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S1 00:35 We are still waiting for a few to join and we'll start momentarily. Thank you.

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S1 01:23 Hello, this is Matt Drvaric. Thank you for joining us this afternoon and welcome to the Riverwater Partners Q3 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. Adam Peck, our co-founder and chief investment officer will walk through 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 around water stewardship. 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 a 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-cap space through focused portfolios of 20 to 35 holdings. Riverwater's portfolio complements our ESG peer portfolios that lack energy exposure as we invest in all energy except coal based with the intention to facilitate the transition to clean energy. Our SMID portfolio attained a six-year track record at the end of the quarter and outperformed the Russell 2500 value benchmark by 204 basis points gross with a beta of 0.76 since inception. We are proud of these results and continue to strive to provide our clients with an exceptional boutique experience. I will turn it to Adam to discuss the market environment. Adam?

S2 03:15 Thanks, Matt. Good afternoon everyone and thank you all for joining. So we spent the vast majority of our time focused on bottom-up stock research, but we do pay attention to the macro, and so we'll share our thoughts on the macro in the next few slides. We pay most attention to indicators that do the best job on forecasting. That would be the yield curve, leading economic indicators, and initial unemployment claims. None look that good right now. The first year you can see is the 10-year to 90-day treasury curve. It's recently inverted and if you look at the 10-year to 2 years, it's been inverted since July. Recessions are indicated by the gray bars. And without fail, the yield curve is correctly [inaudible] recession with no false positives for the last 50 years. Sometimes it might take 12 to 18 months for a session to actually begin, but eventually, they follow the inversion. Their second [inaudible] indicator looks no better. Leading economic indicators have recently rolled into negative territory, and I don't see anything in store that will reverse the trend, especially at least while the Fed continues to raise interest rates to slow down the inflation. And thirdly, claims. Finally, we have the jobs market which has remained incredibly strong, but it seems to be at the onset of weaker readings. Initial claims have a good record of preceding recessions when claims are historically at the low end of the range, which they are now, and then when they increase by 20% off the lows. All instances where this was the case was followed by a recession. We've now seen a 20% increase off the March lows and are now hearing of mass layoffs on a fairly consistent basis. Dozens of large tech companies have announced-- including Meta, Twitter, Netflix, and major companies like Google and Disney have announced hiring freezes. I am not painting a rosy picture. A lot of the bad news has already been priced into the market. On average, the S&P declines 25% in a normal recession, and we've already seen it reach that this year. So there are three points I'd like to make as to why this is a good time to consider adding to small caps. Point one, small caps have the best performance coming out of bear markets on the next slide. I can't say with certainty we've reached the bottom, but using history as a guide, I'm confident in saying the odds are high. Why is that? Well, it's this sentiment chart. Here we've created a chart comparing the S&P 500 in orange to the weekly American Association of Individual Investors Bull/Bear survey. The survey is a fantastic contrarian indicator. It simply asks investors if they're bullish, bearish, or neutral. When extreme levels of market bearishness are reached by investors, it is perfectly aligned with market bottoms, as seen in the red arrows. The worst-ever reading was the first week of March 2009, the middle circle. The second worst-ever reading was actually the last week of this September. And then in October, we ended up having the best month for the Dow since 1987. So while we won't know if this September will indeed mark the bottom, we are at least off to a good start. I'm optimistic for small caps because we just had the worst nine months stretch through September for small caps in the last 40 years, as seen on the next slide. And on average, the market is up over 21% the following year after down years. And small caps are up over 60% from bear market bottoms after twelve months, as seen on the slide on the right handily beating large caps by 18%, which are only up about 42%. Secondly, the best time period for small-cap stocks since 1960 is the year following post-midterm elections. Post-midterm small caps rise on average 25%, compared to only 17% during all other press election years and just 6% for all other non-election years, and this can be seen on the next slide. And as you can see in both the chart on the left in blue and the leftmost bar chart, that the worst time for the market is the 10 months leading up to midterms. Lo and behold, that is what we again have this year, only it was worse than average. Lastly, small caps are cheap relative to their own history, as we can see on the next slide. The slide on the right, you can see we are one standard deviation below historical valuation levels. And finally, small caps are just about as cheap as they historically get compared to large-cap valuations, as seen on the left. Small caps only trade at evaluation premium to large, but are now at a discount.

