

RIVERWATER PARTNERS

WEBVTT

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00:00:24.290 --> 00:00:26.769

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

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00:01:17.000 --> 00:01:23.540

Matt Drvaric: Good afternoon. This is Matt Drvaric. Thank you for joining and welcome to the river water partners. Q. 1, 2024. Webinar.

3

00:01:23.720 --> 00:01:30.890

Matt Drvaric: All participants will be in. Listen. Only mode to review the agenda for the call. Today I will provide a brief, firm update.

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00:01:30.970 --> 00:01:39.080

Matt Drvaric: Adam Peck, our co-founder and chief investment officer, will discuss performance for the strategies and walk through value creation through stock selection.

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00:01:39.270 --> 00:01:45.250

Matt Drvaric: Cindy Bohlen, our director of responsible investing will highlight our 2023 sustainability report.

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00:01:45.390 --> 00:01:55.780

Matt Drvaric: After today's presentation there will be an opportunity to ask questions. If you are at your computer, please submit your question in the questions. Chat box located at the bottom of your webinar control panel.

7

00:01:55.850 --> 00:01:59.689

Matt Drvaric: Please note this event is being recorded, and the replay will be made available.

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00:02:02.550 --> 00:02:12.400

Matt Drvaric: Riverwater partners is 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.

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00:02:12.540 --> 00:02:20.650

Matt Drvaric: We are proud to be a signatory to the United Nations principles of responsible investment, a certified B corporation, and 100 employee owned

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00:02:20.770 --> 00:02:26.399

Matt Drvaric: as a brief update on the firm. The firm finished the quarter with approximately 900 million in firm assets.

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00:02:26.410 --> 00:02:29.000

Matt Drvaric: and recently celebrated our eighth birthday

12

00:02:29.170 --> 00:02:32.780

Matt Drvaric: we are continue to continuing to invest and grow in our team.

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00:02:33.240 --> 00:02:39.870

Matt Drvaric: We are excited to welcome Lizzy Gauthier to join our research team. Following graduation from the University of Wisconsin, Madison.

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00:02:39.980 --> 00:02:47.539

Matt Drvaric: She has been interning with us for 18 months alongside Cindy Bolan and will continue working to develop a responsible investing research effort.

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00:02:48.000 --> 00:02:53.370

Matt Drvaric: Additionally, Kirk Fox has been named our Director of Research and has joined the partnership.

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00:02:53.540 --> 00:03:00.109

Matt Drvaric: Kirk joined the firm in February 2020, after spending a dozen years with the State of Wisconsin Investment Board.

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00:03:00.400 --> 00:03:07.280

Matt Drvaric: All members of our research team are aligned with our clients as equity owners and own our strategies personally.

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00:03:08.577 --> 00:03:10.890

Matt Drvaric: Let's take a look at the small Cap environment.

19

00:03:11.200 --> 00:03:14.049

Matt Drvaric: We believe there is opportunity in the asset class.

20

00:03:14.460 --> 00:03:20.039

Matt Drvaric: Small caps continued. What appears to be a new bull market since hitting bottom last October.

21

00:03:20.320 --> 00:03:24.080

Matt Drvaric: Small caps caps still have significant ground to cover.

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00:03:24.170 --> 00:03:26.570

Matt Drvaric: having last peaked in 2021,

23

00:03:26.900 --> 00:03:29.740

Matt Drvaric: while large caps have continued to hit record high

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00:03:29.880 --> 00:03:33.540

Matt Drvaric: large caps once again outpace small caps, this quarter

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00:03:33.580 --> 00:03:37.300

Matt Drvaric: marking the fourteenth year of large Cap dominance.

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00:03:37.430 --> 00:03:52.339

Matt Drvaric: In fact, the chart on the right illustrates the current cycle of large Cap leadership is driven by multiple expansion for large caps, while small caps have had multiple compression, but have generated higher earnings growth.

27

00:03:53.180 --> 00:04:02.600

Matt Drvaric: The recent market leaders. Performance is fueled by the remarkable growth of artificial intelligence and the anticipation of rate cuts by the fed. This year.

28

00:04:02.950 --> 00:04:07.680

Matt Drvaric: I will turn it over to Adam to review the sustainable value strategy for the quarter. Adam.

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00:04:08.390 --> 00:04:11.090

Adam Peck, Riverwater: Great. Thank you, Matt, and thank you all for joining.

