

WEBVTT

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00:02:45.420 --> 00:02:48.060

Matt Drvaric: Thank you for joining. We will begin momentarily.

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00:03:33.650 --> 00:03:39.999

Matt Drvaric: Good afternoon. This is Matthew Barak. Thank you for joining us, and welcome to the river water partners. Q. 4, 2023. Webinar.

3

00:03:40.190 --> 00:03:44.520

Matt Drvaric: All participants will be in. Listen. Only mode to review the agenda for the day.

4

00:03:44.620 --> 00:03:50.069

Matt Drvaric: I will provide a brief, firm update. Adam Peck, our co-founder and chief investment officer, will disapp.

5

00:03:50.130 --> 00:03:51.570

Matt Drvaric: We'll discuss

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00:03:52.160 --> 00:03:57.879

Matt Drvaric: performance for the strategies and walk through our third pillar in the investment process. Attractive valuation.

7

00:03:58.060 --> 00:04:03.060

Matt Drvaric: Cindy Bowen, our director of responsible investing, will review engagement activity for the quarter.

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00:04:03.110 --> 00:04:07.029

Matt Drvaric: After today's presentation there will be an opportunity to ask questions.

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00:04:07.040 --> 00:04:13.540

Matt Drvaric: If you are at your computer. Please submit your questions in the questions. Chat box located at the bottom of your webinar control panel.

10

00:04:13.660 --> 00:04:17.249

Matt Drvaric: Please note this event is being recorded and a replay

will be made available.

11

00:04:19.829 --> 00:04:36.969

Matt Drvaric: River water partners was founded in 2,016 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 bce corporation and 100% employee owned

12

00:04:39.170 --> 00:04:40.759

Matt Drvaric: as a brief firm. Update.

13

00:04:41.040 --> 00:04:50.090

Matt Drvaric: The firm finishes the year with 870 million in assets, we continue to be recognized as a leading emerging manager. In the most recent report published by investment

14

00:04:50.230 --> 00:04:57.780

Matt Drvaric: where the water continued to rank forth in institutional search activity among us, small, smid mid equity emerging managers.

15

00:04:57.890 --> 00:05:03.220

Matt Drvaric: Additionally, we are excited to share the Riverwaters mid the it formally launched

16

00:05:03.400 --> 00:05:14.160

Matt Drvaric: with FBI last week a founder share class has been established with attractive economics. For up to 5 plans. If you are interested in learning further details, please contact me for the offering document.

17

00:05:14.360 --> 00:05:24.900

Matt Drvaric: this vehicle and the results. The research team has generated positions our firm as strongly as ever to grow at dawn Adam will review the same value strategy for the quarter, Adam.

18

00:05:26.300 --> 00:05:45.899

Adam Peck, Riverwater: Thank you, Matt, and good afternoon to everyone, so I'll cover all some rcap overview and both of our small cap strategies, and I'll end our discussion by explaining what we look for in our third pillar attract the evaluation you can reference. Our

last 2 calls for our review of our first pillar superior business and our second exceptional management teams.

19

00:05:46.520 --> 00:06:11.449

Adam Peck, Riverwater: Okay, so let's get started with our top 5 for the sustainable value strategy for the fiver here last quarter. The only changes that Western Alliance replaced Cnx resources. Western Alliance had a nice run in the quarter as the fed signaled an end to the rising rate regime. I'll discuss its contribution in a few slides. But it was our Number one contributor in the quarter. Farmer Mac was an interest rate beneficiary as well.

20

00:06:11.690 --> 00:06:34.380

Adam Peck, Riverwater: Our 33 stock portfolio tends to have most position. Sizes start around 3%. Most common way to get into top 5 is by growing, not by starting out as a larger position. 4 of the top 5 had strong, absolute, and relative returns. Last year our top 5 holdings trade at an average PE ratio of 14.3 times, and an average return on equity of 22.4.

21

00:06:34.380 --> 00:06:50.450

Adam Peck, Riverwater: This compares to our benchmark that has a PE of 14. But are we of just 12.5%? So we own higher quality companies that are not being fully rewarded for their strong returns on capital. And if you are thinking well, maybe because it's there's that they're not growing well, no.

22

00:06:50.770 --> 00:06:57.300

Adam Peck, Riverwater: on average, our top 5 is going diluted earnings per share an average annual rate north of 15 per year.

23

00:06:59.290 --> 00:07:12.789

Adam Peck, Riverwater: Moving to our sector ways. I'll remind everyone, try to stay within 5% of our benchmarks sector weight and have a hard and fast limit at 10. Today, large underweight isn't consumer discretionary. At a 6.9% difference.

24

00:07:12.820 --> 00:07:24.210

Adam Peck, Riverwater: We had staples to the mix. We're just slightly underweight the consumer. We're typically more conservative in the consumer space and can always sleep better at night, knowing most people have to eat. No matter the economic cycle.

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00:07:24.540 --> 00:07:45.139

Adam Peck, Riverwater: the majority of our consumer staple weight is in the food space. We continue to be underweight in materials that 6.4 underweight as well as real estate, at 5.5 underweight. We've been working on looking for the right holdings. That means all our criteria in the material space. A good portion of sector is commodity based. And so that does limit the number of stocks that meet are 3 pillars.