S2 08:04 The only other time this happened was during the .com bubble in 1998 and 1999. All right. So moving on to our strategies, we'll start off with the top five holdings for the Smith. So the overriding theme for our top names is that they are all actually up year to date. Yes, all five are positive. In our 30-stock portfolio, we tend to have most position sizes start around 3%. The most common way to get into the top five is by growing, not by starting out as a larger position. The five stocks represent four different industries, and three of the four industries are actually negative performing industries for the year. So I'm proud of the team for finding ideas that work even in down markets. Here we've got our sector rates, and I'll remind everyone that we try to stay within 5% of our sector weight and have a hard and fast limit at 10%. Today, the largest underweight is real estate at around six, and the largest overweight is energy at plus four. The energy overweight was really driven by the Russell rebalance. Up until the Russell rebalance in June, we were equal weight with the benchmark. But as energy had a fantastic year, a lot of the names transitioned to growth and so the weight dropped to four. We remain confident in our energy holdings. So I'd like to go into more detail in one of our two energy holdings in the Smith. So what I will walk you through is our actual research document that we call a pick or pillar investment chart. And this pick is showing our energy holding Talos. Talos is a company we bought earlier this year after another energy holding renewable energy group was purchased by CEVA. Talos engages in offshore drilling in the Gulf of Mexico. I think almost all ASU investors get painted with the same brush, and that many people assume that we don't invest in energy. In river water, our philosophy is that engagement is better than divestment. Divestment has not accomplished anything in the energy space over the last 30 years. We focus on energy companies that recognize that the industry needs to lower its environmental impact over time and that have efforts to reach carbon neutrality. Talos is one such company. I can't say their base business is superior as it is a commodity, but I can say they are one of just two pure-play drillers left in the Gulf and have a tremendous opportunity that has zero value in the stock today. They're a leader in the emergence space of carbon, capture, and storage, or CCS. The demand for carbon sequestration over the next 10 years will grow at an exponential rate. Over 20% of the world's 2,000 largest companies have already committed to net zero. And there is and will be an ever-increasing drive to lower carbon emissions. The problem is the world has ever-increasing demands for energy. One way to solve this conundrum is to reinject carbon back into the earth where it came from. Talos is a leader and has partnered with very large companies like Chevron to make CCS happen. The market opportunity is 16 times larger than it is today, only looking out 7 years. And so we think the opportunity again for Talos is large.

S2 11:15

Our second pillar is management. We want to invest with managers that think and act like owners. Now, with Talos, we have a company that is still run by the founder, Rich [inaudible]. You can be sure there is management and shareholder alignment. Even though they are an oil company, they have committed to being good environmental stewards and even tie a portion of their incentive comp to ESG metrics. They also recently hired a chief sustainability officer. On an ESG basis, we like that the Gulf of Mexico actually has the lowest carbon footprint per barrel in all of North and South America. Yes, it's a thing now to measure how much energy it actually takes to get a barrel of oil or energy out of the ground. On top of that, they're working to lower their own intensity and have lowered it by 25% since 2018 and are well on their way to their 30% bull. And lastly, we like that offshore drilling uses 98% less water than hydraulically fractured horizontal wells that are onshore. Our third pillar is attractive valuation. The valuation is low, which is to be expected as it's a commodity-driven business, but it is less leveraged than its peers and trades at a 25% discount with a PE of less than five times earnings. We think the Russian invasion of Ukraine has fundamentally changed the supply-demand dynamics and should place a floor on oil in the near to medium term in the $70 to $80 area. So we think with a 15% free cash flow yield that is sustainable, and with oil at $80, it trades at a 50% discount on a PB-10 basis, which is basically a calculation of its net asset value. So, moving along to our small cap metrics, you can see here we're pretty close to our benchmark on just about all metrics, with the only deviation being return on equity, where we had a higher number because we focused on higher quality companies. Moving into performance, this is our three-month attribution. We've outperformed in the quarter, and the largest contributor was First Solar. We liked First Solar because it was a leading domestic manufacturer of solar in the US, and does not use slave labor like many of its Chinese manufacturers. The stock was up 94% in the quarter, driven by the passage of the Inflation Reduction Act that increases tax credits on renewable products. And for our one-year attribution, we're beating benchmark by just under 2%. For solar, again leads on positive contribution, and real estate was the top detractor. Both of our real estate holdings have had a rough go of it, driven in large part by higher interest rates. We made the decision to sell Hannah Armstrong after owning it for three and a half years. We were uncomfortable with the accounting and decided to reinvest in a more stable rate with a 30-year history of dividend increases. And with that, I will pass it back to Matt.