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00:04:11.560 --> 00:04:24.290

Adam Peck, Riverwater: So let's get started with our top 5 for the sustainable value strategy. Not much change here. Quarter to quarter. All of the top 5 have grown to be here, as the average position. Starting size is 3%,

31

00:04:25.100 --> 00:04:39.049

Adam Peck, Riverwater: add core is our largest holding has been owned since the fall of 2020. We did trim it once, exactly a year ago, for risk management purposes only, and that trim took off close to half our original position. Size off the table

32

00:04:39.420 --> 00:04:51.389

Adam Peck, Riverwater: at core is still significantly undervalued in our opinion, and so we're comfortable with its position size as our top, holding it trades at less than 10 times estimated. Forward earnings est

33

00:04:52.020 --> 00:04:54.150

Adam Peck, Riverwater: the top 5. They've been in the portfolio

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00:04:54.180 --> 00:05:14.220

Adam Peck, Riverwater: for an average holding period of over 2 and a half years. The average holding period is brought down by Modine, which has only been owned for 10 months, but it's been a great 10 months, as the stock has almost tripled, excluding Modine, the average for the remaining 4 is over a 3 year, holding period, which is in line with our history and target holding periods.

35

00:05:16.020 --> 00:05:30.449

RIVERWATER PARTNERS

Adam Peck, Riverwater: Here, we've got our sector weights. And I'll remind everyone we try to stay within 5% of our benchmarks sector weight and have a hard and fast limit at 10. Today the largest underweight is in materials. At 5.4, followed by real estate. At 4.8.

36

00:05:31.560 --> 00:05:36.620

Adam Peck, Riverwater: We have been working on looking for the right holding that meets all our criteria in the material space.

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00:05:36.880 --> 00:05:43.400

Adam Peck, Riverwater: A good portion of the sector is commodity based. And so that does limit the number of stocks that meet our 3 pillars.

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00:05:43.480 --> 00:06:00.720

Adam Peck, Riverwater: After following researching and meeting with Louisiana Pacific over many months, we initiated a position and add to it as well. This current quarter as of today are underweight, is below 5. My expectation would be that we will continue to be underweight real estate.

39

00:06:01.310 --> 00:06:16.730

Adam Peck, Riverwater: The largest overweights are in technology and conservative samples at roughly 5 and 4% respectively. We've had some very nice performance over the last year from a number of names and tech, and we'd expect to maintain that over again. Given our conviction in the names that we own

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00:06:18.670 --> 00:06:28.249

Adam Peck, Riverwater: here you can see we line pretty closely to our benchmark on just about all metrics, with the only major deviation and roe where we have higher quality companies

41

00:06:28.500 --> 00:06:33.480

Adam Peck, Riverwater: with returns on capital about 93% higher than the market's average.

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00:06:33.640 --> 00:06:39.040

Adam Peck, Riverwater: We're higher on a price to cash flow basis. But I believe a good chunk is driven by one or 2 holdings

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00:06:39.060 --> 00:06:47.060

Adam Peck, Riverwater: that are undervalued on assets and trade at higher price. To cash flow metrics. Lima Nara is a top holding, and that would be one example.

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00:06:47.240 --> 00:06:59.599

Adam Peck, Riverwater: Limina also skews our 4 PE as it trades at 80 times earnings. Again, what matters for Limoniera is the value of their real estate and water rights, not their current cash flows on an asset basis.

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00:06:59.690 --> 00:07:03.399

Adam Peck, Riverwater: We think Levenaire is close to 50% under value.

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00:07:03.770 --> 00:07:10.400

Adam Peck, Riverwater: and more important to note, is every company we own is forecasted to be profitable in 2024.

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00:07:12.710 --> 00:07:18.539

Adam Peck, Riverwater: This quarter is our performance can mainly be attributed to stock selection, particularly in industrials.

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00:07:18.620 --> 00:07:27.459

Adam Peck, Riverwater: Industrial performance was widespread among our 6 holdings. With every industrial company in our portfolio increasing its market value in the quarter.

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00:07:27.620 --> 00:07:42.619

Adam Peck, Riverwater: we anticipated that achieving 100 positive returns, would beat the benchmark batting average, prompting us to actually delve into that analysis, and not surprisingly, of the 280 industrials in the benchmark. Only 66% saw gains in the quarter.

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00:07:42.810 --> 00:07:47.579

Adam Peck, Riverwater: We've done a decent job identifying our performers. Modine

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00:07:48.060 --> 00:07:55.300

Adam Peck, Riverwater: stood out this quarter and we extensively discussed our thesis on the stock in our fourth quarter of 2,023 letter.

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00:07:55.900 --> 00:08:09.830

Adam Peck, Riverwater: a significant aspect of our thesis revolves around Data Center growth which shows no sign of slowing down. Well estimates vary most forecast, predict a doubling of data center demand by 2030 at the slowest pace.

53

00:08:10.140 --> 00:08:20.130

Adam Peck, Riverwater: or as early as 2026 at the fastest. Modine, we think, is well positioned to capitalize on this trend. Although the market has very much recognized its potential.

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00:08:20.230 --> 00:08:28.098

Adam Peck, Riverwater: we now believe the stock is getting close to fairly valued, but we remain optimistic and intend to hold it as long as the fundamentals remain strong.

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00:08:28.870 --> 00:08:31.929

Adam Peck, Riverwater: Our weakest sector was communication services

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00:08:32.169 --> 00:08:36.669

Adam Peck, Riverwater: primarily due to the performance of our sole holding in the sector iridium communications.

