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S2: 05:03 Good afternoon. This is Matt Drvaric. Thank you for joining us. And welcome to the Riverwater Partners Q4 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 cofounder and chief investment officer, will walk through the small-cap environment, address drivers of performance, and walk through the portfolio decisions during the quarter. Cindy Bohlen, our chief mindfulness officer, will provide an update on the efforts in our ESG practice. After today's presentation, there will be an opportunity to ask questions. If you are at your computer, please submit your questions in the question 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 for 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. Effective as of year-end 2022, please note the Riverwater ESG SMID value strategy has been renamed to the Riverwater sustainable value strategy and the Riverwater ESG micro opportunity strategy renamed to Riverwater micro opportunity strategy. The strategies have no change in process or philosophy. In addition to our SMID and micro-cap products, we launched a small-cap product during 2022 benchmarked to the Russell 2000 Index that will have a value bias. The strategy will share in similar portfolio construction metrics, philosophy, and process. The benchmark was selected to minimize being over-indexed to financials and permit the team to find value in all sectors for a more balanced allocation. I will turn it to Adam to discuss the small-cap market environment. Adam.

S1: 07:09 Thank you, Matt. And good afternoon to everyone. So I will cover our small-cap overview and both of our small-cap strategies. I think it is a great time to consider adding to your small-cap allocation right now. I made some similar points here last quarter. And so far, since the last year's fourth quarter, small caps are leading the way. After more than a decade of being out of favor, we and our friends at Furey Research Partners believe that small caps are poised to become stock market leaders over the next decade. Timing is everything they say. Three reasons why now is the time for small caps: number one, they are cheap, number two, the large-cap cycle is ending, and number three, small caps typically do well in the exact environment we're in right now. So point number one, small caps are cheap. The Russell 2000 is trading one standard deviation below its average valuation over the last 35 years. It's also trading at historically low levels versus large caps as seen in the chart here. This past October, small caps traded at 72% of the value of large caps on a trailing 12-month price-to-earnings basis, which is very close to the previous lows at similar levels in 1973 and the 2000 bottoms. The last two times they got this cheap on a relative basis and mark the bottom in the market and in small caps relative performance. Relative cycles are long and here is the proof. When matching the dates from the previous slide of 1973 and 2000, you can see they almost perfectly aligned with the start of strong small-cap cycles. Starting in 1974, small caps beat large by an average of 14% per year over 10 years. Then starting in 1999, they beat large by an average of 5% per year for the next 12 years. We've recently seen large beat small over the last 12-plus, so the large cycle is very long in the tooth. But more importantly, we are at a low evaluation level, which in the past has signaled a reversal. So on to the next slide, the large-cap cycle is ending. This is point two. Another interesting chart that lines up well with similar dates, 1973, 2000, and now is seen here. The blue line shows the percentage weight of the top five holdings in the S&P 500. The top five peaked out in 1973 and 2000 and last year. Once their weight saw a 2% drop, there was no looking back. And if you look at the orange line, it represents small versus large relative performance. You can see it started to trend up exactly when the top five weight peaked. Another interesting note, that's [now?] the only company out of 15 to repeat in multiple peaks is Microsoft. It is tough at the top. Reversion to the mean. And large-cap margins look to be topping out while small-cap margins are well within the historical range. I'd say this probably means large caps will have a harder time meeting Wall Street's earnings estimates.

