

WEBVTT

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00:00:00.020 --> 00:00:01.620

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00:00:02.300 --> 00:00:04.930

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00:00:06.270 --> 00:00:08.960

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00:00:10.030 --> 00:00:11.010

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00:01:37.510 --> 00:01:39.950

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

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00:01:57.800 --> 00:02:16.980

Matt Drvaric: Good afternoon, and Happy Friday. This is Matt Drvaric. Thank you for joining us, and welcome to the Riverwater partners. Q3, 2024. Webinar. All participants will be in. Listen. Only mode to review the agenda for the call. Today. Adam Peck, our co-founder and chief investment officer, will discuss performance for the strategies and nuclear power.

7

00:02:17.470 --> 00:02:23.610

Matt Drvaric: Cindy Bohlen, our Director of Responsible Investing, will share thoughts around sustainability in the age of AI.

8

00:02:23.870 --> 00:02:27.739

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

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00:02:28.060 --> 00:02:34.820

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

00:02:34.860 --> 00:02:38.400

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

11

00:02:41.850 --> 00:02:57.759

Matt Drvaric: Riverwater partners was founded in 2,016 in Milwaukee, as a dedicated small cap, responsible investment manager. We are proud to be a signatory to the United nations, principles of responsible investment. A certified B corporation certified women owned and 100% employee owned

12

00:03:02.000 --> 00:03:06.979

Matt Drvaric: during the Quarter Riverwater, is proud to introduce a 3rd strategy to our offering.

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00:03:07.703 --> 00:03:15.579

Matt Drvaric: In the suite of small cap. Responsible investment strategies. The Riverwater, small cap started in July 2022,

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00:03:15.800 --> 00:03:22.729

Matt Drvaric: the core orientation to the strategy allows the team to continue focusing their efforts on crafting bottom up. Portfolio

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00:03:22.900 --> 00:03:30.130

Matt Drvaric: of unique businesses with less influence from sector concentration presented in the value or growth

16

00:03:30.450 --> 00:03:32.040

Matt Drvaric: small cap benchmarks.

17

00:03:32.440 --> 00:03:37.990

Matt Drvaric: Additionally, this portfolio offers investors exposure to a traditional small cap range.

18

00:03:38.090 --> 00:03:44.269

Matt Drvaric: At the end of the quarter we received a 60 million dollars mandate on behalf of a State pension fund seeding. This strategy.

19

00:03:45.120 --> 00:03:56.909

Matt Drvaric: This addition brings our total assets across the small Cap strategies to 120 million. We are fortunate to have the relationships we do with our clients and are excited about the developing relationships on the horizon for the firm.

20

00:03:57.230 --> 00:04:02.829

Matt Drvaric: With that I will turn it over to Adam to review the 3 strategies and their positioning Adam.

21

00:04:03.560 --> 00:04:05.951

Adam Peck, Riverwater: Thank you, Matt, and good afternoon to everyone

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00:04:06.660 --> 00:04:19.260

Adam Peck, Riverwater: as a bit of background. We started the small Cap strategy about 2 and a half years ago, because we consistently heard from the market that while people liked everything about us, they needed a strategy that benchmarked to the Russell 2,000.

23

00:04:19.600 --> 00:04:25.359

Adam Peck, Riverwater: We seeded it with our own capital, and, as Matt just mentioned, won a nice mandate recently.

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00:04:25.700 --> 00:04:29.630

Adam Peck, Riverwater: everything from a philosophy and process is exactly the same.

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00:04:29.800 --> 00:04:39.609

Adam Peck, Riverwater: The only main difference is that way. We will initiate positions classified as core and sometimes growth versus focusing only on value names in the Smith

26

00:04:39.620 --> 00:04:44.139

Adam Peck, Riverwater: perfect example of a name we bought in our small cap. Portfolio is Festus

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00:04:45.020 --> 00:04:54.180

Adam Peck, Riverwater: Vestas was spun out of Aramark in 2023 Aramark is one of the country's premier food service suppliers, and they determined that uniform rental

28

00:04:54.200 --> 00:04:58.249

Adam Peck, Riverwater: and works place supplies would be better off as a standalone company.