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00:08:36.860 --> 00:08:41.340

Adam Peck, Riverwater: Iridium has been part of our strategy since 2,017,

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00:08:41.460 --> 00:08:45.449

Adam Peck, Riverwater: with our position size adjusted through trimming and adding over the years.

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00:08:45.600 --> 00:08:53.370

Adam Peck, Riverwater: Despite a recent decline, we're inclined towards increasing our holdings rather than reducing, as it's a sub, 2% position.

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00:08:54.030 --> 00:09:19.179

Adam Peck, Riverwater: the stock experienced a 36% decline in the quarter and is now down more than 50% from its 2023 high we did trim in 2023. The downturn was due to a severed relationship with Qualcomm, which had enabled Qualcomm ships access to the iridium satellite network. This allowed android phones with Qualcomm chips to have satellite enabled texting capabilities worldwide

61

00:09:19.310 --> 00:09:23.330

Adam Peck, Riverwater: while the termination was disappointing. We see potential with other partners

62

00:09:23.350 --> 00:09:32.876

Adam Peck, Riverwater: and think other growth drivers will drive sustained value creation. Lastly, company boasts a robust balance sheet with substantial cash flows

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00:09:34.210 --> 00:09:38.399

Adam Peck, Riverwater: over the last 12 months. We've beaten the benchmark, all driven by stock selection.

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00:09:38.530 --> 00:09:47.559

Adam Peck, Riverwater: sector allocation has been a detractor. The top contributor and detractor are the same as the previous slide, and with that I will pass it back to it.

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00:09:49.990 --> 00:09:53.850

Matt Drvaric: Exam performance, for the strategy is presented here and offers competitive

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00:09:54.100 --> 00:10:09.600

Matt Drvaric: performance across each period as a reminder. We have launched a founder share class the It vehicle for this strategy at a 10 million dollar minimum for up to 5 plans at 48 basis points with SEI as a vendor offering documents are available at request.

67

00:10:09.650 --> 00:10:17.399

Matt Drvaric: I will note that with the new marketing rule the Meta fee returns are based on the highest fee schedule that can be applied at 1% for retail clients.

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00:10:17.700 --> 00:10:20.050

Matt Drvaric: Adam, I'll turn it back to you for our micro strategy.

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00:10:21.390 --> 00:10:22.250

Adam Peck, Riverwater: Thanks, Matt.

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00:10:22.700 --> 00:10:39.339

Adam Peck, Riverwater: No. So here we have our top. 5. All 5 again have grown to be here, and are still cheap, and our eyes, and I'll have very unique stories and niches where they excel. I walk through our thesis, and I'll look for Tecnoglass last quarter. It's nearing the high end of the range for holding size.

71

00:10:39.440 --> 00:10:45.340

Adam Peck, Riverwater: We've been comfortable, letting it grow because it remains significantly undervalued and has a bright future. In our opinion

72

00:10:45.450 --> 00:10:52.029

Adam Peck, Riverwater: we first bought shares in 2,020 in the single digits versus the stock price above 55. Today.

73

00:10:52.240 --> 00:11:05.419

Adam Peck, Riverwater: as I mentioned last quarter, the stock will be added to the Russell 2,000 next month, we'd expect to see higher than normal buying from the market over the next 6 weeks, and that could potentially be an opportunity to trip.

74

00:11:06.900 --> 00:11:19.279

Adam Peck, Riverwater: We don't have hard sector and sector constraints in the micro for each sector only that no one sector can represent more than 30%. The closest we come. There is an industrial at 22% and healthcare at 20.8%.

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00:11:20.000 --> 00:11:39.439

Adam Peck, Riverwater: Here you can see our metrics are fairly in line with the benchmark, the Russell 2,000. I would note that we do consider the Russell microcap as our main benchmark, but due to license and issues can't show it to you. Our weighted average

market cap would be in line with the Russell micro benchmark. I think it's very important to note that every company in the portfolio is profitable.

76

00:11:39.900 --> 00:11:47.780

Adam Peck, Riverwater: Only 42% of companies in the micro benchmark are profitable. Again, more than half the companies in the Micro index lose money.

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00:11:48.970 --> 00:11:53.569

Adam Peck, Riverwater: We underperformed versus Russell, 2,000 in the first quarter, but also underperformed

78

00:11:53.620 --> 00:11:57.009

Adam Peck, Riverwater: compared to the route so microcap by a slightly better margin.

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00:11:57.020 --> 00:12:02.139

Adam Peck, Riverwater: We got up to a bad start, with half of our underperformance occurring in the first week of the year.

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00:12:02.160 --> 00:12:12.100

Adam Peck, Riverwater: I distribute a good chunk also to that stock picking in the quarter micro investing can be extremely volatile. Given lower floats and trading volumes for microcap companies.

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00:12:12.560 --> 00:12:18.250

Adam Peck, Riverwater: This volatility does present opportunities when a company's true value isn't aligned with the quoted market price.