S1 14:04

Thanks, Adam. This quarter we are highlighting the standard deviation of the portfolio relative to the Morningstar U. S. Small value peer group. The Riverwater ESG Smith Value Strategy has 22% less standard deviation and places it among the lowest levels for the peer group. In the small-cap space where clients are often subject to significant volatility, this portfolio historically has offered a smoother ride and our process remains the same going forward. Whether you are a tapped Harley Plan, endowment, foundation, or family, this has allowed for an improved client experience. Returns are presented here. We believe one of our investment edges is our approach and conversation around ESG practices with our holdings. We believe ESG is unnecessarily politicized and offers opportunities to investors when considering the factors in the investment process. Adam will walk through our MicroStrategy. Back to you, Adam.

S2 15:01

Thanks, Matt. So beginning with our top five holdings, I'll point out that two of the top three holdings at the end of last quarter were [takeouts?] ChannelAdvisor and Meridian Bioscience. For the year we had four companies bought out. We think this is a great indicator that our process identifies microcap companies that are not only undervalued but also have strategic value. Moving on to our sector rates, we don't have hard constraints in the micro for each sector, only that no one sector can represent more than 30%, and the closest we come there is healthcare with a 31% weight. Here you can see our metrics are fairly in line with the benchmark, the Russell 2000. I would note that we do consider the Russell Microcap as our main benchmark, but due to licensing issues, we can't show that benchmark to you. Our way to average a market cap weight would be in line with the Russell Micro benchmark, though it's got around 500 million. Moving to attribution, we slightly underperformed in the corner. The aforementioned Channel Advisor was the largest contributor as it was bought out and Infused Systems was the worst contributor. Infused Systems had lower guidance this year as they landed a large contract with General Electric to service some of the medical devices and that was pushed out to the right and also encountered unforeseen problems. We sold a portion of this position for tax loss, but still believe in the opportunity and like it today. For our one-year return, as we look over the last year, returns look about the same, funny enough, compared to the corner as all the largest contributors were bought out. On the downside, again, the largest negative contributor is in the healthcare space, Harvard Bioscience. Harvard manufactures products that enable research, testing, and the development of drugs. They had a major supply chain issue which hampered their results this year. We think highly, very highly of the management team. Look forward to rebound in the next year. It's been a tough year for all asset classes, but I am happy with how the majority of our holdings have performed. I feel confident in the outlook for the future. With that, I'll pass it back to Matt.

S1 17:07 The micro strategy analysis shown is relative to the Morning Star small core peer group. The portfolio is designed to carry a little more volatility as we will purchase companies as small as 50 million in market cap and hold as they mature up to 2 billion. When factoring in performance, the risk-adjusted returns on a rolling three-year basis as measured by the sharp ratio places the strategy at the top of the category. As a reminder, our approach in this portfolio allows us to find businesses that are at cash flow, break even, or hitting that inflection point with business optionality sound balance sheets and are starting their ESG journey in many cases. Studies have shown that companies with ESG momentum outperform their best-in-class peers. We want to be active owners, not activists, and believe our influence in these companies creates opportunity to provide competitive risk-adjusted returns. Here's a review of the returns for the various time periods. I will now turn it over to Cindy to discuss the third pillar of our ESG approach collaboration. Cindy.