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00:04:58.650 --> 00:05:12.540

Adam Peck, Riverwater: Festus provides uniforms, mats, towels, linens, restroom supplies 1st aid supplies and other workplace supplies. Some of the major catalysts include now their ability to reallocate their free cash flows.

30

00:05:13.160 --> 00:05:16.669

Adam Peck, Riverwater: but in a nutshell vestas meets all of our 3 pillars

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00:05:17.100 --> 00:05:31.919

Adam Peck, Riverwater: one is superior business. 92% of their revenues are recurring. They have a sticky customer base with national accounts, having an average tenure of 26 years, and they serve 95% of the largest metro areas in the US.

32

00:05:32.170 --> 00:05:43.239

Adam Peck, Riverwater: They operate in a 48 billion dollars addressable market that is fragmented as 74% of the markets operated by local companies, or is self served. So plenty of growth is available.

33

00:05:43.880 --> 00:05:45.639

Adam Peck, Riverwater: Pillar 2 management

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00:05:45.958 --> 00:05:52.530

Adam Peck, Riverwater: they check all the boxes, and then also valuation. It checks all the boxes, as you can see here on the right.

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00:05:53.170 --> 00:05:58.799

Adam Peck, Riverwater: So what we did was we compared best as to the direct public comps as well as some similar businesses.

36

00:05:59.110 --> 00:06:02.759

Adam Peck, Riverwater: You can see that Vestas trades at an above market multiple

37

00:06:03.220 --> 00:06:06.660

Adam Peck, Riverwater: in the smid we target below market multiples.

38

00:06:06.890 --> 00:06:16.840

Adam Peck, Riverwater: But Vesta still makes sense because it trades a huge discount to the competitors, and, more importantly, has a network that is extremely difficult to replicate.

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00:06:17.150 --> 00:06:37.549

Adam Peck, Riverwater: You could almost say impossible without spending billions of dollars. To prove that point, they recently received an unsolicited offer to be bought out by a European company looking to get a foothold in the Us. In September sources reported to say that the takeoff price is at least 30% higher than where the stock trades. So again.

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00:06:38.170 --> 00:06:48.429

Adam Peck, Riverwater: when we look at potential investments, the process is exactly the same other than we have a greater bandwidth on valuation, but are still vigilant and paying a fair price.

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00:06:49.420 --> 00:07:02.310

Adam Peck, Riverwater: So that let's move to the top. 5 luminera is our largest position, but was started at a sub 5% at cost since we 1st bought it. In the summer of 2022 the stock has more than doubled in value.

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00:07:02.680 --> 00:07:10.610

Adam Peck, Riverwater: Cabot, our second largest position got here on seller performance as well as it's up around 60% since we 1st purchased it.

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00:07:10.920 --> 00:07:17.900

Adam Peck, Riverwater: On average. Like our other strategies, we target full positions at cost at around 3% of assets.

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00:07:20.670 --> 00:07:31.480

Adam Peck, Riverwater: Like our other strategies, we target Alpha to be created from stock selection and limit our over and under weights to a hard 10%, but generally stay within 5% of the benchmark weight.

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00:07:31.850 --> 00:07:39.319

Adam Peck, Riverwater: The largest overweight here is in staples driven by lemons, and the largest underweight is in real estate at 6.6%.

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00:07:41.030 --> 00:08:04.319

Adam Peck, Riverwater: Here you can see, on average, our market cap is in line with our benchmark, the Russell 2,000. We do have slightly higher valuations on earnings, but think they're justified with much higher returns on capital. Compared to the Russell 2,000, we're at 16.6% versus 5.2%. Additionally, every company in the portfolio is profitable. With the exception of one holding.

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00:08:04.440 --> 00:08:09.700

Adam Peck, Riverwater: this is much higher than the Russell 2,000, where only 60% of companies are profitable.

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00:08:11.750 --> 00:08:25.200

Adam Peck, Riverwater: Here you can see we outperformed in the quarter, and it was driven by stock selection names. We have high conviction, and some of our top contributors, luminera, technicas, and modine top detractors were led by Brc. Inc.