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00:07:45.530 --> 00:07:57.880

Adam Peck, Riverwater: I would expect we'll have exposure here in the next quarter or 2. My expectation would be that we'll continue to be underweight real estate, whoever there may be a few diamonds in the rough, and we're looking at one right now. That appears to be very interesting.

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00:07:58.570 --> 00:08:20.659

Adam Peck, Riverwater: The largest overrates are in consumer staples and technology. We're not happy with smuckers purchase supposed to spray. We actually trimmed it since we spoke last quarter, but have not yet fully sold the entire position investment technology is an overweight by just under 6%. We've had some very nice performance there from a number of our names, and we'd expect to maintain the overweight. Given the conviction we have in the names we do owe.

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00:08:22.240 --> 00:08:35.900

Adam Peck, Riverwater: Moving over to our metrics, you can see we line pretty closely to our benchmark, and just about all with on the only major deviation and return on equity where we have higher quality companies with returns on capital about 69% higher than the markets average

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00:08:35.950 --> 00:09:01.619

Adam Peck, Riverwater: over the last few years. We've historically had an average market cap larger than the benchmark. It's because we hold on to our winners and let them grow until they reach the high end of the benchmarks. Largest market cap companies. Today we only have one company above 20 billion. That's Terrace and the next largest company is has a market cap of about 14 billion. I would expect over time. We will again have average market caps higher than benchmarks. As we expect our companies to grow.

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00:09:01.940 --> 00:09:17.060

Adam Peck, Riverwater: we focus on quality companies that earn their cost of capital and have conservative balance sheets. Every company we own is forecasted to be profitable in 2024. Except for iridium,

wherever they are free cash flow positive with an 8% yield according to our work.

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00:09:20.040 --> 00:09:28.439

Adam Peck, Riverwater: So we slightly outperformed in the quarter, and the largest contributor to that was Western Alliance Bank. Western Alliance is a bank holding company based out in Phoenix.

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00:09:28.600 --> 00:09:48.669

Adam Peck, Riverwater: It was a target in the banking crisis last year, as they were a prime competitor to Silicon Valley Bank. After spending a considerable amount of time analyzing the number of banks we determined Western Alliance was a survivor, and that the market was mispricing their business for an in depth review you can read about Western Alliance, and our second quarter, 2023. Investor letter.

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00:09:49.190 --> 00:09:54.169

Adam Peck, Riverwater: quick, summary though, is that the bank is a superior business with terrific management that was.

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00:09:54.260 --> 00:10:01.329

Adam Peck, Riverwater: consistently growing through the great financial crisis, Covid and last March's banking crisis.

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00:10:01.450 --> 00:10:11.580

Adam Peck, Riverwater: The management team is strong. What we really like is that they've been around the block with both the CEO and Cfo at that bank for more than 15 years each, and the Cfo. Has been in the same seat for over 20,

36

00:10:12.050 --> 00:10:20.849

Adam Peck, Riverwater: but we bought the bank when it traded under its tangible book value. While has risen to higher levels, it's still around a 40% discount to its historical average.

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00:10:21.380 --> 00:10:27.540

Adam Peck, Riverwater: The worst contributor was cnx resources. They were our best last quarter. So from first to worst

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00:10:27.640 --> 00:10:44.270

Adam Peck, Riverwater: and, as they like to say, easy, come easy. Go. Remind everyone again. Cnx is a natural gas producer, based in Phoenix

with operations in the Marcella shell. They had almost all their production to take the volatility out of natural gas pricing. This allows them to consistently generate free cash flow.

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00:10:44.620 --> 00:10:59.339

Adam Peck, Riverwater: I think we have a slide on that. They've generated free cash for the last 16 quarters, and if users to buy back 33% of their outstanding shares while still pairing down debt by 331 million. This is a slide we stole from their latest

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00:10:59.550 --> 00:11:14.989

Adam Peck, Riverwater: Quarterly earnings report, even though the stock trades in a double digit, free cash or yield. Wall Street could care less. Only 2 of the 50 analysts that cover the stock rated by. We think there's plenty of opportunity for ratings upgrade. Once the street figures it out. They're environmental leaders.

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00:11:15.070 --> 00:11:20.919

Adam Peck, Riverwater: They've the lowest methane intensity based in the country and have goals to lower their intensity by 50%

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00:11:21.080 --> 00:11:31.680

Adam Peck, Riverwater: from 2021 levels in the near future. They capture waste methane from nearby mining operations which helps them to be greenhouse gas, negative in their operations. Well, why was it down

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00:11:31.840 --> 00:11:43.500

Adam Peck, Riverwater: weather? We've had a very warm winter, which has pushed down the price of natural gas this time of year. We should still be ice fishing up in Wisconsin. But instead of ice fishing, we're having to think about tornadoes

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00:11:44.080 --> 00:12:07.379

Adam Peck, Riverwater: moving along to the one year. Attribution over the last 12 months we've beaten the benchmark by over 4%, all driven by stock selection. Our number one contributor, surprisingly, was a financial company barbaric, I say surprisingly. Cause if you told me we were gonna have a banking crisis, and the Federal was gonna be as hawkish as they've ever been going back to 19 seventies. I'd say a financial firm would not be the top contributor.