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00:12:18.260 --> 00:12:19.949

Adam Peck, Riverwater: Well, the first quarter was rough.

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00:12:19.970 --> 00:12:28.720

Adam Peck, Riverwater: I'm happy to see our stocks perform better in the current quarter, and so we gain back a large chunk of the first quarters lag

84

00:12:29.610 --> 00:12:33.939

Adam Peck, Riverwater: half. The underperformance came from our worst 3 positions.

85

00:12:34.500 --> 00:12:49.050

Adam Peck, Riverwater: Air sale was sold as their end markets deteriorated, and the heads up display that they brought to market wasn't able to overcome the industry headwinds in the freighter market. We have previously sold half the position in the preceding quarter.

86

00:12:50.530 --> 00:12:56.290

Adam Peck, Riverwater: The guy is a rough one. It was bought and sold in the quarter. We only owned it for a week.

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00:12:57.340 --> 00:13:15.449

Adam Peck, Riverwater: We've been following the company and had, which had a good manager, and they had a good management meeting late in the Quarter. Pagaya has a technology platform utilizing advanced data, science and AI to enhance loan originations for banks and to offer attractive asset back securities for investors.

88

00:13:15.610 --> 00:13:25.619

Adam Peck, Riverwater: We liked their business model because it was asset light, and we understood that their capital requirements could be funded through an agreement that required very little equity from Pagaya.

89

00:13:26.000 --> 00:13:39.860

Adam Peck, Riverwater: This was not the case, as the company announced a capital raise just a few days after we spoke to them. We lost all trusts in the team, and sold immediately at lower prices than we had bought the previous week.

90

00:13:42.130 --> 00:13:57.029

Adam Peck, Riverwater: Our top detractor was Centrus, which I had previous, which had previously been a top contributor. Last year. Weakness was driven by delay by the Department of Energy and providing cylinders that allowed Centrus to accept uranium production.

91

00:13:57.260 --> 00:14:03.940

Adam Peck, Riverwater: Looking ahead into 2024 Centrus is poised at the brink of several promising catalysts.

92

00:14:04.170 --> 00:14:16.430

Adam Peck, Riverwater: Notably the company is waiting on a decision on the funding of HALEU, which is high assay, low Indian rich uranium production program. They submitted a proposal to the Department of Energy in March.

93

00:14:16.580 --> 00:14:31.450

Adam Peck, Riverwater: and then, finally, Centra stands to potentially benefit from approximately 2 billion in new expenditures approved by Congress for the expansion of low, enriched uranium production capabilities aimed at reducing dependency on Russian uranium supplies.

94

00:14:31.810 --> 00:14:37.879

Adam Peck, Riverwater: It boggles our mind that the Us. Navy relies on Russia to power its nuclear fleet.

95

00:14:37.950 --> 00:14:57.660

Adam Peck, Riverwater: Because Centrus facilities were originally designed for the production of low, enriched uranium. It is positioned well for securing a significant portion of the government HALEU funding, highlighting its strategic advantage in the evolving uranium market. We think the weakness is temporary, and look forward to seeing its progress as the year unfolds.

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00:14:58.070 --> 00:15:16.439

Adam Peck, Riverwater: As we look over the last year's returns, you can see at the top. We've underperformed the Russell 2,000 compared to the Russell. Micro we've underperformed by a few 100 bases once less than the underperformance compared to the 2,000. It is all occurred since November of last year. The top detractor was Perry on networks.

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00:15:16.650 --> 00:15:27.320

Adam Peck, Riverwater: We've owned pairing since 2020, and we previously sold the majority of the position in 2023, above \$30 per share before the most recent swoom.

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00:15:27.860 --> 00:15:38.030

Adam Peck, Riverwater: The stocks sold off after their top customer. Microsoft. Change how it paid period, we're confident all the bad news is pressed in at this point, and are looking to add.

99

00:15:38.360 --> 00:15:47.919

Adam Peck, Riverwater: Perion had 474 million of cash on the on its balance sheet at the end of the year versus a market cap today of 600 million.

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00:15:48.270 --> 00:15:56.830

Adam Peck, Riverwater: based on their free cash list. And now trades at less than 2 times its free cash flow to enterprise value. I'll say it again less than 2 times

101

00:15:57.530 --> 00:16:08.960

Adam Peck, Riverwater: for more detail on stock spot and sold as well as deep dives on new names, please. Reference our latest Quarterly letter, which is available on our website. With that I will pass it back to Matt.

102

00:16:10.760 --> 00:16:26.119

Matt Drvaric: Like Sam. The performance for the micro strategy is presented here against the Russell 2,000 net a fee returns are based on the highest fee schedule at one for retail clients. Adam, back to you to talk about identifying value through stock selection. Please.

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00:16:26.350 --> 00:16:33.379

Adam Peck, Riverwater: Thanks, Matt, so just to remind everyone we utilize a 3 pillar approach which we'll show here and

104

00:16:33.960 --> 00:16:42.519

Adam Peck, Riverwater: given I. We just spent the last 3 quarters going deep. Dive into all 3. I will. Just say that we've got 3, and you can see them here.

