had a unanimous decision in every trend. So those 100 stocks, basically, get boiled down to a focused portfolio of 30 names. And that is essentially our bottom-up process. We like to say that we're 80 to 90 percent bottom-up with 10 to 20 percent top-down overlay, which I will get into momentarily when I cover the macro. So with that, I am happy to introduce Cindy Bohlen, our Chief Mindfulness Officer. Cindy is a leader in the small-cap ESG space. She's sat on committees at USF. She actually chairs a local affiliate of ICCR. And for us, she leads all our engagement efforts, all our ESG efforts, as well as both healthcare and technology. So with that, I'm happy to introduce Cindy.

S3 09:05

Thank you, Adam, and thank you all for joining our call today. As Adam said, I'm Cindy Bohlen. I'm the Chief Mindfulness Officer and research analyst on the team at Riverwater Partners. I lead our sustainable investment practice or ESG. And for this inaugural webinar, I'd like to give you an overview of our methodology. So we have developed a three-pillar approach to integrate ESG into our investment practice. We use due diligence to understand company's current ESG policy and practice. We use engagement to promote improvement over time, and we use collaboration with thought leaders to inform our practice and also to magnify our impact. So let me start with our first pillar, which is due diligence. And at Riverwater, we understand that ESG factors have the potential to create material risk and or opportunity for companies. And therefore, ESG is an important consideration in the evaluation of potential investment candidates right at the start of the process. Our portfolio managers and analysts perform primary research on companies, ESG practice, by using publicly available documents like proxy statements, annual reports, sustainability reports of course. We also engage in dialogue with companies about their ESG efforts, and we use research from some of our partner organizations like CDP and ICCR. Riverwater has developed a 25-point proprietary scoring system for evaluating the ESG efforts of companies being considered for client portfolios. We look at six environmental factors, which can include things like greenhouse gas emissions, water stewardship, a focus on supply chain environmental practices. We look at six social factors, things like worker fair treatment and diversity, equity, inclusion. Those types of things lead to strong corporate culture. We also look at things like product safety and supply chain human rights topics. We additionally look at six governance factors including executive and board diversity. Also independence of the chair of the board and CEO roles. And as Adam mentioned earlier, stock ownership and executive pay tied to performance, which indicate alignment with stakeholders. On top of those 18 points, we give points for sustainability reporting, and we also give a point for inclusion in other ESG indices as an indication or evidence that other sustainable investors view this company's efforts as sustainable. And very importantly, up to five points are awarded for a company's business, by its very nature, providing some type of social or environmental good, believing that a company's reason for being leading to these positive outcomes for the environment and society has significant value. So after we calculate a score out of 25 points, we weight each company's score based on its industry. And we weight more heavily those factors that are more salient to any business and its stakeholders. So in companies that manufacture or extract things, we weight the environmental scores more heavily precisely because their business has the potential to impact the environment or be impacted by environmental changes.

S3 12:55

Likewise, for services companies, we weight the social factors more heavily because the people of those companies are their big assets, and it's important that they take care of them in order to keep them and also to really engage with their customers. And on the governance factors, they're weighted equally across companies because strong governance is paramount to the success of any business. The last thing we do is weight each company's score by its market cap. And we do this understanding that it's quite a heavy lift to implement really robust attention to ESG factors and report on them. And so we sort of up score the smaller companies who are able to do this in a very big way. And these scores allow Riverwater to understand where a company is at present in its ESG journey, and it allows for comparison to peers and measurement of progress over time.

S3 14:05

So our third pillar is engagement. And Riverwater engages with companies to improve their ESG efforts. We engage on specific issues across companies. For example, we might engage five or six companies on their water stewardship efforts or on their human rights in the supply chain, for example. And then sometimes we engage a specific company on a specific topic because we think it's so meaningful to their business. No matter what is the impetus for our engagement, every engagement is aligned with one or more of the United Nations Sustainable Development Goals, which are aimed at solving real-world problems. Our goal is to generate meaningful impact, so we engage on factors that are most salient to a business and its stakeholders. So we try and pick out those things that will have the most meaningful impact. And stakeholders include employees, customers, communities, the environment, society at large, etc.