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00:12:07.440 --> 00:12:14.179

Adam Peck, Riverwater: Farmer Mac is a sister company to Fannie and Freddie Mac, but it not surprisingly serves the Ag. Economy.

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00:12:14.600 --> 00:12:36.379

Adam Peck, Riverwater: They help finance farms, ranches, and rural utilities. They package loans and sell them at a spread. Spreads, got better as interest. Rates rose and earnings followed as they should, and it should be up around 37% in in 2023 versus 2022. They'll be reporting the fourth quarter pretty soon. Still only 3 analysts on Wall Street. Follow this company.

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00:12:37.050 --> 00:12:39.859

Adam Peck, Riverwater: and with that I will pass it back to Matt.

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00:12:42.560 --> 00:12:44.060

Matt Drvaric: We are commonly asked

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00:12:44.260 --> 00:12:51.789

Matt Drvaric: how the strategy can be positioned. The strategy invests in small and mid cap holdings with market caps of less than 12 billion at purchase.

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00:12:51.830 --> 00:12:59.779

Matt Drvaric: The team will allow the positions to grow in the portfolio up to the high end of the 2,500 value range, which is generally around 20 billion

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00:12:59.910 --> 00:13:08.919

Matt Drvaric: in a concentrated portfolio. We generally have a few positions that skew our average weighted market cap, which today stands at about 5.8 billion.

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00:13:09.190 --> 00:13:14.170

Matt Drvaric: If we remove just a few of the largest positions that have earned their right to grow to this level.

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00:13:14.270 --> 00:13:22.420

Matt Drvaric: the average weighted market cap will commonly drop to around 4 billion in the small cap peered group. This is a common average weighted market cap.

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00:13:22.740 --> 00:13:31.839

Matt Drvaric: Illustrated here are the various small cap, benchmarks, and the median small cap manager, peer universe is defined by investments going back

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00:13:31.860 --> 00:13:33.000

Matt Drvaric: 7 years.

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00:13:33.120 --> 00:13:42.789

Matt Drvaric: The river water sustainable value. Strategy offers compelling risk. Adjusted returns relative to peers and the various small cap benchmarks, regardless of value or core Mauersmith

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00:13:46.410 --> 00:13:58.349

Matt Drvaric: performance, for the strategy presented here offers compared performance across each time period, and I will note that with the marketing rule the Net fee returns are based on the highest fee schedule that can be applied at 1% for retail clients.

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00:13:58.440 --> 00:14:00.500

Matt Drvaric: Adam will walk through our microstrategy.

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00:14:02.460 --> 00:14:26.110

Adam Peck, Riverwater: Thanks, Matt, so we'll start again with our top 5 holdings. All 5 have grown to be there, and are still cheap in our eyes, and all have very unique stories and niches where they excel. Centrist is the only US Manufacturer of high assay, low enriched uranium for nuclear power plants. They have a contract with the department energy and should be positioned well to be a leading supplier to power 0 carbon electric generation.

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00:14:26.140 --> 00:14:44.899

Adam Peck, Riverwater: Mayville is a contract manufacturer for metal components for major companies like John Deere and caterpillar. They did have a contract with peloton, but peloton didn't fulfill their requirements under the contract, and a lawsuit is in motion. We think there's a scenario where Mayville could receive a payment from peloton that's worth half of their total market cap.

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00:14:45.240 --> 00:14:52.830

Adam Peck, Riverwater: Techniclass is our largest holding, and I will be discussing it. In depth. In our evaluation discussion.



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00:14:52.990 --> 00:15:03.329

Adam Peck, Riverwater: moving over to sector weights, we don't have any hard sector constraints in the micro for each sector, only that no one sector can represent more than 30% post this weekend there is in healthcare at 20,

63

00:15:04.350 --> 00:15:19.469

Adam Peck, Riverwater: moving on to metrics. You can see we're fairly in line with the benchmark, the Russell 2,000. I note that we do consider the Russell microcap as our main benchmark, but due to licensing. We are not showing that to you our weighted average market cap would be in line with the Russell micro benchmark

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00:15:21.060 --> 00:15:35.769

Adam Peck, Riverwater: Webinar attribution. We underperform the Russell 2,000 in the fourth quarter, but also underperformed versus Russell microcap. We were doing okay all year long until the end of November. After the Fed meeting it was a hundred percent risk on, and the market was driven by low quality companies.

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00:15:35.790 --> 00:15:54.700

Adam Peck, Riverwater: It's great to be up double digits, though, after an 11 month period of no return. We strive to outperform in all markets, and are disappointed that we're beating all year until the very end. We're happy with our positioning and believe we are well positioned for the long term. Technical last was our best performer. After coming in as the worst last quarter

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00:15:54.970 --> 00:16:05.090

Adam Peck, Riverwater: currently trades in our 12 times earnings sales growth of 18% over the last 5 years, and the capacity continue growing rock, solid balance sheet at point 2 types that that T beta

67

00:16:05.280 --> 00:16:15.590

Adam Peck, Riverwater: we think they can maintain growth, even as long housing market as it takes share from higher cost competitors. And we recently met with the Cfo. Walked away confident.

