

WEBINAR: Q2 2023 SMALL AND MICRO CAP STRATEGIES UPDATE
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PANELISTS:

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MATT DRVARIC, CFP | PARTNER

[MATT DRVARIC]:

SLIDE 2 - agenda

Good afternoon, this is Matt Drvaric, thank you for joining us and welcome to the Riverwater Partners Q2 2023 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 & Chief Investment Officer will discuss performance for the strategies and walk through our first pillar in the investment process, superior business. Cindy Bohlen, our Director of Responsible Investing, will review engagement activity for the quarter. After today's presentation, there'll 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.

SLIDE 3 - about us

Riverwater Partners was founded in 2016 in Milwaukee with a team today dedicated to 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 universe which we believe contributes to lower volatility and offers a complementary perspective as a portfolio diversifier to small cap peers.

SLIDE 4 - Instl Presence

Riverwater continues to be recognized as a leading emerging manager. During the second quarter, eVestment released their first quarter Emerging Manager monitor and ranked the Riverwater Sustainable Value strategy as the 4th most searched US Small/SMID/Mid equity product. We are proud that our approach to small cap investing is gaining traction in the institutional market and are excited about the opportunities for the firm on the horizon.

I will turn it over to Adam to review the positioning of the strategy further.

SLIDE 5

[ADAM PECK]:

Thank you Matt and good afternoon to everyone. So, I will cover our small cap overview and both of our small cap strategies. Then I will dig into the first of our three pillars>> Superior Business.

Cindy has done a great job on prior webinars explaining our three pillar approach to ESG and so I thought it was a good idea to follow her lead on our core approach to investing.

SLIDE 6 - TOP FIVE

OK, let's get started. Here we have our top five holdings for the sustainable value strategy. Our top names were all up in the second quarter. By an unweighted average of 13.5%

Our 35-stock portfolio tends to have most position sizes start around 3%. The most common way to get into the top 5 is by growing, not by starting out as a larger position. The top three stocks are all industrials and we have significant gains in all three. Industrials have been standout performers for us this year which is surprising given the Fed is on the gas with rate hikes and Industrials are typically not such late cycle standouts. We are bullish on all believing they are positioned well for economic volatility and are on average still undervalued. Our top five holdings trade at an average PE ratio of 13.46x and three of the five are under 12x earnings.

SLIDE 7 - SECTOR WEIGHTINGS

Here we've got our sector weights and I'll remind everyone that we try to stay within 5% of our benchmark's sector weight and have a hard and fast limit at ten percent. Today the largest underweight continues to be in Real Estate at 6.1%. RE has a lot of headwinds especially for certain sectors like Office. Also, Treasuries now have yields comparable to REIT dividends so it is much harder to compete for investor capital. We are surveying the space, but so far see little that gets us excited. The largest overweight is in consumer staples at 5.2%. We are not totally convinced a soft landing is in the cards and like the stability of the cash flow streams of our holdings there. Outside of those two sectors we have no major deviations from the benchmark.

SLIDE 8 - SUSTAINABLE VALUE METRICS

Here you can see we align pretty closely to our benchmark on just about all metrics with the only MAJOR deviation in ROE where we have higher quality companies with return on capital about double the market's average.

I do want to point out that our forward year PE is higher than the benchmark and up quite a bit from trailing which is not common outside of being at the beginning of a recession. The reason our PE jumps so much is almost entirely due to how Harmonic means are calculated. Harmonic means take the inverse of the numbers that make up an average to smooth out means with large ranges.

Smaller PE stocks therefore have larger weights. Because some of our top holdings had very low PEs in the trailing 12 months like CNX which was at 2x earnings. CNX's PE will normalize to around 13x this year. This jump drives a higher FY1 PE for the strategy.

Every company we own is forecasted to be profitable this year which is significantly higher than the benchmark.