S3 15:11

So let me talk a little bit about something that we think is pretty unique to our practice, given that Riverwater specializes in small-cap portfolio management. One area of focus of our engagement practice is to act in a consultative manner to educate smaller companies about the merits of a focus of ESG and to provide tools for them to begin the journey. As you can imagine, smaller companies are not nearly as far along on this ESG journey as their large-cap counterparts. But we've had great success in helping companies begin to focus on important ESG factors and then report on their efforts. So as you can see from this slide during 2021, Riverwater engaged with 25 companies with these educational resources and during 2021, nine have begun publicly reporting their sustainability efforts, some of which were new. And six have efforts underway to improve on salient ESG efforts and reporting on them, and we're actively advising several of them on that. And we always seek cooperative engagement with company executives. But I'll mention that if a company is not responsive to our request for improvement, we do have escalation options which include partnering with other responsible investors, filing or co-fiing shareholder resolutions, and of course, divestment. The other engagement piece we always do is vote our proxies. And so in 2021, we voted all of our proxies, and we voted 9% of the time against management. And as you can see, the majority of those were on governance issues. But the bottom line of all of this is our goal in our engagement practice is to generate meaningful, positive impact on the world, society, and the environment, and also help companies avoid risk and realize opportunities presented by these ESG factors. And ultimately, this results in superior financial returns for our clients as well. So our third pillar is collaboration. Riverwater Partners is a member of various socially responsible organizations including CDP, Series, ICCR, SGI, the Water Council, USF, and we're signatories to the UNPRI. Membership in these organizations helps inform us about important ESG topics, and we partner with other responsible investors who are also members of these organizations to work with companies on improving their ESG practice.

S3 18:04

On the next slide you can see here, this is our scorecard from the UNPRI. As a signatory, we are required annually to be evaluated by the UNPRI for our responsible Investment approach. And this is our scorecard from the most recent scoring that we received. And as you can see, in our equity management practice for strategy and governance, we received an A-plus. And for ESG incorporation into the process, we received an A-plus. And for active ownership, which is also engagement is the word I've used or stewardship, we received an A. And you can see those scores relative to the median scores there. So we're really pleased with this record. And what I would say is that our membership in UNPRI has helped us formulate what we think is a very robust strategy. So I want to say, in conclusion, that our three-pillar approach to ESG offers the greatest potential for this positive impact on society and also superior financial returns.

S3 19:15

So let me turn quickly to our engagements during the first quarter of 2022. You've heard us talk about this process of educating companies, and we did that with five small cap companies during the first quarter. And we gave them some educational materials. We helped them understand what is a materiality assessment whereby a company looks at various ESG topics and tries to figure out, with input from its stakeholders, which are the most important to their business and to society. We offer these tools. We offer things like links to the TCFD on climate reporting. We offer the UN Guiding Principles on Human Rights Due Diligence, the Water Stewardship, Accelerator Tool. We offer lots of information and links to resources to help companies get started. And then, of course, we continually have dialogue with them along the way.

S3 20:19 So one of the companies we engaged during the first quarter was Iridium, which is a satellite company. And actually, we've been talking to Iridium for about two and a half years about ESG. When we first met them in 2019, they were beginning to hear about this whole ESG idea. But they didn't really know exactly what it meant and weren't sure how to get started. So we gave them some information. And we actually suggested that they take a look first at corporate culture-type things like equal pay for equal work and diversity and inclusion policies. And those are in alignment with SDG number 8, which is decent work.

S3 21:04 And then we also suggested they take a look at their environmental footprint because they manufacture satellites. And that aligns with SDG 12, which is responsible production. And so we were pleased a year ago when we saw the publishing of Iridium's inaugural 2020 sustainability report. And this is a picture of the table of contents. And they did look at all of the factors we told them to or asked them to and reported on them here. And so last year, upon seeing this, we then suggested that they take a look at measuring their greenhouse gasses and looking to reduce them over time. And this is in alignment with SDG 13 and climate change. And, frankly, this is a topic we engage most companies on today because it's so important.

