

Q4 2022 ESG LARGE VALUE STRATEGY UPDATE

By Kirk Fox

The past year was one to forget. Both stocks and bonds ended lower and one of the only asset classes that worked was commodities.

The Riverwater ESG Large Value Strategy outperformed its benchmark, the Russell 1000 Value Index, which was up during the fourth quarter but down more than 9% for the year. Turnover for the year was 19.9%, in line with the historical average for the strategy. There was a net tax loss as the strategy took advantage of market weakness at the end of the third quarter to harvest losses. The proceeds of the tax loss sales were used to add new names during the fourth quarter.

Our focus in 2023 continues to be to manage the portfolio with a favorable risk/ reward outcome on an absolute and relative basis.

Additions

During the fourth quarter we initiated positions in Activision Blizzard, Inc. (ATVI), Dupont de Nemours, Inc. (DD), Intercontinental Exchange, Inc. (ICE), Morgan Stanley (MS) and Pool Corporation (POOL).

Microsoft is in the process of purchasing Activision, but the sale has been held up by regulatory hurdles. We believe the acquisition will go through and Activision will be acquired at a premium to our purchase price. And if the deal falls through, we are confident in the outlook for the company and the price we paid.

Dupont has been going through a transformation for many years, selling off all their commodity-based businesses. We think most investors still think of the company as if it were a commodity chemical company and have not taken the time to understand how they have transformed. The stock is attractively valued and has a healthy balance sheet along with some near-term catalysts. While Dupont is a new name for the portfolio, it was one of our top performers during the quarter.

Both Intercontinental and Morgan Stanley are premier financial institutions with terrific cash flows. They continue to leverage innovation and are entering new markets on a global basis. We purchased Intercontinental because of its exposure to volatility in the market along with its proprietary technology in mortgage originations. We bought Morgan Stanley because they have less earnings volatility as a more diverse financial services company than in the past. Not only are they a top-tier investment bank, but they also own a high-quality asset management platform that can benefit from customer cash balances and rising short term interest rates.

Sales

This quarter, we sold our positions in ABB Ltd. (ABB), Aflac, Inc. (AFL), Walt Disney Company (DIS), Ecolab, Inc. (ECL), and Regions Financial Corp. (RF).

We sold ABB because of its location in Europe, given our belief that the ongoing energy crisis in Europe will impact its sales, many of which go to China and Germany. A lot of its catalysts to unlock shareholder value have already occurred and the risk/reward set up has deteriorated. We sold Aflac because of its exposure to the Yen weakness and the impact on its portability. The stock had a nice rally and insurance is more defensive than other sectors. Additionally, we already had a large position in Progressive (PGR) and thought better opportunities existed elsewhere.

We sold Disney as the cinematic slate of movies in 2022 was underperforming, streaming competition continued to increase, and the parks business is vulnerable to a slowdown as consumers pull back on discretionary spending. Additionally, the CEO left, and Bob Iger came back, likely signaling a long turnaround story with additional concerns. We sold Ecolab after their end markets shifted away from commercial customers, along with a high valuation. Lastly, we sold Regions Financial believing the stock was fully valued and because we wanted to reduce our exposure to banks.

Top Contributors

Equities that outperformed during the quarter included Caterpillar Inc. (CAT), Phillips 66 (PSX) and J.M. Smucker (SJM). CAT performed nicely during the quarter due to attractive valuation and stronger than expected demand from its end markets. Phillips 66 benefited from limited refining capacity and increasing demand for their products, fueled by the increase in consumer travel. Smuckers performed nicely all year due to its defensive industry and the ongoing transformation of the company.

Top Detractors

Equities detracting from fourth quarter performance included Pool Corporation (POOL), Porsche Automobil Holding (POAHY), and Medtronic Plc (MDT). POOL, a new name for the portfolio, performed well during Covid, but has since dropped sharply as consumer priorities have changed. As the stock dropped, we purchased a position. While our timing may not have been perfect, we still like the long-term opportunity given the fundamental backdrop as all pools need a constant supply of products to keep them running. Porsche, like the rest of the auto industry, continues to suffer from chip shortages and supply chain

issues. Demand for their products remains high, however, especially for their electric vehicle, the Taycan. We think the stock is undervalued and we will be rewarded over time. Medtronic is a great company but continues to have short-term issues with product setbacks and currency headwinds. We have MDT on our short list and are looking for potential replacements.

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ESG Large Value Strategy
Largest Contributors and Detractors - Q4 2022

5 Best - Absolute Contribution

Ticker	Company	Average Weight	Contribution
CAT	Caterpillar Inc.	3.28%	126 bps
PSX	Phillips 66	3.55%	96 bps
SJM	J.M. Smucker Company	4.81%	76 bps
PCAR	PACCAR Inc.	3.54%	74 bps
PFE	Pfizer Inc.	4.19%	70 bps
5 Best Total		19.37%	442 bps

5 Worst - Absolute Contribution

Ticker	Company	Average Weight	Contribution
POOL	Pool Corporation	2.87%	-25 bps
POAHY	Porsche Automobil	2.61%	-11 bps
MDT	Medtronic Plc	2.65%	-5 bps
DIS	Walt Disney Company	1.99%	-4 bps
ZBRA	Zebra Technologies	2.56%	-2 bps
5 Worst Total		12.68%	-47 bps

Contribution reflects the impact of performance and the portfolio weight to total portfolio return.

Data shown is from a representative account of the Strategy Name Composite. All Returns Are Gross-of-Fees. Included as supplemental information and complements a full disclosure presentation, which can be found in the appendix section of this presentation. Reader should not assume that investments in the securities identified were or will be profitable. Timing differences of purchases and sales may have a modest impact on the actual contribution numbers presented. The holdings identified do not represent all the securities purchased, sold, or recommended. The calculation's methodology along with details on all holding's contribution to the overall account's performance during the measurement period are available upon request. Past performance does not guarantee future results.

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5 Best - Absolute Contribution

Ticker	Company	Average Weight	Contribution
PGR	Progressive Corporation	5.09%	115 bps
PSX	Phillips 66	3.07%	111 bps
FSLR	First Solar, Inc	1.45%	99 bps
CEG	Constellation Energy	1.56%	85 bps
SJM	J.M. Smucker	4.41%	81 bps
5 Best Total		15.58%	491 bps

5 Worst - Absolute Contribution

Ticker	Company	Average Weight	Contribution
DIS	Walt Disney Company	2.92%	-166 bps
ABB	ABB Ltd.	2.67%	-132 bps
POAHY	Porsche Automobil	2.17%	-119 bps
PNC	PNC Financial Services	5.15%	-96 bps
CRL	Charles River Laboratories	0.97%	-88 bps
5 Worst Total		13.88%	-601 bps

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