SLIDE 9 - 3 MONTH ATTRIBUTION

We underperformed in the quarter. As per our history we tend to lag in market uplifts and this quarter was no different. We did outperform nicely in the first quarter when the market was down and YTD are still outperforming as we did not give up this past quarter as much as we gained in the first. The largest detractors were Stonex, Ciena and Talos Energy. Our two worst performers were StoneX and Ciena. StoneX benefits from market volatility and higher levels of trading. We have not seen either as markets have calmed since the declines in 2022. Ciena's record-high and unsustainable backlog began to return to more normal levels during the first quarter. This spooked the market and resulted in a sell off. We added to the stock on the weakness as we believe the fundamentals are solid. StoneX however, was trimmed in the quarter as we felt there was better opportunity in the beaten up bank sector. Talos weakness was mainly driven by a poor first quarter earnings report, tough comparables to the previous year and oil prices that dropped throughout the quarter. I will note that the third Q is progressing much better for Talos and it's currently a top performer for us going from one of the worst to first. The top contributor was RH, a home furnishings retailer. We did a deep dive on our thesis in our Q4 2022 year end letter.

Sector allocation essentially had zero impact this quarter which is not surprising giving our close weightings to the benchmark.

SLIDE 10 - 1 YEAR ATTRIBUTION

Over the last 12 months we've beaten the benchmark by just under 11%. First Solar led the way. They are the number one domestic producer of solar panels and are a beneficiary of the IRA legislation passed last year. The company has grown to be one of the largest companies in our benchmark and we used the strength in the first quarter to trim the position. We still own a small position, but will likely use it as a source of funds at some point in the future.

The top detractor was Infusystems. We finally gave up on Infusystems after having trimmed it last year. We eventually lost confidence in their ability to execute.

SLIDE 11 - SUSTAINABLE VALUE CHARACTERISTICS

It might be hard to see the categories on the bottom, but we wanted to show as we think the various factors below illustrate well how we position the portfolio. Looking for cheap companies with better than average returns on capital. This is evident as we have lower PEs than the market with the pink dots for PE in the bottom 5% and the purple colored dot on the far right represented ROA which is in the top 5%.

With that, I will pass it back to Matt.

[MATT DRVARIC]:

SLIDE 12 - SUSTAINABLE STRATEGY REVIEW

The Riverwater research team of four has combined experience of over 65 years in institutional money management and has delivered consistent outperformance relative to the strategy benchmark, the Russell 2500 Value. Illustrated here are monthly rolling 3-year returns for the Riverwater Sustainable Value strategy. The strategy has outperformed the benchmark 91.3% of the time back to inception in September 2016. We are excited to attain a 7-year track record for the strategy at the end of the current quarter and remains one of the longest track records among small cap strategies to incorporate responsible investing factors into the process.

SLIDE 13 - SMID VALUE PERFORMANCE

Performance for the strategy presented here with competitive performance across each period. I will note that with the new marketing rule the net of fee returns are based on the highest fee schedule that can be applied at 1% for retail clients.

SLIDE 14 - GIPS DISCLOSURES

Adam will walk through our Micro strategy.

[ADAM PECK]:

SLIDE 16 - MICRO TOP FIVE

Here we have the top five for the Micro.

All five have grown to be here and all are still cheap in our eyes. The average PE ratio excluding Limoneira is 10.4x and as we've said before we believe Limoneira is undervalued based on their significant Real Estate and water holdings.

SLIDE 17 - SECTOR WEIGHTINGS

We don't have hard sector constraints in the micro for each sector, only that no one sector can represent more than 30%. The closest we come there is in Industrial at a 19.6% weight.

SLIDE 18 - MICRO METRICS

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 weighted average market cap would be in line with the Russell Micro benchmark.

SLIDE 19 - 3-MONTH ATTRIBUTION

We underperformed in the second qtr with an absolute return that was just about flat and our bench was up 5%. As a reminder we are comparing to the Russell 2000 and not the micro because Russell won't allow us to show the micro. But we underperformed the micro to the same degree.

Our worst performers were Perion which sank on a short report. A weak short report in our view. Tecnoglass was the top performer driven by another beat a raise quarter and a still undervalued stock.

SLIDE 20 - 1 YEAR

As we look over the last year returns, you can see we underperformed vs the Russell 2000, though if you compare us to the micro benchmark we beat by 150 bps.

The best performer again was TGLS and the worst was First Internet Bank. They were hit by the banking crisis as well as some poor credit developments. We did subsequently sell the bank and replaced it with one we had more confidence in.

It has been a volatile market for all asset classes. I am not happy with the most recent performance. I know that in the short term the market is a voting machine, but in the long run it's a weighing machine and I feel confident in our companies' outlooks for the future.