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00:16:15.660 --> 00:16:33.449

Adam Peck, Riverwater: And I'll I'll get into more detail. But specifically they're launching a new final window which will expand their troll addressable market by 3 times. Talus was our worst performer. Their weakness was driven by low oil prices, some

operational issues in a continued wait and see environment on Talis's carbon capture. Segment.

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00:16:33.500 --> 00:16:39.069

Adam Peck, Riverwater: We remain optimistic on the carbon capture opportunity and are expecting some announcements this year.

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00:16:39.300 --> 00:16:53.509

Adam Peck, Riverwater: As we look over last year's returns, you can see at the top. We underperform the Russell 2,000 compared to the Russell micro cap. We under perform by about 200 basis points. Again, all in the month of December. Largest contributor for the year was Lima Nara.

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00:16:53.930 --> 00:17:03.220

Adam Peck, Riverwater: During 2023 Limonera implemented a strategy to realize the value of their underlying assets, which management and Rover order believed were significantly undervalued.

72

00:17:03.220 --> 00:17:24.909

Adam Peck, Riverwater: Company successfully sold some assets during the year, using the proceeds to substantially reduce its debt, and then, in the fourth quarter, they announced potential sale of the entire company, which triggered a surge in stock price. Despite the impressive performance in 23, we assess, luminaries still being undervalued, anticipate, it'll continue to create substantial value. This year. First Internet Bank was the worst performer

73

00:17:25.060 --> 00:17:32.010

Adam Peck, Riverwater: on top of not being positional for higher interest rates. They ran into credit issues of the food loans. And so we sold the stock in the second quarter.

74

00:17:32.310 --> 00:17:49.559

Adam Peck, Riverwater: It's been of all the market for all asset classes, but I'm happy with how most of our holdings have performed. Given the end of your rally was driven by low quality stocks for more detail on stock spot and sold as well as deep dives on new names. Please reference our latest Quarterly letter which are available on our website.

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00:17:50.520 --> 00:17:53.390

Adam Peck, Riverwater: With that I will pass it back to that.

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00:17:54.730 --> 00:18:08.289

Matt Drvaric: Yeah, Adam, as you were talking about the drivers of performance for the benchmark over the last year, the outperformance in the Russell 2,000 was driven by stocks that were highly shorted and unprofitable, and predominantly centered around the fourth quarter.

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00:18:08.890 --> 00:18:22.989

Matt Drvaric: This is primarily concentrated in December following the set announcement. These factors are scarcely representative at all in the portfolio, as the team is focused on high quality microcaps that are at or nearing an inflection point in profitability.

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00:18:23.080 --> 00:18:25.929

Matt Drvaric: We would not expect to outperform in this type of market.

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00:18:28.720 --> 00:18:32.710

Matt Drvaric: The performance for the micro strategy is presented here against the Russell 2,000.

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00:18:32.830 --> 00:18:38.429

Matt Drvaric: Now the fee returns again are based on the highest fee schedule that could be applied at 1% for retail clients.

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00:18:38.830 --> 00:18:43.460

Matt Drvaric: Adam will walk you through our third pillar of our research process attract evaluation.

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00:18:45.920 --> 00:19:01.390

Adam Peck, Riverwater: Thanks, Matt. So our third pillars talked evaluation. We like to say we look at value 6 ways to Sunday. But if there was one metric had to rely on. If we cash flow over the long term, companies must generate enough cash to cover not only their expenses, but also their capital expenditures.

83

00:19:01.560 --> 00:19:06.469

Adam Peck, Riverwater: With that said, We do look at a lot when trying to figure out what company should be worth.

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00:19:06.840 --> 00:19:10.459

So the next page is an example of what we call our pick

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00:19:10.560 --> 00:19:15.380

Adam Peck, Riverwater: pillar investment chart, and it covers all 3 of our

86

00:19:15.630 --> 00:19:16.819

Adam Peck, Riverwater: or pillars.

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00:19:17.080 --> 00:19:28.099

Adam Peck, Riverwater: and the final one here is attract evaluation. So we look at companies in valuation relation to their history. We look at companies at the top. Here you can see, compared to their competitors.

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00:19:28.560 --> 00:19:31.479

Adam Peck, Riverwater: We could look at some of the parts we could

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00:19:31.890 --> 00:19:42.979

Adam Peck, Riverwater: do a discount of cash flow analysis. We we do a lot. We even have a system that we use to figure out. If companies are, you know, using accounting connects to make the numbers look better.

90

00:19:43.170 --> 00:19:55.090

Adam Peck, Riverwater: Now we look at what the potential upside is the downside. We do in depth. Look at its capital structure. What margins look like. And at the bottom here you can see. We look at? The quality of those earnings. So

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00:19:55.310 --> 00:20:09.739

Adam Peck, Riverwater: are there returns on capital greater than their cost of capital. Has Wall Street is Wall street, not paying attention, which often happens in the small cap space. Is there any risk that they're gonna have to raise money? And and what what type of company, is it? So

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00:20:10.890 --> 00:20:16.680

Adam Peck, Riverwater: for the following pages I'm gonna take you through techniclass, which I just referenced as one of our top performers

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00:20:16.950 --> 00:20:32.920

Adam Peck, Riverwater: in the past quarter, and I think it's a good example. Because when you talk about under valued companies, it's towards the top of the list. So first, we'll look at the income statement on the next page.