S3 18:13 Thank you, Matt. As Matt said, today I'm going to talk about our ESG initiatives during the third quarter, particularly as they relate to water stewardship. To review, River Water uses three pillars to integrate ESG into our investment process, due diligence to understand company's current ESG policy and practice, engagement to promote improvement, and collaboration with ESG thought leaders and other responsible investors to inform our practice and magnify our impact. During our inaugural webinar, I gave an overview of River Water's ESG methodology, which focused on the first pillar of due diligence. Last quarter, I highlighted our second pillar of engagement. And today, I'd like to talk about this third pillar of collaboration. Next slide, please. River Water is a member of various socially responsible organizations which are shown on this slide. These include CDP, series, ICCR, SGI, the Water Council, and several others. We're also was signatory to the UN PRI. Membership in these organizations helps inform us about important ESG topics. Additionally, we partner with these organizations to magnify our voice with companies about improving their ESG efforts. These organizations educate Riverwater about specific ESG topics through webinars, published reports, working group meetings, connections with other interested parties, etc. We use these learnings to inform our due diligence and our engagement efforts. This allows us to effectively understand, assess and communicate with companies about how those factors might impact their business. By way of example, I'd like to discuss our work with CDP and The Water Council on water stewardship. Next slide, please. So, why focus on water stewardship? Well, given the fact that Riverwater Partners is headquartered in Milwaukee, on the shores of Lake Michigan and at the confluence of three rivers, we have a great appreciation for water. It's even in our name. More importantly, to date, water stewardship has been a bit of a neglected stepchild to climate change on the radar of most responsible investors, making this an area where we believe we can generate meaningful impact. So let me talk about some of the risks associated with water. Water is a priceless resource which has traditionally been treated as a free resource with little attention given to its source, scarcity or quality, all of which have the potential to negatively impact a business that relies on water. Water is also a shared and local resource, making it important that all interested parties focus on it. Let me talk about a physical risk. 70% of the world's fresh water is used in agriculture, making it extremely important that food and beverage companies have sound policies and practices for water stewardship. It's not enough for an individual food or beverage company to pay attention to its own water stewardship. If the other users of a given source of water are not good stewards, all users may be impacted. And the current situation in the Colorado River Basin speaks to this risk. Water also poses several cross-functional risks, making a system stewardship approach to water important. Most of the effects of climate change will be felt in the form of water. Things like drought, flood, hurricane, etc. This makes it important that companies that rely on water consider their own efforts regarding climate change in order to help mitigate their own water risk. Likewise, water can affect people, but we generally don't think about it here. Water, sanitation and hygiene is a key public health issue, particularly when doing business in developing countries. One of our mining companies found that an investment in water sanitation and hygiene resulted in 30-40 percent reduction in digestive disease for its employees, which led to lower absenteeism and medical expenses. Water can also pose regulatory risk as regulators are beginning to recognize the value of water and are placing increasing restrictions and costs for water sourcing and protection. For example, the Department of the Interior is examining water rights related to the Colorado River, given its alarmingly low levels and growing demand for its water. And lastly, companies often experience reputational risk when they're found complicit in water pollution or overuse. Now, on the other side, water stewardship can also create opportunity. Good water stewardship and incorporation of it into a business model can benefit a company. One of our companies has developed chemicals for cleaning laundry and dishes and sensors to adjust water use in cleaning machines for the hospitality industry. These work to reduce the energy and water needs of their customers. Their technology has helped their customers save 190 billion gallons of water, which is the equivalent to the drinking needs of 675 million people so far in 2022. Next slide, please. Turning to our partnerships around water. Riverwater is a member of CDP, which is an NGO that requests that companies disclose on their environmental impacts, including greenhouse gas emissions, water, and deforestation. Riverwater writes to portfolio companies to encourage them to report to CDP during CDP's annual Non-Disclosure campaign. Additionally, during our due diligence process, we use CDP raw data around water use and purification as part of our process to see where companies are in their water stewardship journey. We like that CDP's framework is aligned with other disclosure frameworks like the GRI, SASB, which is now the Value Reporting Initiative, and TCFD. We also appreciate that CDP's scoring system recognizes progress over time, allowing companies to start where they are and work toward improvement.