SLIDE 21- MICRO CHARACTERISTICS

Similar to our SMID strategy, the Micro strategy shares value oriented characteristics as illustrated by the pink dots and higher quality companies in purple relative to the Russell 2000 benchmark. The strategy is best compared to the Russell Microcap Index given the size illustrated on the far left. We use the Russell 2000 given our licensing agreement at this time with Russell.

I will turn it over to Matt.

[MATT DRVARIC]:

SLIDE 22- ESG MICRO ANALYSIS

The Micro strategy analysis shown is relative to the Morningstar Small Core peer group. The portfolio recently completed the 5-year track record the end of July and is designed to carry more a little more volatility as we will purchase companies as small as \$50M in market cap and hold as they mature up to \$2B. Our approach in this portfolio has mirrored similar results to the SMID strategy by outperforming the Russell 2000 benchmark 100% of the time on a monthly rolling 3-year basis since inception 7/31/2018.

SLIDE 23- ESG MICRO PERF

Like the Sustainable Value Strategy, the Micro Opportunities Strategy has delivered outperformance against the Russell 2000 over all presented time periods. We ideally would benchmark this strategy to the Micro Cap Index but for operational purposes at this time have not licensed the data from Russell.

[ADAM PECK]:

SLIDE 25 - INVESTMENT PROCESS

So now I'd like to do a quick deep dive in the first of our three pillars - superior business.

SLIDE 26 - THREE PILLAR

As a reminder we have three pillars which also includes Distinguished mgmt and attractive valuation. You will have to wait for three and six months for those!

SLIDE 27 - SUPERIOR BUSINESS

So what do we consider makes a superior business. Well it's a lot! We start by looking at the industry the company operates in and does the industry lend itself to acceptable returns on capital. We work off of professor Michael Porter's work called Porter's five forces. Not all industries are created equal. Some are quite competitive like airlines where customers just search for the cheapest price. Others have very little rivalry where there are only a few dominant players like internet search engines. We look at a myriad of other metrics on the right like pricing power, recurring revenue streams and the ability of the company to scale its business.

Then we analyze the opportunity the company has to grow their sales and or margins and cash flows.

The main thing we always look for is improvement in the metrics on the bottom because that is what drives alpha. We hone in on the opportunities because that is what drives improvement.

SLIDE 28 - ESG ANALYSIS

I think ESG improvement is the most misunderstood in the opportunity bucket. Studies have shown that ESG momentum is a factor in alpha generation.

Cindy and our team developed our own 25 point scoring system to measure every company we invest in.

SLIDE 29 - PICTURE BRAD PITT

I am sure many of you are familiar with the book Moneyball which was later made into a movie. We are going to play a short clip where the GM Billy Beane informs his scouting team how he is going to replace his top three players that left the team after the last season.

PLAY VIDEO

SLIDE 31 - JONAH HILL

He is using on base percentage as a metric to measure players because the more players get on base the higher the likelihood that they will cross home plate and score runs. The more runs you score the more games you WIN. It does not matter what you look like nor HOW you get on base. Just that you get on base. Oakland used stats to find value in players that no one else saw. We think the same thing is happening with small cap value stocks and ESG factors.

We think ESG factors are the equivalent of on base percentage. Does it hurt us to look at how companies impact the environment and the communities in which they operate? We don't think so. And we can prove it with our numbers. We want ESG factors to help us get on base and score runs!

Oakland implemented moneyball in the 2002 season. Their payroll was \$41mm. They had a 20 game win streak - the 4th longest in MLB history and won just as many games as the Yankees who had a payroll of \$221mm. Five times larger.

We have seen a fair amount of pushback in regards to ESG from some corners of society. I think the closing scene of the movie where the owner of the Red Sox, John Henry, makes Billy Beane an offer to be the Sox GM is fitting. In it he said "the first guy through the wall always gets bloody. If you threaten the way things are done, whatever it is, people go batshit crazy. Anyone not tearing their team down and using your model will be dinosaurs."

By the way Beane turned him down but the Red Sox followed his method and won the world series two years later breaking the 86 year curse of the bambino. We see a lot of similarities in how Beane implemented new ways to look at players with how we look at companies.

