In Q4 2023, the Riverwater Sustainable Value Strategy performed inline with its benchmark, the Russell 2500 Value Index. The double-digit returns affirmed our prediction last quarter that positive returns would likely follow after a disappointing Q3. Thank you, Jerome! The strategy outperformed for the year, with strong relative performance during the banking crisis.

Low quality companies drove the rally after the November Fed meeting. This came as no surprise as low quality typically leads in new bull markets. Top performers were stocks that are heavily shorted (+24%), have negative earnings (+18.9%), shrinking dividends (+18.3%) , and low ROE (+17.3%). High-quality factors, including low bankruptcy risk (+10.9%), low leverage (+11.9%)x, and high ROIC/ROE (+12.6%/12.4%), lagged behind.

Despite our quality-centric tilt, we were pleased to have kept up with the market's pace, especially noteworthy given small caps bottomed on October 27 with a 33% decline from their peak in 2021.

Historically, small caps perform well following bear markets. As seen below, small caps are up 60.7% on average one year after bottoming, beating large caps by an average of 21%. See chart below.

Macro Landscape and Portfolio Positioning

Forecasting the economy's future is complex and often unproductive. However, our favored economic indicators pointed to a slowdown for most of 2023, suggesting that either the indicators were wrong or just early. (See our last letter on the yield curve history going back 150 years).

Our focus remains on identifying great companies with idiosyncratic drivers that can do well over economic cycles and potentially improve their relative competitiveness in times of economic uncertainty. In 2023, cyclical sectors like Industrials, Tech, and Consumer Discretionary excelled, while non-cyclicals like Utilities, Health Care, and Consumer Staples underperformed.

Like Switzerland, which has avoided all major European wars since 1815, the portfolio is aggressively neutral in that it is sector agnostic. We do not make large sector bets. Most large sector divergence is driven by stock performance. Keeping the analogy going, Switzerland's neutrality is aided by its geography, a difficult terrain that provides a natural deterrent against invasion. Like Switzerland's mountainous terrain, profitability acts as a natural fortress to difficult economic conditions and protects

Russell 2000 Forward Peformance from Bear Market Bottoms

R2 Bear Market		Price Chg.	R2 Absolute Price Change (%)				R2 Price Change Relative to SP5 (%)			
Start	Bottom	From Peak (%)	Fwd. 2M	Fwd. 6M	Fwd. 1Y	Fwd. 2Y (A)	Fwd. 2M	Fwd. 6M	Fwd. 1Y	Fwd. 2Y (A)
02/08/80	03/27/80	(26.7)	22.1	60.1	75.2	20.7	8.0	29.1	38.1	14.0
06/15/81	08/12/82	(29.2)	26.6	62.1	92.4	30.6	(4.7)	20.6	34.7	4.9
06/24/83	07/25/84	(26.0)	12.4	18.7	30.5	23.3	1.3	(0.4)	1.8	(3.2)
08/25/87	10/28/87	(39.1)	11.6	36.5	39.7	26.6	6.8	23.9	19.1	5.4
10/09/89	10/31/90	(34.0)	10.8	45.7	54.0	28.9	3.4	20.5	24.7	11.4
04/21/98	10/08/98	(36.9)	29.3	32.7	37.7	25.6	6.2	(8.9)	(1.5)	4.4
03/09/00	10/09/02	(46.1)	18.1	13.9	59.4	32.9	3.3	1.7	25.7	12.6
10/09/07	03/09/09	(59.4)	43.6	66.2	95.1	55.0	9.5	16.0	26.5	15.2
04/29/11	10/03/11	(29.6)	19.9	37.0	37.9	33.0	6.7	8.4	6.4	9.0
06/23/15	02/11/16	(26.4)	18.5	28.9	45.6	25.0	4.6	9.4	19.0	4.5
08/31/18	12/24/18	(27.2)	24.5	19.8	32.4	25.9	5.7	(4.1)	(4.7)	0.6
02/20/20	03/18/20	(41.6)	34.6	56.6	128.8	44.3	11.4	15.4	65.5	8.7
11/08/21	10/27/23	(33.0)	25.7				9.6			
		Average	**22.9**	**39.9**	**60.7**	**31.0**	**5.5**	**11.0**	**21.3**	**7.3**
		Median	**22.1**	**36.7**	**49.8**	**27.8**	**6.2**	**12.4**	**21.9**	**7.1**