S1: 10:24 So finally point three, small caps typically-- on the next slide, small caps typically do well in the exact environment we are in. The best time period for small caps since 1960 as seen on the left is the year following post-midterm elections. Post midterm elections, small caps rise on average 25% compared to only 17% during presidential election years and just 6% for all other non-election years. As you can see in the leftmost bar chart, that is the worst time for market. The worst time for the market is the 10 months leading up to the midterms. Lo and behold, that is what we saw last year, only it was worse than average. Lastly, using the same dates, you can see small outperforms large in just about every long-term time frame. And since the bottom in 2020, the current cycle is holding true to form in green. So now let's move on to our sustainable value strategy. We will start with our top five holdings. The overriding theme for our top names is that they were all up in 2022. Yes, all five were positive. Our 30-stock portfolio tends 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 an all four industries were negative performers last year. So I am proud of the team for finding ideas that worked even in a down market. Moving on to sector weightings. Here we've got our sector weights and I'll remind everyone that we try to stay within 5% of our benchmarks sector weight and have a hard and fast limit at 10%. Today, the largest underweight is in real estate at 6% and the largest overweight is in energy at 3.4% overweight. I referenced the energy overweight last quarter in our thesis. There [inaudible] still states.

S1: 12:26 Moving on to looking at sustainable value metrics. Here, you can see we align pretty closely to our venture and just about all metrics with the only major deviation in ROE where we have a higher-- we have higher quality companies with return on capital more than 50% above the benchmark. We do have higher PE ratios. But they are driven by a couple of triple-digit PE companies that are either cheap on a cash flow basis or our net asset value cost. I'm happy to discuss these things in the Q&A if there are any questions. So moving on to performance-- we outperformed in quarter and the largest contributor was Echo. Echo is the number one or two player in the electrical conduit market for commercial buildings. It is super cheap at less than nine times earnings with a great management team and a positive growth outlook. Crocs came in a close second. It is also very cheap at just 12 times earnings for a double-digit grower. You either love Crocs or you hate Crocs. We love the shoes and the stock. Our two worst performers were ICFI and Humanetics .Neither stock was done more than 10%. And we are not concerned with the negative performance.

S1: 14:59 Okay. Thank you, everyone, for your patience. So I will start again at the worst performers in the quarter, which are ICFI and Humanetics. As I was saying, neither were down more than 10% and we were not concerned with the negative performance. ICF ended the year down just 3.6%. So it was a good performer over the year. And we just have recently bought Humanetics early in December. So three weeks isn't enough time to make any comments on their stock attribution. So moving on to the one-year numbers. In 2022, we beat the benchmark by over 4%. Crocs again led the way followed by First Solar, which we discussed last quarter. The top detractors were Hannon Armstrong and Infused Systems. We made the decision to sell Hannon Armstrong after owning it for three and a half years. The reason was we were uncomfortable with the accounting and decided to reinvest in a more stable REIT that had a 30-year history of dividend increases. We did trim Infused Systems and still have a small position there. We think they can get past operational issues they had last year. And hopefully, we will not see them again on this list in 2023. And with that, I will pass it back to Matt.

S2: 16:10 Thanks, Adam. We are often asked to define performance expectation. Illustrated on the top chart is the rolling three-year excess return generated by the portfolio since inception. I am proud to share that since the beginning of 2020, the strategy is consistently delivered performance above its primary benchmark the Russell 2500 Value Index. This is a testament to the team-based approach that emphasizes a long-term holding period. Since, Inception turnover has averaged about 25% and a beta of 0.77. We believe the consistent outperformance coupled with low volatility portfolio is attributed to investing in high-quality small-cap companies that are focused on mitigating idiosyncratic risks through ESG practices. Integrating ESG data is not as prevalent as further up the market cap spectrum, which presents opportunity for our team to exploit inefficiency. We proudly conduct our own ESG research and are regularly updating our proprietary small-cap ESG database. Returns are presented here. I will note with the new marketing rule, the net of C returns are based on the highest fee schedule that could be applied at 1% for retail clients. Adam will walk through our micro strategy.