[CINDY BOHLEN]:

SLIDE - 1H 2023 ENGAGEMENTS

Thank you, Adam. Today I'm going to discuss our engagement efforts during the first half of 2023. Engagement is the second pillar of Riverwater's Three Pillar Approach to Responsible Investing. Our first pillar, Due Diligence, informs us about **which companies** to engage. Our third pillar, Collaboration, informs us about **which ESG factors** should be the focus of our engagement.

SLIDE 33 - SUSTAINABLE INVESTMENT CAUCUS

In January 2023, Riverwater signed on to a US SIF letter encouraging House of Representatives members to join a new Congressional Sustainable Investment Caucus, to **focus on educating members of Congress** about sustainable investment. We are happy to report that on January 25th, the Sustainable Investment Caucus was launched. We believe that educating members of Congress about the importance of a focus on material ESG factors by responsible investors is important to uphold their fiduciary duty.

SLIDE 34 - CDP LETTER REGARDING WATER CRISIS

Riverwater signed on to CDP "Open Letter to Governments on Water Crisis." Given the increasing risk posed by water to all people, CDP and investors including Riverwater are encouraging governments to enact meaningful policy to address growing risks surrounding water. Typically the features listed here - Strategy, Targets, Policy, and Disclosure - constitute strong policy.

SLIDE 35 - WATER STEWARDSHIP ARTICLE

Rivewater, in partnership with The Water Council, authored a Water stewardship article which was published in TriplePundit magazine, aimed at educating companies about the importance of water stewardship.

SLIDE 36- MEC SUSTAINABILITY

Mayville Engineering's IR firm endeavored to get input regarding the company's attention to ESG factors from various stakeholders, and reached out to Riverwater for shareholder input. We suggested that Mayville first conduct a materiality assessment to help the company prioritize the collective stakeholder input received. Given that Mayville is a manufacturing company, we suggested a focus on energy/waste/GHG emissions reduction, and water stewardship. We also suggested a focus on worker safety and strong corporate culture and governance.

SLIDE 37- LMAT SUSTAINABILITY

LeMaitre is a global manufacturer and distributor of patches and other tissue devices used in vascular surgery. Riverwater has patiently engaged with LMAT about attention to ESG factors over the past several years, while the executive leadership first dealt with COVID

and then the need to secure new CE mark approval for all of their products in the EU. Recently, LMAT hired a new Chief Compliance Officer who is beginning to put together a sustainability strategy. We suggested the company begin with a materiality assessment, and then focus on product safety, maintaining its strong corporate culture, and governance. I want to emphasize here that we are patient with small-cap portfolio companies about a focus on ESG factors. They often don't have the human or capital resources to devote to sustainability reporting, and are often stretched when unexpected events occur (like COVID and a change in regulatory approval for medical devices in the EU). Importantly, the fact that a company has not yet begun reporting on sustainability efforts does not mean they are not underway. LMAT has demonstrated this with its swift attention to getting products approved again in the EU (there is a big need for them), as well as its attention to the safety and financial wellbeing of its workers during COVID.

SLIDE 39 - PUBLIC POLICY -

Riverwater signed on to an ICCR letter to Congress asking members to use their voice and influence as a public official to speak out publicly against a surge in legislative, regulatory, and legal threats seeking to undermine the practice of ESG investing. "ESG" has become the catch-all term to refer to responsible, sustainable, or any other form of investing that considers E, S, and G factors alongside other more traditional factors when implementing investment strategy. It is our belief, and evidence supports, that attention to E, S, and G factors that have the potential to MATERIALLY impact businesses should be allowed to be considered as part of a prudent investment strategy which upholds fiduciary duty.

Thank you. Back to you, Matt.

[MATT DRVARIC]:

SLIDE 34 - CONCLUSION

Thank you for the update on the strategies Adam, and Cindy for all of your work on pushing our portfolio companies to improve. At this time, we welcome any questions. We received a question earlier:

How do you prioritize the engagements you undertake?

Thank you Adam. 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 help minimize portfolio volatility through maintaining positions in superior businesses that endure market cycles. We welcome your consideration as a manager. Additional data on the strategies can be found in eVestment, Morningstar,

Investment Metrics, PSN, and Callan databases. If you have additional questions or would like to speak directly with a member of our team, please contact me. Enjoy the balance of summer, we look forward to talking with you again next quarter.