S3 22:03 And so fast forward to this year, in March, in the first quarter of this year, we were able to see Iridium's 2021 sustainability report, which, as you can see here, includes a chart of their measurement of their greenhouse gas emissions reduction, as well as water diversion and some information on waste as well. And so we're really pleased to see them coming along on this ESG journey. And so, as we typically do when we met with them in March, we suggested that for next year or during 2022, what they focus on is making sure that their human rights policy and practice in their supply chain is very robust to protect the workers and to protect the company, frankly. And so we suspect we'll be reading more about that in about a year from now. So I thank you for your interest in River Water's ESG process and our engagement efforts during 2021. And I'll turn to 2022. Thanks, Adam.

S2 23:09 Great. Thank you, Cindy. And I think that's a great overview of our ESG process. But what I want you all to take away is while we're doing a ton of work on ESG, as fiduciaries, we really are looking for market-beating returns. And so we always do it in stocks that we believe have great, great futures. As I mentioned earlier, we are 80% bottom-up investors. But we have a 10 to 20 percent top-down overlay. So I just wanted to cover the macro quickly before we get into the portfolios. And the reason we've got this macro overlay is something happens like COVID. You can't ignore what's going on with COVID. Russia invades Ukraine. You just can't ignore how that impacts supply chain. So we do pay attention to it.

S2 23:55 I'm sure you're all familiar with how bad a quarter the first quarter was. Markets were down across the board, other than commodities, which had a nice run, really driven by basically all commodities, soft, hard, and oil, and gas. But what I'm kind of encouraged to see actually is if you look at the Russell 2000 value index, which is the third one down out of the domestic indices, actually, out of all the equity indices, it was the best performer. And while small-cap value over long-term time periods going back about 90 years is the best performing sector of the market. The last 10 and 15 hasn't been so kind to small-cap value with declining interest rates. So we hope this is hopefully the beginning of a trend for small-cap value.

S2 24:38

So what happened in the quarter? Well, obviously there were two big headwinds. You've got the Fed beginning to tighten. And then you've got Putin invading Ukraine. And so war's impact, number one, we've seen just in soft commodities, for instance, wheat has skyrocketed. Both Ukraine and Russia are responsible for about 29% of all great exports in the world. So clearly this is going to have a large impact on a lot of economies in the Middle East, Africa, and Asia will probably impact some food inflation in the US. But thankfully we are also a breadbasket. So it shouldn't be as impacted as other places in the world. But this is going to be a contributor to inflation on a go-forward basis.

S2 25:17

Likewise, on the next slide, we're all familiar with inflation, given we likely all fill up our gas tanks on a weekly or biweekly basis. And the issue in the oil market is that there is not a lot of spare capacity lots at OPEC+, which is OPEC plus Russia. Roughly 2 million spare barrels of capacity in the short term. Saudi Arabia is the vast majority of the excess barrels. And it's only about 2.2 million barrels on demand of over a 100 million a day. And Russia produces about 7.7 million. So Russia is able to sell their barrels at discount to India and China. But what is probably fearful of the market as an analogy is if you look at Venezuela, Venezuela's production is down about 75% versus where it was about six years ago after embargoes and the majors pulling out of Venezuela. They just can't keep production up.

S2 26:14

So the same thing is happening in Russia. So I would not be surprised if Russian production begins to drop off, even though it's only going to a couple of countries. So we could see tight markets for the foreseeable future. Oil is a commodity so I won't be surprised if it eventually sells off at some point, most likely driven by a global recession, which is really the only way I think oil prices will drop because today demand is in excess of supply. And there's no way for supply to increase given what's going on in Russia, Venezuela, Iran, plus the fact that in the US, all the large integrateds have finally gotten disciplined and have said, "We're just going to generate cash. We're not going to spend it on Capex."