94

00:20:33.450 --> 00:20:38.649

Adam Peck, Riverwater: And the story I kind of wanna tell is that we had been.

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00:20:38.690 --> 00:20:56.930

Adam Peck, Riverwater: and following this company for probably 4 years before we actually bought it. I had met with the management team at a number of conferences, and I was interested in the green box. So on the top you can see the sales growth where they had pretty

96

00:20:56.930 --> 00:21:09.589

Adam Peck, Riverwater: pretty good growth for a company. But what was really the problem was, if you look at the margins at the bottom, the margins they weren't earning their cost of capital. That subsequently changed in in

97

00:21:09.690 --> 00:21:23.710

Adam Peck, Riverwater: 1920 2122 and essay has really really improved. But that's the main reason why we we didn't buy it for a number of years, because it it didn't meet. All 3 pillars. So, moving on to the next slide.

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00:21:24.340 --> 00:21:33.359

Adam Peck, Riverwater: you can see this same information, but it's on a quarterly basis. And what's really impressive, if you look at the bottom of net margin

99

00:21:33.390 --> 00:21:44.610

Adam Peck, Riverwater: and night. And then, you know, ending last 3 quarters of 19. Again, you can see there was some volatility and margins, especially in March of 20 when the world ended. But actually, since

100

00:21:44.790 --> 00:21:55.900

Adam Peck, Riverwater: the June quarter of 20. They've had positive margins every single quarter, and we actually probably didn't buy it

until the either the third or fourth quarter of 2,020 initially.

101

00:21:55.900 --> 00:22:15.009

Adam Peck, Riverwater: But what gave us confidence was that margins have really turned. You can see 20% in the June quarter and 8% in the September quarter, and before that they hadn't put up 2 consecutive, positive margins in a long time. So that was really the inflection point that we saw which drove us to buy the stock moving on to other parts. Of the financials.

102

00:22:15.040 --> 00:22:17.659

Adam Peck, Riverwater: You know we pay attention to the balance sheet.

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00:22:17.730 --> 00:22:35.949

Adam Peck, Riverwater: And again, if I point you to the bottom, is return on equity. Obviously, if they weren't earning a lot, their return on equity is going to be low, and it it wasn't sufficient. But you can see as they transition to 20 t(012) 220-2122 returns and equity have have exploded and what have they done with all the

104

00:22:35.960 --> 00:23:00.029

Adam Peck, Riverwater: the extra cash they were generating? Where you can see cash levels? We're sub 50 million from 13 to 2,019. But once they got the business better, cash just continues to build and build, while at the same time they've been pairing down debt that peaked in 2,019, at 268, and as of last as of December 22 they paid off about 100 million of debt

105

00:23:00.230 --> 00:23:02.309

Adam Peck, Riverwater: while also buying back stock.

106

00:23:02.350 --> 00:23:05.700

Adam Peck, Riverwater: And then finally, from a cash flow statement, perspective.

107

00:23:05.890 --> 00:23:14.709

Adam Peck, Riverwater: free cash flow like, I said, is the main metric we look at, and they were not Sicily generating free cash from 14 through 18

108

00:23:14.850 --> 00:23:32.789

Adam Peck, Riverwater: 19 was positive. But really the inflection

point again, was 20 when you start generating free cash, I get very, very interested, especially depending on the price we pay for that free cash. So the reason I wanted to show you all these financials is because it is very pertinent for the following slides.

109

00:23:33.670 --> 00:23:45.909

Adam Peck, Riverwater: So, moving on to the next slide. Again, this is just free cash by quarters. Again, you can see some negative free cash in 19 and March of 20, but

110

00:23:45.910 --> 00:24:10.769

Adam Peck, Riverwater: very, very consistently positive. Free cash every single quarter. Actually, the only quarter they didn't generate free cash recently was June to 23. And there's a good reason is because I referenced earlier. They're launching it into the Vinyl window market, which is roughly 60% of the window market. They're currently in the alumina market. So they're tripling their market size, and they had spent capital to get into it. But the returns on capital

111

00:24:10.770 --> 00:24:21.020

Adam Peck, Riverwater: for that money spent in vinyl, I think it's gonna pay for itself within probably 12 to 18 months, could even be sooner onto the next slide

112

00:24:21.340 --> 00:24:23.869

Adam Peck, Riverwater: again. Why, this all matters is

113

00:24:24.550 --> 00:24:30.269

Adam Peck, Riverwater: hopefully, I've convinced you that their business has gotten better, and

114

00:24:30.600 --> 00:24:36.030

Adam Peck, Riverwater: in an efficient market, investors should be willing to pay more for better businesses.

115

00:24:36.070 --> 00:24:45.099

Adam Peck, Riverwater: companies that have higher returns on capital and companies that grow faster and have better balance sheets should have higher multiples. Well, this has not happened yet. For

116

00:24:45.100 --> 00:25:08.930

Adam Peck, Riverwater: techno glass, you can see going back on the left arrow to 2,016 it but it's actually cheaper now than it was in 2,016, and it's a much, much better business, and if you look at Ebd. But price to cash flow, it doesn't make any sense. I. The the red circles is when we bought it again in 2,020, when actually from a valuation perspective, it was super attractive.