105

00:16:43.690 --> 00:16:50.120

Adam Peck, Riverwater: So what is value creation through stock selection? Well, it's multifaceted.

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RIVERWATER PARTNERS

00:16:50.260 --> 00:16:55.610

Adam Peck, Riverwater: First off, I think it means generating our alpha by picking stocks that outperform.

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00:16:55.930 --> 00:16:59.819

Adam Peck, Riverwater: So far we've checked the box on our process, and, as you can see.

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00:17:00.060 --> 00:17:12.550

Adam Peck, Riverwater: since inception for the sustainable value, more than half our alpha comes from stock selection versus allocation, and for short, shorter time periods like the 3 year. It represents 90% of our alpha

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00:17:12.750 --> 00:17:15.420

Adam Peck, Riverwater: and 85%. For 5 years

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00:17:15.910 --> 00:17:26.619

Adam Peck, Riverwater: we have close to our benchmark on a sector by sector basis. But we tempt to pick the 1, 2, 3, or maybe handful names in each sector that we think are superior to the rest.

111

00:17:27.040 --> 00:17:30.300

Adam Peck, Riverwater: How else is value created through stock selection

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00:17:30.900 --> 00:17:37.139

Adam Peck, Riverwater: on top of Alpha production? We try to create value through active ownership of the companies. We own.

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00:17:37.810 --> 00:17:48.189

Adam Peck, Riverwater: That means we engage with management teams and sometimes boards of directors, to give them our thoughts on major drivers of value for their companies. Usually it's focused on asset allocation.

114

00:17:48.200 --> 00:17:51.619

Adam Peck, Riverwater: financial leverage. And how should they should go about

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00:17:51.760 --> 00:17:56.890

Adam Peck, Riverwater: using not just financial capital, but also human and physical capital?

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00:17:57.160 --> 00:18:04.709

Adam Peck, Riverwater: We try to know as much as we can about each company, and when appropriate and accessible, we like to conduct underground research

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00:18:04.740 --> 00:18:14.139

Adam Peck, Riverwater: from Modine. We visit their headquarters, and we're seeing Wisconsin, as well as a data center and manufacturing site in Virginia. That produces HVAC equipment.

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00:18:14.490 --> 00:18:21.749

Adam Peck, Riverwater: As I mentioned earlier, Modine was our top performer for the last quarter and year Modine manufactures and produces

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00:18:21.760 --> 00:18:30.270

Adam Peck, Riverwater: thermal management products and solutions. Their business is split in 2 segments as seen here, performance, tech and climate solutions.

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00:18:30.600 --> 00:18:43.290

Adam Peck, Riverwater: Their products are using various types of climate controlled applications, such as ventilators to improve air quality thermal management for commercial vehicles and cooling products for data centers which is driving the stock higher.

121

00:18:43.430 --> 00:18:48.529

Adam Peck, Riverwater: Modine products by their nature have a sustainable impact.

122

00:18:49.010 --> 00:18:58.309

Adam Peck, Riverwater: They're designed to maximize efficiency while simultaneously improving the heating and ventilation capacities in locations such as schools and businesses.

123

00:18:58.490 --> 00:19:01.430

Adam Peck, Riverwater: Other products allow a reduction in emissions

124

00:19:01.460 --> 00:19:07.790

Adam Peck, Riverwater: for commercial evs and their data center products reduce or eliminate water and energy consumption.

125

00:19:08.390 --> 00:19:13.250

Adam Peck, Riverwater: You can see here at the bottom, their purpose is engineering, a cleaner, healthier world.

126

00:19:13.630 --> 00:19:19.859

Adam Peck, Riverwater: Their mission creates value for our environments as well as value for our shareholders.

127

00:19:19.910 --> 00:19:22.290

Adam Peck, Riverwater: and with that I will pass it over to Cindy.

128

00:19:24.590 --> 00:19:38.830

Cindy Bohlen: Thank you, Adam, and thanks to everyone for joining us today, I'd like to share highlights of river waters. 2023 sustainability report in which we describe our approach to value creation through sustainable investing

129

00:19:39.840 --> 00:19:48.469

Cindy Bohlen: at its core. The purpose of business is to create value. Businesses use society's capital to create something of value.

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00:19:48.540 --> 00:19:53.989

Cindy Bohlen: and then individuals exchange their own valuable asset money. For this value

131

00:19:54.440 --> 00:20:10.360

Cindy Bohlen: riverwater invests in businesses that create value through the responsible deployment of physical, human, and financial capital. This value creation is measured by the good brought to society by businesses, products, and services.

132

00:20:10.400 --> 00:20:14.640

Cindy Bohlen: The lack of harm brought to society from a business's operations.

133

00:20:14.790 --> 00:20:20.770

Cindy Bohlen: and the return generated by the business on its use of society's resources.