S2 26:51

So oil, another large contributor to higher levels of inflation today. And then as a corollary, natural gas prices in Europe - these are natural gas prices in Europe - are through the roof. For those of us in the northern climbs, we're probably familiar that we have higher heating bills this winter. Well, it's nothing compared to what Europe could potentially see next winter where natural gas prices are about eight times higher than they've been historically. That last jump really driven by the fact that Putin is using natural gas as a weapon and has told Poland in Bulgaria that it's going to cut off supplies because they're not paying for their natural gas so, historically, natural gas markets weren't connected. The US wasn't connected to Asia, wasn't connected to Europe. But as we look at the next slide, which is US natural gas prices, historically, call over the last 10 to 15 years, natural gas ends up in-- around a range of about 2 to 3 dollars per MCF. Today, we're looking at 6, 7, 8 dollars per MCF. So roughly, 2 to 3 to 4 times higher than we've seen, historically, which is again, really driven by the fact that Europe needs LNG. Where's it going to come from? Well, there's really only two places, the US and Qatar. So while natural gas has been very stable in the past, likely to be more volatile, and contributes to likely higher levels of inflation going forward.

S2 28:21	So I did not include a chart of inflation, but we're all probably pretty aware that, historically, for the last, call it 40 years, inflation has been pretty-- in the low single digits in the most recent time period, around 2% inflation. In fact, worked really hard to try to create inflation, but in the last year, we're now at roughly 8 1/2, 9 percent, which is a 40-year high. And you can still see at the bottom right-hand chart, the Fed is still roughly at zero. We've had one rate so far. Market's expecting another 2 to 2 1/2 percent in raises, but they're really behind the eight-ball in curbing inflation.
S2 29:01	And what is probably an issue for the economy and the markets is, the Fed does not have a good track record of creating soft landings, which is always their goal. If you look back at all the increases, you'll notice that the vast majority of the time, it ends in a gray bar, which represents a recession. The only exceptions are the 3 green arrows where the Fed has engineered soft landings, and, unfortunately, even in those soft landings, you end up with some type of financial calamity. For instance, in 1984, you had Orange County blowing up. So this is likely a major headwind for the markets on a go-forward basis, and I think one of the major reasons why you saw lower equity markets in the first quarter, and why you've seen the weak market in the quarter to date.
S2 29:49	And finally, I think this is an interesting slide. This is consumer sentiment going back to World War II, and consumers are pretty unhappy. The current levels of consumer incentives today are comparable to the lows of the great financial crisis and the lows of the two larger sessions of 1980. So our guess is a lot of it, this is probably driven by inflation, which most people under-- probably call it 50, 55 in their adult lives weren't too familiar with inflation. So we think this is a headwind. It's interesting. Consumer balance sheets are in very good place in the aggregate, and unemployment levels are also very good, but still, consumers are not in a good place. So it will be interesting to see how they react, as we move through the year.
S2 30:42	So if indeed, we are in a new era of inflation, I thought this was a pretty interesting chart that shows a number of domestic asset classes in both equity and fixed income, as well as gold, going back to 1932. So the blue bars represent rolling 10-year time periods, and the orange bars represent rolling 5-year time periods. And going back to 1932, the best place to be in an inflationary environment was small-cap value, versus every other asset class. And in this chart, you can see small-cap value beat inflation roughly 96% of all rolling 10-year time periods. It beat inflation so. But one other thing that I think is actually pretty interesting is why I'm actually bullish on gold, for an inflationary hedge, it's actually not a good place to be. It's much better hedge on profit spending from governments. But anyways, take the point home, small-cap value has been a tough place to be on a relative basis the last 10, 15 years. I think as the winds change, it could actually be better.
S2 31:57	With that, we will get into the portfolios, and we'll start with our split strategy I talked about earlier, 70 to 80 percent top-down, 20% bottoms up. I explained how we get into the portfolio. So the portfolio today represents roughly 30 names. Typically it varies between-- we say we limit being 25 and 40 names. And our top five holdings should be coming up. And I think what's interesting about our top five, and we don't purposely do this, but it is actually a fairly diversified group of companies. CNX, our largest holding, is in the energy space. Colin Frost is a financial. [inaudible] industrial Sienna is a technology stock and [inaudible] Armstrong is a [reach?].
S2 32:42	And so typically we initiate positions at 3%, which makes sense given a 30 stock portfolio. We'll let them grow, typically to mid to high single digits. When it gets to

78%, depending on how confident we are in the future business or the valuation, we will start to pair the names back. CNX was started at a 3% position late in 2021. It was pretty good timing on our part, but what really attracted us to CNX was that, one, from a valuation standpoint, it had a 20%, that's 20, 20% free cash yield, low PE. We really liked the management team. And they drilled for natural gas [inaudible] Shell on the East Coast. They had one drilling fleet. It's all-electric. And they're very focused on their impact on the environment, so pay a lot of attention to the water around where they drill. And surprisingly enough, they're actually carbon negative.