49

00:08:25.270 --> 00:08:47.719

Adam Peck, Riverwater: Brc. Manufactures coffee, and was launched at Walmart about 2 years ago. They've had some hiccups from manufacturing partners and set expectations way too high, but nonetheless have jumped to be the 4th ranked coffee sold at Walmart. A new Cfo. Has come in, and we think we'll focus the company on achieving profitability in 2025

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00:08:47.950 --> 00:08:52.510

Adam Peck, Riverwater: brc. Is the only company we own that was unprofitable. In 2024,

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00:08:54.010 --> 00:09:04.189

Adam Peck, Riverwater: looking to one year returns. We've had nicer performance over the last year. Industrials have been the standout performers and have been led by modine and techno glass.

52

00:09:04.785 --> 00:09:16.990

Adam Peck, Riverwater: We have been net sellers on strength recently. Top detractors over the year was Perion, which we sold after their relationship with Microsoft was adjusted to their detriment.

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00:09:17.110 --> 00:09:19.370

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

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00:09:21.020 --> 00:09:21.889

Adam Peck, Riverwater: Thanks, Adam.

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00:09:22.236 --> 00:09:25.960

Matt Drvaric: Performance. But the strategy here is presented against the Russell 2,000 benchmark.

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00:09:25.990 --> 00:09:32.410

Matt Drvaric: Keep in mind to note for the marketing rule that the net fee returns are against 1% for retail clients.

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00:09:32.610 --> 00:09:35.159

Matt Drvaric: Adam, back to you for the sustainable value strategy.

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00:09:38.280 --> 00:09:42.889

Adam Peck, Riverwater: Thank you, Matt, so I will cover our metrics here.

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00:09:43.880 --> 00:09:48.730

Adam Peck, Riverwater: starting with the top. 5 again. Libernera number one position

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00:09:49.357 --> 00:09:54.730

Adam Peck, Riverwater: only Libernera and Farmer Mac are in the top 5 or

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00:09:54.830 --> 00:10:04.960

Adam Peck, Riverwater: repeats from last quarter. We trimmed our largest holding last quarter, which was modine. After I had a significant run. We still own it, though

62

00:10:05.500 --> 00:10:18.469

Adam Peck, Riverwater: a Cnx. Vaulted into the top 5 on very strong performance in the quarter. We've owned the name for a number of years, and, to be honest with you are actually surprised by the strength in the stock given the weak energy market.

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00:10:21.400 --> 00:10:24.020

Adam Peck, Riverwater: And just to mention Libernera.

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00:10:24.410 --> 00:10:31.129

Adam Peck, Riverwater: still be in the top position. It's still there, because we think actually, it is still on our value. Even after very strong performance.

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00:10:32.170 --> 00:10:53.120

Adam Peck, Riverwater: Next slide, we have our sector weights. I'll remind everyone we try to stay again within 5% and hard and fast. 10 at quarter's end, along with the small Cap real estate was the largest underweight at roughly 5% materials at a 4.6% underweight. Largest overweight is in technology. Still, at a 6.4% overweight.

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00:10:53.320 --> 00:11:02.410

Adam Peck, Riverwater: we opportunistically trimmed technology over the last quarter. So while it remains our largest overweight, it's actually down from Q 2,

67

00:11:02.810 --> 00:11:13.350

Adam Peck, Riverwater: our second largest overweight is driven by lemons. If they're successful in selling the business, and they've hired a banker, I'd expect this overweight will be rate allocated into another sector.

68

00:11:15.700 --> 00:11:19.620

Adam Peck, Riverwater: and I would expect the underweights and materials in real estate to continue.

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00:11:19.730 --> 00:11:25.889

Adam Peck, Riverwater: although I will say I was just at an industrial conference yesterday, as well as a number of

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00:11:25.970 --> 00:11:31.907

Adam Peck, Riverwater: other team members were at the same industrial Conference earlier this week, and a big factor that came up.

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00:11:32.593 --> 00:11:43.266

Adam Peck, Riverwater: we're potential tariffs. And so we are doing a lot of research on how tariffs could potentially impact the material space, because we actually believe if they do come in materials could be

72

00:11:43.860 --> 00:11:46.292

Adam Peck, Riverwater: a good spot to be. So I

73

00:11:47.790 --> 00:11:52.039

Adam Peck, Riverwater: would gather that there's a high potential for materials to increase the weight over time.