Source: FRP, FactSet; as of 12/29/23

the portfolio against the casualties of war. We believe our portfolio is fortified by profitability: all but one of its holdings is profitable in contrast to the Russell 2500* where 36% of the constituents are unprofitable. **Because there is no Russell 2500V ETF it is not easy for us to run the data, so we use the Russell 2500 in its place. We think the numbers would be pretty close.*

Portfolio Attribution

2023's alpha can be solely attributed to stock selection, particularly in Financials and Industrials. We were able to take advantage of the turmoil in the banking industry by buying Western Alliance Bank (WAL) early in Q2. We were also underweight in the banking industry going into the downturn which afforded us the opportunity to miss out on some severe destruction. We added to the industry when the babies were being thrown out with the bathwater.

Industrial outperformance was widely distributed across our six holdings. Every industrial company we own increased its market value by more than 30% over the course of the year. Investment themes are varied and run the gamut from strength in housing to data center growth to highway construction.

Our worst relative sector performance for the year was in Materials and Energy. Material underperformance was driven by our only holding, FMC Corporation (FMC). We sold FMC for a gain after losing confidence in their ability to backfill their leading products which will come off patent in the near future. We owned FMC for seven years and while difficult to part ways, it remains on our watchlist. In Energy, we were happy with the performance of CNX (CNX), but Talos (TALO) had a rough year and was the top portfolio detractor for the year. Weakness was caused by lower oil prices, some operational issues and a continued wait and see environment on Talos's carbon capture segment. We remain optimistic on their carbon capture opportunity but are keeping the position small until we see signs of success.

Our best positive relative sector performance in Q4 was in Financials and Industrials. Financials were our best performing sector, with outperformance driven by Western Alliance Bank (WAL) and Farmer Mac (AGM). We held a slightly lower weighting versus the benchmark, which slightly detracted from performance. Our Industrials were standout performers as well. Again, the Fed messaging drove housing related sectors and Tecnoglass (TGLS) rode the strength. We attribute outperformance in these sectors to stock selection.

Consumer Discretionary and Healthcare experienced the worst relative sector performance in Q4. Our Consumer underweight represented about 25% of the underperformance as that sector was a top performer. The largest individual stock detractor was Croc's (CROX). The stock only rallied 5.8% which trailed the sector return of 16%. It was doing fine until Nike reported poor earnings mid-December. We think a fair bit of Nike's issues are not pertinent to Crocs and would expect the low expectations to be surpassed when they report their next quarter.

Strategy Additions

After an above average amount of activity in the third quarter, trading swung the other way in the fourth quarter. We had no new buys and only added to one position, Modine (MOD). A deep dive is below. We ended the year with turnover just below 32%, inline with our historical average.

Stock Sales

We sold RH in the quarter as we lost confidence in its ability to have a strong launch in Europe after high end luxury conglomerate LVMH reported a significant slowdown in European sales in October. This is a good read through for the entire European luxury market and likely would impact RH. While RH has shown confidence in their business by buying back roughly 20% of the shares outstanding, this will increase leverage while free cash flow is likely to still decline. We do think this business model has much more upside, it is likely to be further pushed out as headwinds remain persistent in the near term. We used the proceeds to add to Modine. While RH has risen a bit since our sale, Modine has performed much better.

Company Deep Dive: Modine Manufacturing Company

Modine Manufacturing (MOD), based in Racine, Wisconsin, has over a 100-year history, currently employs more than 11,000 employees and generates revenue in more than 20 countries around the globe. MOD manufacturers and produces thermal management products and solutions. These include products used in various types of climate-controlled applications: ventilators to improve air quality, heat pumps, thermal management for commercial vehicles, and cooling products for data centers.
Importantly, MOD products by their nature have a sustainable impact. They are designed to maximize efficiency while simultaneously improving the heating and ventilation capacity in locations such as schools and businesses. Other products allow a reduction in emissions for commercial electric vehicles. Additionally, their data center products reduce or eliminate water and energy consumption.

In December 2020, Neil Brinker took over as CEO. Mr. Brinker brought a fresh set of eyes to MOD which set the path for a disciplined approach to managing products, margins and implementing new growth opportunities. Importantly, Mr. Brinker implemented the 80-20 rule, also known as the Pareto Principle, which maintains that 80% of outcomes come from 20% of causes. Simply put, an 80-20 rule identifies high performing assets and leverages them to create value and efficiency within the organization. The management team slowly and methodically implemented the principle and quickly saw meaningful results. Not only did the 80-20 rule bear fruit financially, but it also received strong buy-in from employees. In the three years since Mr. Brinker has been CEO, the company has produced results beyond initial expectations. Revenue growth and margins have surpassed their stated goals, and we believe the company will raise their long-term financial targets in 2024.