S2 33:42 Riverwater Partners actually produces carbon because we're in a building and we use servers, we have to drive to work. So we actually do produce some carbon. We actually buy carbon credits to offset the little amount of carbon we produce. But they're carbon negative because they spent over $50 million on equipment to sequester methane that leaks out of coal mines around their drilling areas. So they're able to prevent 300,000 tons of methane a year from escaping coal, which is the equivalent of the seven and a half million tons of carbon, so happy to own CNX. And with that, we'll move into our sector ratings in this portfolio.

S2 34:25 And because we have 30 names, we take a lot of idiosyncratic risk. And we end up with plus 95% active share on an ongoing basis. Therefore, we don't want to take a lot of risk in our sector weights. And as you know, roughly 60% of the stocks move is based on the sector it's in. So we typically say within a 5% weight, plus or minus of the benchmark. And we have a hard and fast rule that we won't be above 10. As stocks move, we could inch above 10 for a quarter, but then we'll immediately reduce that the next quarter to get below a 10% delta. And you'll see as you go through all the sectors, we're pretty tight to most sectors. The biggest delta looks like it's real estate where we've got just over 5% underway.

S2 35:09 When you look at our metrics, I think what you'll see is we're a quality investor. So what is quality to us? Well, high returns on capital and good balance sheets. And that's what you see. Our return on equity is higher by roughly 200 basis points versus the benchmark. And we've got a lower debt to cap than the benchmark. You'll see that our valuation metrics, the price of cash flow prices are slightly higher than ventric. That's essentially, what happens when you invest in quality, you have to pay a slightly higher price, so we like to say we are definitely more relative value than a deep value shot. This is our year-to-day attribution through March 31st. We did slightly underperform the quarter, and what's surprising is it was different from most other ESG strategies. When you look at most of our competitors in the quarter, you'll see that the vast majority underperformed the benchmarks, and it was predominantly driven by their underweight to energy. We technically, were overweight energy on average over the quarter and our energy [names?] outperformed, so that was actually a positive contributor. What were negative contributors were healthcare and industrials. Then you'll see that our sector [ratings?] were fairly close. It was mostly generated by stock selection. And when you look at our portfolio on a quarterly quarter basis, this is typically what you'll see. We do have tracking error because we run such a focused portfolio, but we could own anywhere as low as one name in a sector, up to around a half-a-dozen, and so one or two names can really drive sector performance, and that's what we saw in healthcare. We had a couple of names that have been fantastic performers for us through the COVID pandemic. We've got large, unrealized capital gains in Charles River, but it had a bad quarter and so that hurts the numbers for healthcare and the same with industrials. We own a company called Builders FirstSource, which we're very bullish on trades at less than seven times earnings, has a double-digit free cash yield, and they supply the new home building industry. They make roof trusses, floor trusses, windows, things the home building industry needs. The new home building industry is actually at a deficit, but what drove that stock in the corner is mortgage rates. Mortgage rates went from roughly a low of 2.75% to 5% in a very short time period. An investor said, "I don't want to have anything to do with homebuilding." We think that's very short-sighted. We think over the long term, Builders FirstSource will be a great name for us, but it did hurt us in the quarter. As we flip to our since inception numbers, they do look a little better where we're outperforming. Over the five-plus years, you see a decent spread about performance for most sectors, and what I really want to touch on--nothing really specific to this slide, but what I want to touch on is how we perform through a cycle and what we've seen. Even though we've only had six years, we've pretty much gone through two market cycles. We had a small cap bear market in 2018. We had a small cap bear market in the first quarter of 2020. We're roughly, a half to three-quarters of the way to a small cap bear market year-to-date, but in those rougher time periods, we end up with lower downside capture, so historically, we've been running roughly a 75% downside capture. We don't hit a 100% upside capture, but that protecting the downside has allowed us to outperform the benchmark over the since inception number. And with that, we will move into mass talk on our MPT numbers. Take [inaudible].