S3 25:24

The idea that companies don't have to be perfect when they begin reporting on their ESG efforts is often key to their willingness to take the first step. Our partnership with the Water Council is a little bit newer. The Water Council is a Milwaukee-based and internationally recognized NGO focused exclusively on water stewardship. In addition to consulting and convening thought leaders on water stewardship, the Water Council has an incubator program to promote and help fund water technology. The Water Council recognizes that sustainable investors have a good view into and a platform for engagement on the water stewardship of their investing companies. The Water Council approached us about partnering with them to promote water stewardship, and we were named a Water Champion in 2021. At the Water Champion Summit this fall, the dialogue among domestic and international water stakeholders was very informative. In fact, the panel on the water crisis in the Colorado River Basin was pertinent to a discussion we're having with one of our portfolio companies right now. And then during the third quarter, River Water referred three of our portfolio companies Limoneira, a lemon and avocado grower, Zevia, a zero-calorie soda producer and SJ Smucker, a peanut butter and coffee maker. All food and beverage companies that rely heavily on water to the Water Council to consider using its new WAVE program, which is intended to help them put water stewardship into action. Next slide, please. WAVE bridges the gap between intention and implementation.

While CDP is an important tool for gathering water related information, the Water Council's WAVE program is intended to take that information and use it to put into practice water stewardship to reduce risk and capture opportunity. It begins with understanding risks, then moves to creating a corporate-wide policy, then prioritizing sites, and finally communicating the goals and action plan. Our collaboration with the Water Council makes it possible for us to help companies improve in this way. So, in summary, Riverwater Partners relies on its third pillar of collaboration to inform our practice and to partner to promote better ESG policy and practice by portfolio companies all toward generating positive impact. Thank you. Back to you, Matt.

S1 28:16 Great to see the valuation of small cap at compelling levels. Thank you for the update on the strategies and collaboration efforts. At this time, we welcome any questions. We received a question earlier. How would you characterize the current positioning of the two portfolios?

S2 28:33 Sure. So I'm pretty comfortable with the current positioning. As you can see, compared to the benchmark, pretty much in line with the benchmark across most industries, again, other than real estate, we're in a slight underweight energy where we have a slight overweight. So at this point economic cycle, again, I feel like we're going to go into a recession next year. I think the market has priced that in. So I don't feel like this is the time to hunker down and hide in utilities and staple stocks. We're, I think, increasingly getting more and more exposure to some cyclical areas of the market. Like I said already, we're very comfortable with our energy overweight. One area where we're doing a lot of digging is anything related to housing as that's been really beaten up. I'd say we have pretty minimal exposure to housing. We own at least one building products company in the SMID. We're looking at some other building products companies for the micro, but it's an area that we're very interested in, but waiting for probably a couple more quarters for the housing market to bottom up before we increase exposures there. But overall very comfortable with our record positioning.

S1 29:50 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 and believe these factors are crucial to the process to help minimize portfolio volatility through maintaining positions in high-quality businesses that endure market cycles. We are excited about the future of our firm and welcome your consideration as a manager. Additional data on the strategies can be found in eVestment, Morningstar, Investment Metrics, and Callan databases. If you have additional questions or would like to speak directly with a member of our team, please contact me. Happy Thanksgiving. We look forward to talking with you again next quarter.