

## Q1 2023 ESG Large Value Strategy Update

By Kirk Fox

The Riverwater ESG Large Value strategy outperformed its benchmark, the Russell 1000 Value Index, which was positive for the quarter.

The market was trending up nicely until it was surprised by the Silicon Valley Bank crisis which seemed to surface overnight and caught the market off guard. (Please see our main letter for thoughts on the situation). In the midst of the Silicon Valley Bank turmoil, our Large Value strategy fared well on a relative basis. Highlights on portfolio changes are below.

### **Additions**

In the first quarter, we initiated positions for four companies: Alphabet Inc. Class A, also known as Google (GOOG), Charles Schwab (SCHW), L3Harris Technologies (LHX) and STERIS PLC (STE).

Alphabet, also known as Google, offers online advertising and cloud-based solutions, including infrastructure and platform services as well as communication and collaboration tools. Its products such as Google Maps, Google Search and YouTube are market share leaders in their respective markets. Despite a recent pullback in its stock price, we believe Alphabet's continued innovation and dominance in its markets make it an attractive investment opportunity.

Charles Schwab provides wealth management, asset management and financial advisory services. As a Schwab customer ourselves, we have a deep understanding of how the company executes its business. During the quarter the stock dropped sharply following the Silicon Valley Bank crisis. The market was concerned about deposit outflows due to temporary losses in its bond portfolio. We took advantage of the share price correction and added the stock to our strategy, anticipating that Schwab will emerge relatively unscathed from the fallout.

L3Harris Technologies (LHX) is a global Aerospace & Defense company that provides technological solutions to government and commercial customers. It operates through four segments: Integrated Mission Systems, Space and Airborne Systems, Communication Systems, and Aviation Systems. We took our profits in Caterpillar and purchased LHX because of its defensive nature and less cyclical business model, which should perform well in the current economy.

STERIS Plc operates in four segments: Healthcare, Life Sciences, Applied Sterilization Technologies, and Dental. We find the company attractive because of its defensively positioned high-quality consumable healthcare products.

### **Sales**

During the first quarter we sold positions in Medtronic PLC (MDT) and Caterpillar Inc. (CAT). We sold our position in Medtronic due to its ongoing execution issues with both new and existing products. Additionally, we sold our position in Caterpillar because of its cyclical nature and macroeconomic uncertainty. We will continue to monitor these companies for a future potential investment opportunity.

### **Top Contributors**

During the quarter, we had several equities that outperformed, including First Solar Inc. (FSLR), Progressive Co. (PGR), and Zebra Technologies (ZBRA). First Solar is a major beneficiary of the Infrastructure Investment and Jobs Act (IIJA) as a US-based supplier of solar panel modules. Its proprietary cadmium telluride technology insulates it from Chinese forced labor while offering better performance. Zebra benefited during the pandemic and despite a sell-off from its peak in late 2021, its fundamentals have proven to be stronger than expected and the stock has rebounded accordingly.

### **Top Detractors**

Equities that underperformed during the quarter included PNC Financial Services (PNC), Pfizer Inc (PFE) and EOG Resources (EOG). PNC was a detractor as it got tossed in with the concerns about Silicon Valley Bank and concerns about a potentially larger crisis unfolding. PFE was weak during the quarter driven by lower COVID sales, which resulted in lower earnings estimates for the year. EOG suffered from a weak commodity price during the quarter.

(Disclosures and chart showing Sustainable Strategy Largest Contributors and Detractors on next page).

ESG Large Value Strategy  
Largest Contributors and Detractors – Q1 2023

5 Best - Absolute Contribution			
Ticker	Company	Average Weight	Contribution
FSLR	First Solar, Inc.	2.34%	245 bps
PGR	Progressive Corporation	5.19%	163 bps
ZBRA	Zebra Technologies Corp. Class A	2.86%	141 bps
GLW	Corning Inc	4.29%	138 bps
PCAR	PACCAR Inc	3.68%	99 bps
<b>5 Best Total</b>		<b>18.36%</b>	<b>786 bps</b>

5 Worst - Absolute Contribution			
Ticker	Company	Average Weight	Contribution
PNC	PNC Financial Services Group, Inc.	4.45%	-88 bps
PFE	Pfizer Inc.	3.63%	-83 bps
EOG	EOG Resources, Inc.	2.67%	-28 bps
CEG	Constellation Energy Corp.	1.89%	-18 bps
LHX	L3Harris Technologies Inc	0.53%	-14 bps
<b>5 Best Total</b>		<b>13.17%</b>	<b>-231 bps</b>

*Disclosures:*

*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 of 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.*