S1 38:46

Thanks Adam. Here's an analysis of the SMID value strategy relative of Morningstar small value peer group. We are focused on protecting to the downside as Adam mentioned and have delivered exceptional risk-adjusted returns since inception. This is illustrated by a sharp ratio consistently in the top quartile on a rolling three-year basis. Our goal over a market cycle is to deliver 200 basis points of outperformance relative to our benchmark for Russell 2,500 value, and we have generated 179 basis points of excess return with only a fraction of the volatility as shown with a beta .75. And looking at our net returns shown on this page going back to inception, we assume in a retail expense ratio of 1%. The [institutional?] beyond the strategy is 0.75%. Adam?

S2 39:39

Thanks, Matt. And I do see one question in the Q&A, so we'll hit that after we wrap up. But if anyone has any questions, please throw it into the Q&A. So our micro strategy from a philosophy process, it is exactly the same as a SMID. From a process, it is pretty much the same. The only real difference between the micro and the SMID from a process standpoint is we don't have the hard and fast rules on the sector weights of 5% and 10%. We basically have a limit that no one sector would be more than 30%. And a lot of that has to do with the way the microbenchmark is formed. Microbenchmark has sectors that are 30-plus percent, and so that's one factor. The other factor is this is really like private equity investing in the public markets. And the return factors can be similar as well in private equity, where one or two names can really drive performance to the upside. And so we don't want to limit the growth in those stocks, which would cap us from those 5 and 10 percent limits. Again, we ended up with a nice diverse list in our top five holdings. Harvard Biosciences is a healthcare company for [Southwestern?] Financial Bank. Parian is the communication company, VICO Instruments is the technology company, and Farmer Brothers is a consumer discretionary company.

S2 41:11

And we thought it would be helpful to kind of do a quick, deep dive into our research document, which I'll do in a couple of pages. But before that, again, walking through our sectors, you can see-- actually, this is comparing to the rest. So micro index, you can see we are close to a 10% Delta in financials, also roughly 6% in industrials and 7% in IT. So we do end up with some diversions from the benchmark. And the one thing I should really note is we historically have owned energy stocks in this portfolio. Micro energy is a tough place to invest because, oftentimes, at least in the past decade, those companies have not been earning their cost of capital. I will say, since the quarter-end, we did initiate a position in a company. Actually, they reported earnings today, and I think it's up about 7%. So we're happy about that. But the energy underweight did hurt us from a performance standpoint in the first quarter. Actually, no, it's our energy up. Underweight has helped us on a since inception basis.

