RIVERWATER BLUE PORTFOLIOS

Market Review: A Great Start

This year has continued the trend that began in November 2023: markets have rallied on the back of a more dovish Federal Reserve, leading the S&P 500 to a 10.6% return during the first quarter, its best start to a year since 2019. This comes after a year in which only seven stocks accounted for over 59% of the total return of the S&P 500. The "Magnificent 7" has since been reduced to the “Magnificent 4” as Tesla, Apple, and Alphabet have underperformed the broader market. Tesla's shares fell 29% in the first quarter —a stark reminder of the volatility inherent in many tech-related stocks. It is encouraging to note that just a few stocks have not been the sole contributors to positive returns. So far in 2024, the once-dominant Magnificent 7 tech stocks have contributed only 35% of the total return, aligning more closely with their 29% weighting in the index. While tech stocks remain market darlings, this shift indicates increasing confidence that the market is broadening due to a stronger economy and potential earnings growth.

Corporate earnings are expected to grow in the latter half of 2024 if the economy can remain resilient and inflation continues to moderate from its highs in 2022, This should help broaden the market further, which is beneficial for the BLUE models offering a more diversified approach than the highly concentrated S&P 500 Index.

While the Fed pivot has continued to have positive impacts on the equity side, bonds may have experienced some overextension by the end of 2024. The 10-year treasury yield fell 1% over the last two months of the year, boosting bond prices, but has since ticked up slightly due to better-than-expected economic data. This uptick led to a slightly negative quarter for bond returns, with the Bloomberg US Aggregate Bond Index falling 0.8%. Although rates have risen nearly 75 bps from one year ago, the income levels of bonds are now high enough to offset some of the negative price action resulting from these rate increases. Regardless of whether rates continue to move higher or stabilize near current levels, the higher income levels will continue to benefit bond holders going forward.

BLUE Review: A Long Term Approach

The BLUE models have always been designed with the goal of achieving competitive risk-adjusted returns over a full market cycle. We aim to accomplish this by utilizing equity managers who invest in high-quality companies at reasonable valuations to help protect capital during periods of market stress. Additionally, we diversify across all areas of the equity markets to help reduce volatility.

Over the past 12 months, the large-cap growth segment of the US market has been the sole area to generate excess returns over the S&P 500. While large-cap growth has dominated with a 39% increase, the rest of the US stock market has still generated a return of at least 19%. Although the absolute returns of the BLUE models have continued to show solid growth, performance of our more diversified BLUE models may lag their respective benchmarks when only one concentrated portion of the market outperforms . On the flip side, during market downturns, we expect the BLUE models to outperform their benchmarks.

Our two most conservative BLUE models—BLUE Sustainable Income and BLUE Sustainable Income & Growth—both outperformed their respective benchmarks over the last quarter and trailing year. These models benefited from the relative performance of the fixed-income funds within the model. Four out of the five funds in the BLUE fixed-income models performed in the top quartile over the trailing 12 months, contributing to the outperformance of our most conservative models.

Zooming out and considering a full market cycle for these portfolios, our approach of being well diversified has paid off. Since the models' inception in 2016, four out of five BLUE models have outperformed their respective benchmarks. The only relative underperformer has been the 100% equity model: BLUE Sustainable Aggressive Growth; however, this model has also delivered the highest absolute return. With nearly an 8-year track record spanning two completed market cycles, the robust performance of these models instills confidence in our approach over the long term.

Social and Environmental Impact: Domini Impact International Equity Fund

To underscore our commitment to creating a better world through sustainable investing, we highlight a notable instance of positive impact achieved by one of our fund managers through their sustainable investments. The Domini Impact International Equity fund has been a core component of the Riverwater BLUE models since its inception. Not only has Domini delivered robust returns over the last 12 months, but they have also garnered widespread recognition in the industry as a true pioneer in responsible investing. Domini was one of only eight asset management companies globally to earn the prestigious designation as an "ESG Leader" from Morningstar in 2023.

Annually, Domini actively collaborates with companies to promote and advocate for stronger policies on issues vital for the climate, human rights, and shareholders. In 2023, one of Domini's key initiatives was to push for reinforced commitments to regenerative agriculture. Domini engaged with companies such as Barry Callebaut, Campbell Soup Co., Compass Group, General Mills, Grupo Bimbo, PepsiCo, and Whole Foods to acknowledge initiatives and gain deeper insights into segments of their supply chains governed by regenerative agriculture policies.

Domini works closely with these companies to foster and develop improved regenerative agricultural policies, aiming to enhance soil health, mitigate climate risks, boost biodiversity, and enhance water management practices. These efforts culminate in heightened farm productivity, greater environmental sustainability, and reduced costs, showcasing the tangible benefits of sustainable investment strategies.

As always, we appreciate your trust and confidence.

Connor

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See next page for important disclosures.

Disclosures: The information contained within this update represents the opinion of Riverwater Partners and should not be construed as personalized or individualized investment advice. 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.

The performance presented is hypothetical and back-tested with the benefit of hindsight using similar holdings and portfolio asset allocation weights. This performance was generated using similar holdings and asset allocations but the hypothetical performance presented above assumes semi-annual rebalances whereas live BLUE models are rebalanced based off of fluctuation away from target weights. Actual accounts may be rebalanced more or less than semi-annually. The performance does not represent performance of a live account; it is provided for illustrative purposes only and not meant to be a representation of either future or historical returns.

Hypothetical performance information is subject to limitations and historical data may contain errors or be affected by omissions. Past hypothetical performance is not indicative of future results. Therefore, no current or prospective client should assume that future performance will be profitable, will equal the performance results reflected, or will equal any corresponding historical benchmark index. The performance presented herein reflects the reinvestment of dividends and other income. However, the performance returns do not reflect the impact that material economic and market factors could have had on the portfolio manager's decision-making process. For example, factors such as: 1) timing of purchases and sales of securities, 2) length of time positions are held, 3) market and/or sector trends, 4) client restrictions, and/or 5) other unforeseen factors that could have had a material influence on the performance results of a client's account if actual trading had taken place.

The Net Return was calculated using the highest fee of 60 bps annualized, applied on a daily pro rata basis. Live BLUE model fees are applied monthly at a rate of 60 bps annualized.

The historical performance results for all indices are provided exclusively for comparison purposes only with the intent to provide general comparative information to assist an individual client or prospective client in determining whether Riverwater Partners' performance meets, or continues to meet, his/her investment objective(s). Comparative indices may be more or less volatile than Riverwater portfolios. It should not be assumed that Riverwater Partners' account holdings will correspond directly to any such comparative benchmark index. For reasons including variances in the investment management fee, differing client investment objectives and/or risk tolerance, market fluctuation, the date on which a client engaged Riverwater Partners' investment management services, and any account contributions or withdrawals, the performance of a specific client's account may have varied substantially from the indicated portfolio performance results.

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