117

00:25:09.280 --> 00:25:13.190

Adam Peck, Riverwater: one reason.

118

00:25:14.170 --> 00:25:19.160

Adam Peck, Riverwater: I think it's undervalued is because they have all their manufacturing

119

00:25:19.290 --> 00:25:26.800

Adam Peck, Riverwater: Colombia, but 95% plus of their sales are in the Us. They are! They're still

120

00:25:27.250 --> 00:25:37.870

Adam Peck, Riverwater: founder led founders. Own about half the the company. I think they realized this. They are. They've probably re-domiciled the headquarters in the Us. So now it's a Us-based company.

121

00:25:37.880 --> 00:25:43.210

Adam Peck, Riverwater: Which means on the Russell reconstitution this summer. It's going to end up in

122

00:25:43.330 --> 00:26:03.309

Adam Peck, Riverwater: in indices. And we all know that 60% of monies are in passive these days. So a catalyst for us which isn't actually related too much to the, to the fundamentals of the business. I call it more of a technical reason. II think they could have a great summer, just from the fact that they're going to be added to benchmarks, and maybe at that point they'll get a better valuation.

123

00:26:03.340 --> 00:26:08.519

Adam Peck, Riverwater: If not, it's okay. I think they'll just use their cash flow to continue to buy back stock at very attractive levels.

124

00:26:09.500 --> 00:26:16.580

Adam Peck, Riverwater: Moving along to the next slide. One other



interesting valuation

125

00:26:17.160 --> 00:26:23.200

Adam Peck, Riverwater: process to use is they're an industrial company with 20 plus percent operating margins.

126

00:26:23.480 --> 00:26:35.030

Adam Peck, Riverwater: What we did was on the left, you can see we ran a screen of companies with market caps above 200 million that have operating versions above 20%.

127

00:26:35.090 --> 00:26:40.899

Adam Peck, Riverwater: And our industrial companies. And so that that resulted in 46

128

00:26:41.170 --> 00:27:10.730

Adam Peck, Riverwater: companies had operation operating margins above 20%. And then that got reduced to 28 when we restricted the Market Cap range between 250,000,020,000,000,000. And so I've got those companies listed here. We excluded rental businesses, which is a totally different business. Which gets with. They're usually highly levered, and so they, their PE ratios are much lower, so I don't think those are appropriate. But when we took all the other companies.

129

00:27:10.760 --> 00:27:22.630

Adam Peck, Riverwater: if you look in the bolded towards the bottom, the average company with a 20% operating margin industrials has a PE ratio trailing of 35 times and a 4 PE. Of 23 roe of 35

130

00:27:22.680 --> 00:27:43.689

Adam Peck, Riverwater: 10 year. History of 18 revenue growth at 10. Well, how does Technoglas stand up? It's better in all categories, yet it trades it a third of the valuation. So again, makes absolutely no sense. I highlighted Atcor as one of the. It's actually the other cheapest company on the list. And our reason I highlighted is because that's another name we own

131

00:27:43.900 --> 00:27:53.729

Adam Peck, Riverwater: but it's I think, proof that in the small Cap market markets are still not efficient. And that's why

132

00:27:54.260 --> 00:27:57.989

Adam Peck, Riverwater: we have fun moving on to the next slide

133

00:27:58.530 --> 00:28:26.410

Adam Peck, Riverwater: another level of inefficiency. Are the other rating agencies. And I think it's important to point out oftentimes that Morningstar and investment we end up being classified as a as a core strategy. But that's because neither Morningstar investment know how to properly value companies and are stuck in the Dark Ages quite frankly, when it comes to what fix up a value company. So Morningstar is considered a growth company.

134

00:28:27.390 --> 00:28:38.179

Adam Peck, Riverwater: According. You know, according to these people how how to me. The the price you pay for an asset determines whether it is a value or not, and at 11 times earnings.

135

00:28:38.430 --> 00:28:55.239

Adam Peck, Riverwater: no matter what market you're in. Techniclass is a value stock. And I think we we really hit the the message home on the next slide. When you compare our valuation metrics to our benchmark, which is a value benchmark in pink all the valuation metrics. We're below

136

00:28:55.300 --> 00:29:04.140

Adam Peck, Riverwater: the market in every respect other than price to book and price to book is a metric we don't care about. If you look at the largest companies in the market today.

137

00:29:04.630 --> 00:29:31.500

Adam Peck, Riverwater: you know the magnificent 7. Nobody cares what their their book value is, because book value has no meaning. What matters in the market today is the cash flows that you generate from your intellectual property so one exception there, but that also hurts us when Morning Star ranks us because they put a lot of weight on Price to book, but just walking through green our volatility metrics. We have a a beta of point 7 7 cents inception. So obviously our volatility is lowered

138

00:29:31.700 --> 00:29:36.290

Adam Peck, Riverwater: quite frankly, Orange, you want it to be above cause. That's stock price changes. We want to be beating the market.