S1: 17:29 Great. Thanks, Matt. Maybe we should give everyone another 10 minutes to read all the disclosures. So this is our top five holdings for the micro. All five stocks like the sustainable value were up last year. And that's how we became our largest positions. For the year, we have had four of our companies bought out. We think this is a great indicator that our process identifies micro-cap companies that are not only undervalued, but also have strategic value. Moving on to our sector rates, we don't have any hard sector constraints in the micro for each sector only that no one sector can represent more than 30%. The closest we came there is in healthcare at a 22.7% 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 micro-cap as our main benchmark. But due to licensing issues, we can't show that benchmark to you. Our weighted average market cap would be in line with the Russell micro [inaudible] moving along to our three-month attribution, we outperformed in the fourth quarter, driven by positive stock selection. Mayville and Techni-Glass were our top performers. They were both super cheap at the beginning of the fourth quarter, both Mayville and Techni-Glass traded at six times earnings on October 1st. When you start at a low valuation and show good growth, you get a double whammy of higher earnings and a higher multiple on those earnings. Our worst performers were First Internet Bank and Lifecore Biomedical. First Internet missed earnings as they had much higher deposit costs with the Fed raising rates. Lifecore has a fantastic medical business but were saddled with an underperforming food business they had for sale. The food business was sold just last week. Moving along to our one-year attribution. As we look over last year's returns, you can see at the top we just slightly outperformed. All three best performers were bought out last year, none remain in the portfolio today. On the downside again, the largest negative contributor is in the healthcare space, Harvard Bioscience. Harvard manufacturers products that enable research, testing, and development of drugs. They had major supply chain issues which hampered the results last year. We think highly of the management team and look forward to rebound this year. It was a tough year for all asset classes, but I am happy with how most of our holdings have performed, I feel confident in the outlook for the future. And with that, I will hand it back to Matt.

S2: 20:03 The micro strategy analysis shown is relative to the Morningstar small core peer group. The portfolio is designed to carry a little more volatility, as we'll purchase companies as small as 50 million in market cap and hold as they mature up to 2 billion. Following a similar pattern to this mid-strategy, our microcap strategy has delivered rolling three your return in excess of a stated benchmark, the Russell 2000. 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. We see opportunity with this portfolio among clients who want exposure to private equity type positions, but with the liquidity profile provided by the public market. Here is a review of the returns for the various time periods. I will turn it over to Cindy to provide an update on current efforts in our ESG practice. Cindy.

S3: 21:03 Thank you, Matt. And hello everybody. Today, I'd like to cover three topics with regard to our sustainable investing practice. First, I'm going to review our fourth quarter 2022 engagement highlights. Second, I'm going to talk about our 2023 engagement plan. And third, I'd like to talk a little bit about proxy voting. So this slide just reviews our three pillar approach to ESG, and as I said, I'm going to open with our engagement highlights for the fourth quarter of 2022. So this pictorially shows the engagements we undertook. And one thing I'm going to share is that for each engagement we undertake with the company, we do so in alignment with the sustainable development goals, the UN SDGs, and those are shown here with the icons. So let me just talk through a couple of our engagements. The first of which is a company specific engagement with UCO up here on the top left. UCO is a fintech company, which we've owned in the past, but don't currently own not because of sustainability reasons, but because we were a little concerned about their moving in too many directions at once.

S3: 22:21 But when we first invested in UCO, we provided them information about the benefits of a focus on ESG for their business as well as tools for the journey. Ironically, after our exit from the name, UCL hired a new director of investor relations from another former portfolio company of ours. And when he came on board at UCL, he understood well the benefits of a focus on ESG and remembered how we had helped his company with that journey. And he called on us to see if we could offer help to UCL, which we were happy to do. So we, again, provided them with information about the benefits of a focus on ESG as well as some information about where to get started. And this is an engagement practice we've adapted or adopted to help smaller businesses in which we invest, educating executives about the benefits of a focus on ESG, providing our recommendations for which factors deserve attention first based on their industry and where they stand presently, and then tools and advice to help with policy and practice. And we think this makes us unique in the small cap space.