134

00:20:23.170 --> 00:20:35.640

Cindy Bohlen: The responsible deployment of human and physical capital by business is necessary to ensure that the planet and its people remain resilient for current and future financial value. Creation

135

00:20:35.660 --> 00:20:45.619

Cindy Bohlen: as stewards of human capital, riverwater encourages portfolio companies to adopt policies that promote a strong, inclusive corporate culture.

136

00:20:45.830 --> 00:21:02.679

Cindy Bohlen: employee, safety, product safety, ethical supply chains and resilient communities. This graphic illustrates the fact that embedding diversity, equity and inclusion by companies results in excess. Financial returns for those companies.

137

00:21:04.040 --> 00:21:32.269

Cindy Bohlen: Likewise, river water encourages portfolio companies to protect the world's natural resources through water, stewardship, waste management, energy, reduction, greenhouse gas emissions, reduction and biodiversity protection via circularity. This is critical for long term business success. Because we're currently using 1.7 earth's worth of natural resources per year, which is not sustainable.

138

00:21:32.740 --> 00:21:33.980

Cindy Bohlen: But there's hope.

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00:21:34.000 --> 00:21:47.270

Cindy Bohlen: according to the International Energy Association in the Decade ending in 2023 global emissions grew by a half a percent per year, which is the slowest rate since the Great Depression.

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00:21:47.320 --> 00:21:52.590

Cindy Bohlen: Meanwhile Gdp, of advanced economies grew 1.7%.

141

00:21:52.710 --> 00:21:58.459

Cindy Bohlen: This is evidence that we can grow our economies while slowing our environmental footprint.

142

00:21:59.700 --> 00:22:21.200

Cindy Bohlen: and finally consider the link between value, creation for society and value, creation for shareholders, river waters, asset management team investing companies that generate high returns on their invested capital. These returns are the measure of their value, creation for the use of society's resources. This value, creation

143

00:22:21.200 --> 00:22:41.829

Cindy Bohlen: is recognized in the market in the form of higher shareholder returns. The graph shows that the river water sustainable value portfolio has achieved a higher return with a lower risk profile versus its peer groups and benchmarks for the 7 years, ending in 2023

144

00:22:43.630 --> 00:23:00.170

Cindy Bohlen: Riverwater's 3 pillar approach to sustainable investing includes due diligence to understand a company's current attention to salient Esg factors, engagement toward improvement and collaboration with thought leaders to inform our practice and partner and engagement.

145

00:23:00.640 --> 00:23:19.550

Cindy Bohlen: This page, affectionately called our donut graph, illustrates the percent of river water portfolio companies with attention to each of the Es and G factors we consider for all companies. Some examples include 60% of our portfolio companies have emissions, efforts underway

146

00:23:19.550 --> 00:23:33.270

Cindy Bohlen: techno glass has generated 28,000 megawatts of clean energy. Since the start of its solar panel installations eliminating 10,000 tons of Co. 2 emissions in its operations.

147

00:23:33.490 --> 00:23:54.849

Cindy Bohlen: 92% of our companies have Dei policies, tenants, annual pay gap assessment found that it's Median total income for females was 100.5% of the Median total income for males and 82% of our companies have some form of sustainability reporting

148

00:23:56.350 --> 00:24:08.220

Cindy Bohlen: this page highlights. How many of our portfolio companies have businesses by their very nature, which are aimed at solving some of the SDGs.

149

00:24:08.400 --> 00:24:31.450

Cindy Bohlen: Many of river water portfolio companies target SDG. 9, which is industry, innovation and infrastructure. Their innovative products and services lead to more efficient use of society's resources. For example, Iridium's constellation of 66 cross linked Leo. Satellites provide access to voice and data services anywhere on earth.

150

00:24:31.630 --> 00:24:37.100

Cindy Bohlen: and Adam described Modine's efforts, with which reduce energy and water consumption.

151

00:24:39.060 --> 00:24:53.120

Cindy Bohlen: At the end of 2022 river water made its scoring more gradient for each of the Es and G factors we consider versus the binary scoring we used previously.

152

00:24:53.210 --> 00:24:57.209

Cindy Bohlen: This page shows detail of our new scoring system

153

00:24:57.720 --> 00:25:09.529

Cindy Bohlen: as an illustration for the environmental factors in the past a company received a whole point for stating it understood the importance of attention to that factor

154

00:25:09.710 --> 00:25:29.669

Cindy Bohlen: today that would be worth a quarter of a point with quarter points also awarded for reporting metrics. Having stated goals for improvement and demonstrating progress toward achieving those goals. This gives us a clearer picture of the actual progress being made by companies over time.

155

00:25:30.490 --> 00:25:43.670

Cindy Bohlen: We were very pleased to report that during 2023, 100% of our portfolio companies maintained or improved their river water, Esg. Score using our new scoring system.