S2 42:15 From a metrics perspective, again, you can see we've got slightly lower debt-to-capital ratios. Actually, from an evaluation perspective, we're quite lower-end in the market, at least on a [four?] basis, at 14.7 times [inaudible] 36. And what really, I think, differentiates us from the market is, in the Russell Micro Index, it's not showing any companies that lose money. So it's only showing companies that make money, and for the vast majority of our market cap companies, I'd say plus-80, plus-90 percent. Where we sit today, they're making money. And with that, it's pretty small. But this is three pages of what our pick, our research document looks like, and it stands for Pillar investment chart. And so the main areas we hit are three pillars. We hit, is it a secure business? And that's what's on the left-hand side of the screen. We look at, is it a secure business, and what are the opportunities? And so Farmer Brothers-- I'm sure most of you are not familiar with Farmer Brothers. They roast, pack, and distribute coffee, mostly to commercial buyers like restaurants, hotels, convention centers. And this used to be a great company based in California. They ended up moving their headquarters to Texas around Dallas. And the management team really dropped the ball. So a new management team came in probably just before the pandemic in order to turn the business around. The company historically had 40 plus percent gross profit margins. Those dropped to 25%. They're now in the process of-- they just got margins back to 30%. But one of the big opportunities for this company is to increase their gross profit margin while at the same time increasing their sales. Because of the pandemic, the cost of their sales dropped 33% from 600 million to roughly 400 million. So I think as business comes back, people go back to restaurants, conventions, they've got a great opportunity to get their sales back to historical levels, increase their margins back to historical levels. And this would give them the opportunity to have $5 of earnings per share, which I think they last made in 2016. As I look at the stock right now, it's trading at $6.21. So we think it has $5 of earnings power. It's trading at $6. Could this be a $30 stock like it was in history? Obviously, we believe so which is why we own it. But that's what the opportunity is. Then we get into management. I really like the management team. I've met the CEO a number of times. I'm actually going to-- we're going to do a road trip to Texas to visit their facilities this summer. What we really like is when they started buying stock as insiders, we joined in with them at basically today's levels. They also have requirements to own a certain multiple of stock versus their salary which we're-- which we like. And then from evaluation perspective, I touched on that as well. It's trading very, very cheaply. And then it's in a market-- actually, coffee is the largest regulated drug in the country. Caffeine is actually a drug. And for the most part, everyone's drinking it and it can become addictive. So they're in a good space that's actually-- the market is growing above GDP. So overall, a name we like. And on the right page, you'll see again what may look familiar is [inaudible] for a 25-point scoring system. Above that, we talk qualitatively to where the company is excelling, where they have opportunity for improvement. But as a microcap company, Farmer Brothers has really embraced ESG, so a name we like. What you don't see here is sometimes these pages could expand to four to five pages. And also what you're not seeing is the proprietary models that we put together for most of the companies that we invest in. So getting to the micro attribution year to date, we are slightly underperforming by roughly 2%. But on a three-year instance inception basis, we've got pretty good outperformance where we are I think reading by at least 50%. And what I'll point to is again, that private equity investing in the public market you'll see in consumer staples our portfolio return is actually over 1,000%. Financials, we've got really great performance of 215% versus the benchmarket 18. And then in IT, we've got a 473% return versus the benchmarket 60. And again, this is really driven by one or two stocks in each of those sectors where we bought it as a micro and the market after we bought it figured out that it shouldn't be a micro, it should be a small. And in some cases, they turned into big cap stocks which were great contributors to our system section performance. [inaudible]?

S1 47:10

Microstrategy analysis shown here is relative to the Morningstar small core peer group. Our approach in the portfolio allows us to find businesses that are cash flow break-even or just about to hit that inflection point with business optionality. They have found balance sheets as Adam mentioned and are starting their ESG journey in many cases. Studies have shown that companies with ESG momentum outperform their best-in-class peers, in fact. We want to be active owners, not activists, and believe our influence in these companies creates opportunity to provide competitive risk-adjusted returns as shown by the rolling three-year Sharpe ratio in the top quartile since inception. Here, our historical performance in the strategy has been driven by companies that have met our portfolio requirements and allowed us to hold on through the growth period as a fee presented here assumes a 1% and represents both retail and institutional expense ratios. Given we intend to limit the strategy capacity to about 4 to 5 hundred million to remain nimble. At this time, we welcome any questions. We did receive a question earlier as Adam alluded to. Adam, what is the thinking behind the top part of the funnel? Investable companies between 250 million and 20 billion. How did we come up with that range, and how do you see it remaining into the future?

S2 48:31

Sure. Good question. Really, the range was driven by the range in the micro-cap benchmark. I think the micro-cap benchmark today actually-- it's a little lower on the low end, and it's probably much higher on the high end. I think it was GameStop was a micro-cap stock that turned into a $30 billion company. And there are a few others, micros, that have turned into $30 billion companies. I'm sorry, for [inaudible], I should say. We've just kept the 250 to 20 billion because it feels right. I think as the strategy grows, we want to pay attention to liquidity. And in this big-cap strategy, I don't want to buy all the small stuff that people say, "Well, they can't recreate the performance because they were just buying micros that had really great runs." So that's why we try to keep everything above 250 million so that there's liquidity. But we're going to try to keep the portfolio fairly in line on the average weighted market cap basis to the benchmark. And that's really what we'll key into. I think today we're probably about 2 billion less than the market at roughly a 6 billion [inaudible] market cap versus 8. But that's our weighted average. If you look at our median, we're probably quite a bit lower than the benchmark today, probably at 2 billion, I think, versus the benchmark at maybe 4. But good question and hopefully answered it. And if I didn't answer it, please feel free to follow up after.