139

00:29:36.350 --> 00:29:38.959

Adam Peck, Riverwater: Sorry above the 0 level

140

00:29:39.820 --> 00:29:57.759

Adam Peck, Riverwater: line earnings growth. We're slightly below for for sales growth for 3 year, but for earnings growth we're we're beating the market and then returns on capital. We're we're crushing the market. So those are in purple. So at the end of the day we own quality, small Cap companies at attract evaluations.

141

00:29:58.410 --> 00:30:00.640

returns on capital are growth factors

142

00:30:02.580 --> 00:30:10.430

Adam Peck, Riverwater: to me. Again. The only thing that matters is the price you pay. So I truly believe we've we've got a value product, and

143

00:30:11.220 --> 00:30:16.700

Adam Peck, Riverwater: that's the hell I'll die on. So with that, I think I'm finally done, and we'll pass it back to Cindy

144

00:30:17.110 --> 00:30:18.530

are over to sending.

145

00:30:20.160 --> 00:30:27.140

Cindy Bohlen: Thank you, Adam. Today, I'm gonna discuss river waters, corporate engagement during the fourth quarter.

146

00:30:27.310 --> 00:30:53.110

Cindy Bohlen: As a reminder. Our 3 pillar approach to responsible investing includes due diligence where we seek to understand potential portfolio companies, current attention to salient esg factors, engagement where we work in cooperation with corporate executives toward improvement and collaboration with sustainability organizations and responsible investing peers to inform our practice and magnify our impact.

147

00:30:54.090 --> 00:31:02.029

Cindy Bohlen: Our investment team meets over 200 companies a year. In addition to discussing more traditional investment.

148

00:31:02.170 --> 00:31:09.559

Cindy Bohlen: such as growth, profitability, outlook, etc. We inquire about attention to Esg factors.

149

00:31:09.590 --> 00:31:17.400

Cindy Bohlen: Given that we invest in the small Cap space companies are often just beginning their Esg journeys.

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00:31:17.460 --> 00:31:30.260

Cindy Bohlen: we typically offer educational information regarding the benefit to all stakeholders for a focus on Esg as well as tools for the journey. Even if we have not yet invested.

151

00:31:30.750 --> 00:31:38.670

Cindy Bohlen: So as we go through these engagement examples. please notice that several topics of engagement are common among them.

152

00:31:38.940 --> 00:31:59.109

Cindy Bohlen: We always suggest starting with a materiality assessment. This is a process of gathering multi stakeholder input about which Esg factors are most material to a given business and its stakeholders, which include employees, customers, suppliers, shareholders and society and the environment

153

00:31:59.400 --> 00:32:16.150

Cindy Bohlen: companies should focus their efforts on these factors. First, materiality matters. We advise reporting on sustainability efforts in alignment with one of the widely adopted reporting standards. G. Ri and I, Ssb, are the most common.

154

00:32:16.210 --> 00:32:18.719

Cindy Bohlen: You can't manage what you don't measure.

155

00:32:19.390 --> 00:32:39.880

Cindy Bohlen: and we suggest a focus on greenhouse gas emissions, using the TCFD. Framework to inform policy practice and reporting the fact that climate change is the crisis of our time makes it important for all companies to work toward emissions. Reduction in their value. Chain and regulators are keen on this.

156

00:32:40.570 --> 00:32:57.379

Cindy Bohlen: In addition to these common topics of engagement. We

typically suggest a focus on other Esg factors that we believe are material to each individual company based on its industry. There's typically agreement from executives on this.

157

00:32:58.020 --> 00:33:02.330

Cindy Bohlen: So our fourth quarter engagements highlight our approach and impact.

158

00:33:03.160 --> 00:33:20.909

Cindy Bohlen: The first example is Uco Uco is a software company that provides transactions, services to businesses and government agencies. This makes cyber security a top material concern. This is Uco's product safety, if you will.

159

00:33:21.030 --> 00:33:28.480

Cindy Bohlen: as a Services Company Uco and its stakeholders will also benefit from a strong corporate culture.

160

00:33:28.880 --> 00:33:38.690

Cindy Bohlen: Additionally, the company prints and delivers paper statements to its customers, customers making the use of recycled paper important.

161

00:33:38.730 --> 00:33:55.330

Cindy Bohlen: We had dialogue with investor relations and the director of marketing during the third quarter to help get the company started on a CFC. Journey, and then, when the CEO came to our office during the fourth quarter, we inquired again, and we'll monitor for progress.

162

00:33:56.960 --> 00:34:14.390

Cindy Bohlen: Our next example is Orion engineered carbon, which is a global specialty. Chemicals company that makes carbon black, a solid form of carbon produced as powder or pellets, which is an essential material in everyday products, like tyres.

163

00:34:14.440 --> 00:34:16.800

Cindy Bohlen: printing inks, etc.,

164

00:34:16.940 --> 00:34:32.589

Cindy Bohlen: from a sustainability viewpoint. One of the most notable aspects of carbon black is that the raw materials used to make it such as heavy oil or acetylene glass are byproducts of other production

processes.

165

00:34:32.790 --> 00:34:50.499

Cindy Bohlen: Instead of disposing of the material by burning it. Orion uses it to create other high-value material for applications like lithium, ion batteries or high voltage cable that are vital to the shift toward electrification.

166

00:34:50.989 --> 00:35:02.449

Cindy Bohlen: The executives at Orion became aware that we were a responsible investor, and contacted us to discuss its plans and progress as well as telling its story.