156

00:25:43.990 --> 00:25:50.559

Cindy Bohlen: and we actively engage with companies toward improvement, as it relates to material factors

157

00:25:51.810 --> 00:26:07.480

Cindy Bohlen: as investors in the small cap space where companies are often just beginning the Esg journey. We work in partnership with them to educate them on the importance of a focus of Esg. And we offer tools for the journey.

158

00:26:07.630 --> 00:26:19.679

Cindy Bohlen: 11 companies with whom we engaged, either in late 2022 or during 2023 began reporting on their sustainability efforts. Here we highlight plexus

159

00:26:19.730 --> 00:26:22.100

Cindy Bohlen: and Mayville engineering.

160

00:26:23.410 --> 00:26:35.289

Cindy Bohlen: This next slide shows our proxy voting record and the SDG alignment of our engagement efforts. Every engagement we undertake is undertaken

161

00:26:35.871 --> 00:26:38.340

Cindy Bohlen: toward achieving one of the SDGs

162

00:26:40.170 --> 00:26:54.590

RIVERWATER PARTNERS

Cindy Bohlen: River waters. Collaboration with sustainability peers informs our engagement with portfolio companies which aims to guide them toward value. Creation listed here are our main sustainability partners.

163

00:26:55.550 --> 00:27:15.129

Cindy Bohlen: Public policy is one area of focus with our collaboration partners. We often sign on to letters authored by our partners, and we rely on them to keep us aware of pending rule changes at the sec. Department of Labor, etc. These are some examples of the letters we either wrote or co-signed.

164

00:27:16.960 --> 00:27:36.869

Cindy Bohlen: Also river water partners speak employees speak with university students, conference attendees, etc, to inform them about the merits of sustainable investing these pages include examples of some of the engagement and collaboration with some of our partners.

165

00:27:38.340 --> 00:28:01.480

Cindy Bohlen: and this final page documents, the sustainable business practices of river water as a firm, we believe our efforts to create a diverse, equitable, and inclusive corporate culture to protect our clients, personal information against cyber security tag attacks to reduce our greenhouse gas footprint and to contribute to a strong local community.

166

00:28:01.550 --> 00:28:14.110

Cindy Bohlen: All create value for our stakeholders and society at large. Our B Corp. Status affirms that our business practices align with our expectations for our portfolio companies.

167

00:28:14.940 --> 00:28:33.349

Cindy Bohlen: and to conclude river waters, asset management team investing companies that generate high returns on invested capital. This is the measure of the value they're creating for society by responsibly using society's physical, human, and financial resources.

168

00:28:33.510 --> 00:28:47.380

Cindy Bohlen: This value creation is recognized by the market in the form of higher shareholder returns, and this is how river water seeks to fulfill its mission, to make the world a better place by growing wealth through sustainable investing.

169

00:28:47.610 --> 00:28:48.470

Cindy Bohlen: Thank you.

170

00:28:53.150 --> 00:29:00.810

Matt Drvaric: Thank you for the update on the strategies, Adam and Cindy, for highlighting the measurable impact our research efforts are generating for the portfolios

171

00:29:00.890 --> 00:29:03.090

Matt Drvaric: at the time we welcome any questions.

172

00:29:04.650 --> 00:29:14.600

Matt Drvaric: I did receive a question during the conversation. It was related to the scoring methodology. Cindy, could you please just touch on. If there's a minimum score

173

00:29:14.790 --> 00:29:23.390

Matt Drvaric: that is required for the company to meet for portfolio inclusion, and how we look at that going on a go forward basis.

174

00:29:24.400 --> 00:29:47.310

Cindy Bohlen: Yeah, sure. Thank you for the question. So river, water scoring methodology has 2 components. The first one is that donuts graph, which is where we look at their operational performance and how they affect society and it, those physical and human resources that we talk about on an operational basis. We also have

175

00:29:47.310 --> 00:30:04.478

Cindy Bohlen: a thematic lens in our scoring system, which is, how is your business by its very nature, creating value for society? In other words, like what Modine is doing. Its products and services reduce energy consumption. So we have 20 points toward the operational

176

00:30:04.860 --> 00:30:14.000

Cindy Bohlen: using an operational lens in our scoring methodology and 5 points as a thematic lens. And so those come together to create our score, and

177

00:30:14.000 --> 00:30:29.030

Cindy Bohlen: we do not have a minimum score for getting into the portfolio. What we look at is during our due diligence process, and some of our initial engagement is, how well does the company understand and embed

178

00:30:29.030 --> 00:30:48.230

Cindy Bohlen: sustainability into its current practice, and then are they willing to work with us or others toward improvement on those metrics that are really salient or material for their business and their stakeholders. And so that's kind of the continuum we use for getting into the portfolio, and then

179

00:30:48.440 --> 00:30:50.690

Cindy Bohlen: then being in the portfolio long term.

180

00:30:54.330 --> 00:30:59.839

Matt Drvaric: Thank you, Cindy. Another question came in. What lessons were learned from Pagaya technologies.

181

00:31:03.432 --> 00:31:04.977

Adam Peck, Riverwater: Great question.