S1 50:09 And lastly, one more question. You shared some charts on energy earlier. Can you share Riverwater's approach to energy given the current environment?

S2 50:18 Sure, and that's another good question. I think, again, as I stated earlier, we're a little bit different from most other ESG shops in that we do invest in the oil and gas space. And the reason why we decided to do that is because-- and everyone can draw a line, their own philosophical line, wherever they want. We don't have a problem. We actually do have customers in this [inaudible] strategy that say, "I know you guys [invest in oil?]. I don't want to do it," and we will do that for them. But my philosophy is I'm only really willing to divest of something in my investments if I'm willing to divest of it in my life. And if we're all living in the modern world, oil and natural gas touches us in every way. I mean, this call is only happening because of it. So therefore, we said, "We think engagement is better than divestment." And I think history has proven that engagement is better than investment, because whoever is divest of all their oil stocks from now into over the last 30 years, it hasn't changed anything. I mean, companies are still drilling for oil. They're not changing anything. What you got to do is pressure the management teams to become better actors. So in the oil and gas space, that would be, "Oh, are you flaring your natural gas? That's not great. Why don't we sequester your natural gas and do something else with it other than bringing it into the atmosphere?" For us, the company we bought in the micro, which actually we bought in [inaudible]-- and that gets to the point of crossover between the two portfolios. We actually try to keep it pretty low, and historically, it's always been below 10% crossover.

S2 51:58 So we'll own maybe one to three companies in both portfolios where we really like the company. And the company we just bought in the oil space, we bought it because one of our other oil-- really a refiner, was bought out by Chevron in the last quarter, a company called Renewable Energy Group. And we like Renewable Energy Group because it was renewable energy. They took oil from restaurants and turned it into diesel. So they made renewable diesel and biodiesel, which is an energy, but we think it's a lower greenhouse gas energy. So the oil and gas company we bought to replace it is an offshore driller in the Gulf of Mexico. If we're going to invest in oil, why do we like the Gulf of Mexico? Well, it has the lowest greenhouse gas output per BOE than basically any other oil player in the entire world. There's one other oil player in the Middle East that's probably a little lower. So it's very low intensive on a greenhouse gas output. And they have a call option on CCS, which stands for carbon capture and storage, which we think is a huge growth industry, that all these companies know they have to lower their greenhouse gas output. One way is to grow trees. Another way is to put up solar or wind. Another way is to actually take the factories that produce greenhouse gases, carbon dioxide, capture them, and inject them back into the Earth, which has been done for decades. There's actually a secondary oil recovery, takes carbon dioxide, shoves it into the Earth to cause oil to come back up to the ground.

S2 53:30 And so this company has great fields on the Gulf Coast of Mexico in both Texas and Louisiana. This is what we think about the business, not just CSG. There's a huge barrier to entry to get the permits to actually inject carbon back into the Earth. They're huge projects and these guys have the capability. They just hired a new woman to run their ESG practice. It trades at five times earnings. So we think if energy has tailwinds, and this company has this huge call option to lower greenhouse gas output, that is like Nirvana for any ESG [inaudible]. So again, when we think about energy we want to invest in companies that are making the world a better place, but we also want to work with them to become better corporate actors. So thanks for that question.

S1 54:23 Great. Thank you, Adam and Cindy. That is all the questions at this time. To conclude the call, we are passionate about small-cap-ESG-investing-focused portfolios and believe it is important to eat our own cooking. We are excited about the future of our firm and welcome your consideration as a manager to complement your existing allocation. If you have additional questions or would like to speak directly with a member of our team, please contact Matt Drvaric. We look forward to talking with you again next quarter.