167

00:35:02.580 --> 00:35:24.709

Cindy Bohlen: We agreed that the company has a good story to tell. After our discussion with the CEO Cfo. And investor relations, and made a few suggestions, we were also pleased to learn about some of the creative solutions being employed by O'rienne for reducing fresh water use and improving waste water, return to its source.

168

00:35:24.880 --> 00:35:30.820

Cindy Bohlen: We introduced the Orion team to the Water Council to exchange ideas regarding best practice.

169

00:35:32.310 --> 00:35:41.230

Cindy Bohlen: lame commercializes, devices used in vascular surgery making product safety its number one priority.

170

00:35:41.300 --> 00:35:58.350

Cindy Bohlen: The company has been laser focused on obtaining the new EUCE. Mark, which is similar to our FDA approval for all products, a lengthy and tedious process, and one that's necessary for it to continue to do business in the EU.

171

00:35:58.770 --> 00:36:03.649

Cindy Bohlen: The mate has taken share from competitors who have not been up to this task.

172

00:36:03.770 --> 00:36:24.929

Cindy Bohlen: This is this is a material Esg factor for lemate, and as investors we agree it should be prioritized additionally. While the company has not yet begun formal sustainability reporting, it has

demonstrated its commitment to a strong corporate culture which has been a driver of its success.

173

00:36:25.050 --> 00:36:40.939

Cindy Bohlen: Lemate's Cfo. JJ. Pellegrino, speaks on this important Esg factor in a video on the company website. We spoke with JJ. During the quarter and told him that we're pleased with the progress lemate is making over time.

174

00:36:40.940 --> 00:36:55.340

Cindy Bohlen: and that the company has focused on material factors. Therefore we remain patient for formal sustainability. Reporting this focus on material factors will drive value for the mate and its shareholders.

175

00:36:56.740 --> 00:37:07.220

Cindy Bohlen: Water is a very material input for JM. Smucker. It takes a great deal of water to grow peanuts for peanut butter, strawberries for jam, and beans for coffee.

176

00:37:07.360 --> 00:37:16.779

Cindy Bohlen: In his most recent feeding ourselves. Thirsty scorecard, Ceres outlined potential risks for JM. Smucker, as it relates to water availability

177

00:37:16.940 --> 00:37:29.700

Cindy Bohlen: in 2022 Ceres formed the valuing water finance initiative which seeks investor partnership to engage companies that have financial risks relating to water

178

00:37:29.750 --> 00:37:45.009

Cindy Bohlen: in 2023, an investor group, including river water partners, was formed to engage Smuckers. The company has been receptive and discussed some new initiatives in its most recent sustainability report.

179

00:37:45.280 --> 00:37:57.539

Cindy Bohlen: During the fourth Quarter river water, suggested the Water Council as a potential expert to help smuckers prioritize its risks and work towards solutions. Dialogue is ongoing.

180

00:37:58.920 --> 00:38:11.220

Cindy Bohlen: so we shared this slide in the Q. 3 webinar, but I wanted to share it again, because several of these facts speak to why we are engaging with a company like Smucker on water stewardship.

181

00:38:11.520 --> 00:38:20.869

Cindy Bohlen: 70% of the world's freshwater use and pollution comes from food fashion, chemicals, pharma, energy and industrial and mining sectors.

182

00:38:21.410 --> 00:38:29.390

Cindy Bohlen: The consumer staples sector is facing a 200 billion dollar impact from water scarcity

183

00:38:29.860 --> 00:38:36.429

Cindy Bohlen: and by 2,030 it's projected that water demand will exceed supply by 56%.

184

00:38:36.440 --> 00:38:42.319

Cindy Bohlen: The Graphic on the left shows lake mead to day. And just 20 years ago

185

00:38:42.350 --> 00:38:47.310

Cindy Bohlen: this demonstrates the critical place. Our water situation finds itself in

186

00:38:47.670 --> 00:39:04.799

Cindy Bohlen: both highly dependent on water and a major driver of water related impacts. Business has a critical role to play and a vested interest in delivering a water secure future. This has prompted river water to make the water stewardship one of our key focus areas.

187

00:39:05.030 --> 00:39:06.110

Cindy Bohlen: Thank you.

188

00:39:10.110 --> 00:39:18.070

Matt Drvaric: Thank you for the Update on the strategies, Adam and Cindy, for your continued efforts on working with our holdings to address material issues that drive shareholder value

189

00:39:18.400 --> 00:39:20.460

Matt Drvaric: at the time we welcome any questions



190

00:39:27.730 --> 00:39:40.970

Matt Drvaric: there are no questions. So to conclude the call. We are passionate about fall cap. Esg, investing and believe these factors are crucial to help minimize portfolio volatility through maintaining positions in superior businesses that endure market cycles.

191

00:39:41.150 --> 00:39:50.470

Matt Drvaric: We welcome your consideration as a manager. Additional data on the strategies can be found in investment. Morningstar investment metrics. Psm, wheel, sharing talent databases.

192

00:39:50.520 --> 00:39:57.850

Matt Drvaric: If you have any additional questions or would like to speak directly with a member of the team, please contact me. We look forward to talking with you again next quarter.