S3: 23:36

So a second type of engagement - Matt, can you go back again, please? - is thematic, in other words, a focus on a particular ESG factor. And this was the basis for several of our other engagements during the fourth quarter. In fact, you can see here there are a lot of these blue boxes relating to clean water and sanitation. And that's because we were engaging with some companies for whom water is a very salient topic based on their business about water stewardship. And we partner with some of our collaboration partners, including the water council of Milwaukee-based NGO focused on water stewardship and [Series?], which is a national organization focused on environmental topics. And so during the fourth quarter, we engaged with JM Smucker in partnership with [Series?] as part of their valuing water finance initiative. And what we're going to do is talk with Smuckers about evaluating their water efforts and asking them to enact robust policy and practice with respect to water as a key input for their food business. Plexus is another example. We had the opportunity to meet with the management team of plexus in the fourth quarter. This is kind of our second time in a couple of years meeting with them. And in preparation for the meeting, we took a look at their sustainability efforts, and we're very pleased by the robust, sustainability efforts underway already. We did notice that they didn't have a lot of attention to water stewardship and talked about that with them in the meeting and suggested that they focus on it and perhaps also talk with the water council to consider their new wave program, which brings intention to action as it relates to water stewardship.

S3: 25:36

And then thirdly, Limoneira, which is one of our portfolio companies, is a citrus and avocado grower based in Southern California. They also happen to grow avocados in Arizona, and the reason they can do this is because they own water rights to the Colorado River basin, which is the main source of their water. And this allows them to get water ahead of some of the other users. The crisis there is not a surprise to anyone. And because it's so acute and so key to their business, we have engaged with them again in the fourth quarter when their board contacted us about talking sustainability to have them focus on water stewardship, particularly, which may even include things like monetizing their water rights to capture the value and maybe stop growing citrus and avocados in the desert. So these are great examples of thematic engagement efforts. And then the third type of engagement we undertook in the fourth quarter was really education. So Adam and I had a thoughtful and lively discussion with the students of the UW Madison ASAP program about sustainable investing, something that as students, they're just starting to learn about and as consumers, they're starting to think about. And it was great to hear their perspectives and share some of ours. Likewise, in the fourth quarter in October, I served on a panel at the Wisconsin Sustainable Business Conference and we were talking about the revolution of ESG sustainability in our future, and it was great to share the perspective from an investor with the perspective of practitioners who are tasked with carrying out things like sustainable procurement and whatnot. So it was a great opportunity to teach and learn at the same time.

S3: 27:43

So the second topic I'd like to discuss is our 2023 engagement priorities. And you can see the first one here is voting proxies. I'm going to talk about that in detail shortly. But then these next 5 are really, again, continued engagement regarding water stewardship. We think we're a little early to the game on water stewardship engagement. A lot of the focus to date has been on climate change, but water stewardship is equally important and gaining momentum and with the partners we have, we feel we can have a significant impact here. So we'll continue talking with several of these companies. We've already mentioned in a few more about that. The third topic for priority here is the continuation of our educating companies about the ESG journey. What I described with UCO. Anytime we meet with new companies, which is frequently, we always have dialog about what they're currently doing and we always offer these educational materials and consulting about getting started and moving along the path. So that will continue. The next item is the CDP disclosure. Every year, CDP asks companies to disclose their efforts on climate change, water, and deforestation. And they choose companies for whom these are important topics. And then they give CDP members, which River Water is, the opportunity to join in writing to companies to ask them to disclose. Providing information about why it's important to them and to us as shareholders, and then asking them to report to CDP. And CDP reports that a company is twice as likely to report if shareholders have a voice and ask them to do so.

S3: 29:51 The good news for River Water in 2023 is that for the first time, they're digging deeper into the Russell 3000 to look at smaller companies for this type of engagement. And so we think that more of our holdings will be candidates for us to encourage this reporting to CDP. And then the last item we hope to do is write to companies in our portfolios that have salient risks surrounding climate change about their greenhouse gas emissions reduction and disclosure. We're 5 years in really roughly on this whole idea of viewing the climate change as a risk and opportunity. And so we think it's time to sort of check in with everybody about where they are and suggest areas of improvement. So my last topic today is proxy voting. And river water votes all proxies in accordance with our proxy voting guidelines which favor resolutions that align with our ESG views. And it should be noted that we use the same mindful approach to proxy voting as we do to the other aspects of our sustainable investing practice. And I'm going to share a couple of examples that demonstrate that. So last year, one of our energy companies received a shareholder proposal on the ballot asking for a report on its attention to climate change. In our review of their sustainability reporting, as well as our dialog with them, suggested to us that they were already on the right path and that they were already doing more than they had been in the past. And so we didn't feel that what this shareholder proposal was asking was additive to better outcomes and therefore, we voted against it. So we're in favor of climate change action, but only when it's additive to a company's process.