182

00:31:06.390 --> 00:31:08.010

Adam Peck, Riverwater: so I've been doing this.

183

00:31:08.190 --> 00:31:12.720

Adam Peck, Riverwater: you know, afraid to say how long. I guess. 20 plus years, and

184

00:31:13.890 --> 00:31:20.862

Adam Peck, Riverwater: I have a hard time pulling a lesson from it, because, in my opinion,

185

00:31:22.070 --> 00:31:25.860

Adam Peck, Riverwater: they shouldn't have even spoken to us. So

186

00:31:26.810 --> 00:31:35.560

RIVERWATER PARTNERS

Adam Peck, Riverwater: typically your, you know, management teams are on either Ndrs. Which are 99 deal road shows or road shows. And it's

187

00:31:36.000 --> 00:31:40.459

Adam Peck, Riverwater: it blows my mind that they're willing to talk to us right before they raise capital.

188

00:31:42.030 --> 00:31:43.110

Adam Peck, Riverwater: so

189

00:31:44.000 --> 00:31:44.630

Adam Peck, Riverwater: I

190

00:31:46.610 --> 00:31:51.428

Adam Peck, Riverwater: I mean, it's a good question. I have a hard time taking a lesson away.

191

00:31:52.260 --> 00:32:06.520

Adam Peck, Riverwater: cause I I you know it's easy always to place blame on other people. I I guess at the end of the day we didn't do a great job understanding their needs for equity capital in the

192

00:32:08.590 --> 00:32:15.259

Adam Peck, Riverwater: You know the packages they were putting together, you know we we had understood it as I mentioned that we didn't think they

193

00:32:15.640 --> 00:32:20.477

Adam Peck, Riverwater: needed to put equity capital in and that was wrong. So

194

00:32:21.270 --> 00:32:23.109

Adam Peck, Riverwater: you know, it's a quasi

195

00:32:23.778 --> 00:32:30.560

Adam Peck, Riverwater: financial and with financials at the end of the day you have to be 100 confident

196

00:32:31.450 --> 00:32:36.090

Adam Peck, Riverwater: in the liability structure of the firm you're investing in. And so

197

00:32:36.150 --> 00:32:37.416

Adam Peck, Riverwater: we obviously

198

00:32:38.150 --> 00:32:39.806

Adam Peck, Riverwater: we got that wrong?

199

00:32:42.460 --> 00:32:43.820

Adam Peck, Riverwater: But good question.

200

00:32:46.320 --> 00:32:47.909

Matt Drvaric: We have one last question.

201

00:32:47.960 --> 00:33:02.519

Matt Drvaric: It sounds like you use the allocation of the Russell index as your model. Why do you do that? I can take it that is predominantly related to the microcap product that we manage. We would use the micro cap, the Russell microcap index

202

00:33:02.680 --> 00:33:06.000

Matt Drvaric: for sector weighting and multiple.

203

00:33:06.150 --> 00:33:20.269

Matt Drvaric: However, given as Adam alluded to earlier licensing issues, we use and state the Russell 2,000 as the benchmark. That is the information that we can share publicly that Russell allows us to use.

204

00:33:21.500 --> 00:33:24.645

Adam Peck, Riverwater: Yeah, and I'll I'll be frank. You know it.

205

00:33:25.230 --> 00:33:39.769

Adam Peck, Riverwater: It's a re cost a ridiculous amount for us to just publicly say that Russell micro is our benchmark on a you know, on a slide, you know, to the tune of like \$30,000 a year. So it's just a hard pill for me to swallow, to say, Hey!

206

00:33:39.780 --> 00:33:41.269

Adam Peck, Riverwater: Oh, here's the micro

207

00:33:41.380 --> 00:33:43.196

Adam Peck, Riverwater: \$30,000 later.

208

00:33:44.930 --> 00:33:51.809

Adam Peck, Riverwater: so that that's the main reason. But we do consider the micro as our our true benchmark. We just have to

209

00:33:52.200 --> 00:33:53.580

Adam Peck, Riverwater: show it

210

00:33:54.060 --> 00:34:01.339

Adam Peck, Riverwater: in a large setting as a Russell G 1,000. But individual settings. We can compare it to the, to the rest of my career.

211

00:34:05.810 --> 00:34:07.660

Matt Drvaric: That is all the questions at this time

212

00:34:08.929 --> 00:34:20.899

Matt Drvaric: to conclude the call. We are passionate about small cap, responsible investing, and believe these factors are crucial to help minimize portfolio volatility through maintaining positions and superior businesses that endure market cycles.

213

00:34:20.909 --> 00:34:30.260

Matt Drvaric: We welcome your consideration as a manager. Additional data on the strategies can be found in investment. Morning Star investment metrics, Psn. Wilshire and Cowan databases.

214

00:34:30.360 --> 00:34:37.339

Matt Drvaric: If you have additional questions or would like to speak directly with a member of our team. Please contact me, and we look forward to talking with you again next quarter.