We originally purchased the stock this past summer when MOD was trading below 15x forward earnings. Since then, the multiple has moved higher, but remains inline or slightly lower than the market multiple. Considering the earnings power MOD has demonstrated over the past two years, and is projecting, we believe valuation is still attractive. In 2022, MOD earned $1.62, and we think MOD has the potential to earn close to or over $4.00 in 2025.

The current stock price relative to earnings potential in 2025 yields a forward P/E below 15x and well below that of the broader market. Additionally, during this same time frame MOD's leverage ratio moved from more than 2.5x to less than 1x, resulting from a combination of earnings power, debt reduction and divestitures. Equally important, free cash flow is projected to be at multi-year highs.

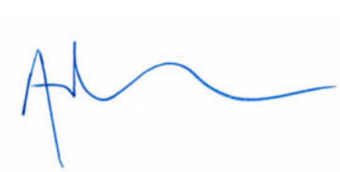
Given the sustainable changes that have taken place at MOD, the company exemplifies our three-pillar approach: Superior Business, Attractive Valuation and Exceptional Management Team. First, MOD operates a superior business model, as evidenced by taking share in their respective end markets and creating new business opportunities, such as data center cooling. Second, valuation of MOD remains attractive, especially given their current growth opportunities. We believe MOD is at an inflection phase of their long-term growth. Lastly, MOD is about three years into their transformation and during this time the management team has proven to be exceptional, having executed on all levels. This is evident in their various return metrics, reduced debt levels and increased revenue growth.

We continue to see MOD pivot the business as their 80/20 model continues to extrapolate further value in their model. During 2023, MOD continued to divest non-core assets such as their European based internal combustion engine (ICE) auto related assets. MOD is intentionally moving away from their once core ICE related business and pivoting towards electrical vehicle applications in the commercial segment. While they do lose about $80 million in revenue from the divestiture, the proceeds will be deployed to higher growth and enhanced margin opportunities.

One area we think MOD could deploy this capital is into their data center cooling opportunities. In one form or another, we all use the benefits of a data center, and it will only become more essential in our daily lives as technology continues to advance, from the emergence of Artificial Intelligence to 5G cellular connectivity and overall technology use and reliance. The common theme here is that data usage and demand are accelerating. To reliably deliver the data to the user, it is crucial that a data center maintains optimal temperature at all times. MOD innovates and manufactures the products enabling data centers to operate efficiently and reliably. Importantly, MOD has created and engineered a CDU (Cooling Distribution Unit) for use in high density data centers as well as immersion cooling. Year over year, revenue has more than doubled in the data center segment and we expect it to grow more than 35% per year over the coming years. We are excited to watch the data center segment of MOD evolve over the coming years. This past summer we had a chance to visit one of their manufacturing centers in West Virginia, where we were able to see firsthand the size and complexity of these cooling devices.

MOD is just starting to find its stride. It hasn't even broken a sweat in this marathon and continues to transform itself and further penetrate identified areas of opportunity. While MOD has executed well thus far, we look forward to seeing what's next.

As always thank you for your trust and confidence and please reach out with any questions.



Adam Peck
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(Disclosures and chart showing strategy largest contributors and detractors on next page).

Sustainable Value Strategy
Largest Contributors and Detractors – Q4 2023

5 Best - Absolute Contribution			
Ticker	Company	Average Weight	Contribution
WAL	Western Alliance Bancorp	4.24%	173 bps
IDCC	InterDigital, Inc.	3.59%	126 bps
AGM	Federal Agricultural Mortgage	4.91%	122 bps
TGLS	Tecnoglass Inc.	3.23%	118 bps
LMNR	Limoneira Company	3.40%	115 bps
	5 Best Total	**19.37%**	**654 bps**

5 Worst - Absolute Contribution			
Ticker	Company	Average Weight	Contribution
CNX	CNX Resources Corporation	4.09%	-58 bps
TALO	Talos Energy, Inc.	1.78%	-34 bps
IRDM	Iridium Communications Inc.	1.92%	-30 bps
HAE	Haemonetics Corporation	3.96%	-24 bps
CIEN	Ciena Corporation	3.04%	-19 bps
	5 Worst Total	**14.79%**	**-165 bps**

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 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.