S3: 31:48 And another example is we hired Glass Lewis this year to assist with our proxy voting. And having Glass Lewis actually vote our proxies is an option for us. But we opted not to do that believing instead we wanted to carefully consider each resolution through our lens. And it was interesting, though, that during our onboarding session at Glass Lewis demonstrated this feature, and they were using their ESG voting algorithm. But we were surprised when Glass Lewis voted against all of the male directors on a board that didn't have 30% gender diversity. And again, while we believe gender diversity is important like many forms of diversity, we felt that this was too prescriptive and frankly a bit unfair given that all of the board members are responsible for ensuring that diversity continues to move forward. So we would not have voted in alignment with that. So having said that, Glass Lewis will be our proxy voting helper this year. They're going to provide operational assistance and reporting for us, which will be great. And we always have and will continue to write to boards explaining our rationale when we vote against company management. And that means if we vote against a management proposal or if we vote in favor of a shareholder proposal that management opposes, we don't pre-announce our voting intentions, but we do write after the fact explaining our rationale. And lastly, we report our voting results in our annual sustainability report, which will be coming out later this spring. So with that, I'll turn it back to you, Matt.

S2: 33:42 Great. Thank you, Cindy. And thank you for your work on water stewardship with our current holdings. It's also great to see the valuation of small caps at compelling levels. We did receive one question earlier. Adam, could you speak to a theme or two that is presented in the portfolios today?

S1: 34:00 Sure. I'll be honest, I wouldn't say we're big theme investors. We want to focus portfolio and actually, if you look, of the 11 sectors in our benchmark, we have 2 or less holdings in 5 of those. So roughly half of the industries, we own 2 of our stocks, again, because we have 30 stock portfolios. So if we created a theme, it might only be for 1 stock. So I think when you take a step back and look, holistically, about the portfolio, I'd say one theme that is pretty dominating, especially versus a benchmark is in the sustainable value strategy, we are looking for profitable companies that earn their cost of capital. And if you look over the last couple of years, I believe 40%, this is not-- our benchmarks are also 2,500 value. I can't find the numbers for it, but I think this is directly accurate. And the Russell 2000, 40% of the names in the Russell 2000 are unprofitable. They are not making money. Relying on either the equity markets to issue more capital to fund operations or the debt markets, and both of those markets have become more difficult. So running a money-losing business is not a great place to be today with higher interest rates and restrictive capital markets. If you look at the portfolio as it stands today, every single company in the portfolio today made money last year, except for two. One of those two companies was first Solar, which has been a terrific performer for us. They are probably going to make at least $5 a share this year. So it's really just a timing issue. They don't have a history of unprofitability. They were just getting some major plans ramped up. And the second company is one we-- I'm trying to remember if we bought it at the end of the fourth quarter at the very beginning of this year. But that's a company called BRCC and they manufacture coffee. And so they are probably going to be break even this year. But debt-free, large insider ownership. They fit all of our metrics. And so those would be the only two companies last year that did not make money. And so I think the one big theme is we are focused on companies, again, that earn their cost of capital. Thank you for the question.

S2: 36:22 Thank you, Adam and Cindy. At this time, there are no further questions. To conclude the call, se are passionate about small-cap ESG investing and believe these factors are crucial to help minimize portfolio volatility through maintaining positions in high quality businesses and do our market cycle. 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 investment, Morningstar investment metrics, and calendar databases. If you have additional questions or would like to speak directly with a member of our team, please contact me. We look forward to talking with you again next quarter.