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00:11:53.550 --> 00:12:14.340

Adam Peck, Riverwater: So, moving on to value metrics. I'll start with PE, where we are slightly higher than the benchmark. It's hard to get aggregate data on the benchmark, but I would guess the Russell 2,500 is also skewed on a PE basis by a number of unprofitable companies. As I just mentioned, 40%, and the Russell 2,000 are unprofitable. Every week. Company we own

75

00:12:14.390 --> 00:12:21.830

Adam Peck, Riverwater: in the sustainable value is profitable in 2024, with the exception of one, and that company generates free cash.

76

00:12:22.410 --> 00:12:34.700

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 that are undervalued on assets and trade at high price to cash flow metrics, luminera, which is our top holding, would be one example.

77

00:12:35.127 --> 00:12:39.720

Adam Peck, Riverwater: luminar, also skews our PE Luminar trades about 50 times earnings

78

00:12:40.381 --> 00:12:52.129

Adam Peck, Riverwater: and a very high price to cash on multiple. But again, what matters is the value of their real estate and their water rights, not their current cash flows, and again they've hired a banker to pursue strategic alternatives.

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00:12:53.200 --> 00:12:57.289

Adam Peck, Riverwater: Looking at performance again. This quarter's

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00:12:57.590 --> 00:13:13.460

Adam Peck, Riverwater: our performance is driven by stock selection. We're happy to outperform. During such a strong quarter. Typically, we have less than 100% upside capture in really strong markets and our ability to outperform this quarter was driven by standout performance among a number of holdings.

81

00:13:13.690 --> 00:13:23.169

Adam Peck, Riverwater: Our top 3 contributors, Western Alliance, Luminaire, and Cnx, were up 37, 26, and 30% respectively in the quarter.

82

00:13:23.180 --> 00:13:29.970

Adam Peck, Riverwater: but still only represented about 40% of the total performance. So positive returns were widespread.

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00:13:30.530 --> 00:13:49.030

Adam Peck, Riverwater: 2 of our top 3 detractors were in technology. And not surprisingly, technology was our worst sector. Technology was the second worst performing sector in the Russell 2,500 value. And so our overweight to an underperforming sector resulted in negative allocation effect on top of negative selection effect

84

00:13:50.240 --> 00:14:00.769

Adam Peck, Riverwater: Adcor was close to being our worst performer. Again, just by one basis points after being here the previous quarter acor manufactures, electrical products for commercial buildings.

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00:14:01.000 --> 00:14:05.579

Adam Peck, Riverwater: it still trades at a ridiculously low valuation in the single digits.

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00:14:05.590 --> 00:14:12.269

Adam Peck, Riverwater: as the market does not believe they can maintain the elevated margin and return structure that have been in place since Covid.

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00:14:12.330 --> 00:14:27.050

Adam Peck, Riverwater: There was a short report on their industry, claiming collusion. During Covid, which says, drove excessive margins, we are monitoring the

claims, and should there appear to be wrongdoing, we would consider that a reason to exit the position.

88

00:14:28.460 --> 00:14:50.459

Adam Peck, Riverwater: Moving along to one year. Attribution over the last 12 months we've beaten the benchmark, all driven by stock selection sector. Allocation has been a detractor. The top contributor for the past year was modine, which we've discussed at length over the last few quarters. We did begin to trim the position last quarter after its current valuation, did not justify its large portfolio weight

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00:14:50.720 --> 00:14:59.669

Adam Peck, Riverwater: as a reminder. Modine manufactures. Hvac equipment for various end markets, but data centers have been the predominant driver of their sales. Over the last year

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00:14:59.750 --> 00:15:16.950

Adam Peck, Riverwater: we had the opportunity to attend their latest analyst day last month in Racine, Wisconsin. We met with a number of employees, and also had the opportunity to see their full product lineup. Top detractor over the last year is the aforementioned app core, and with that I will pass it back to Matt.

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00:15:18.520 --> 00:15:19.060

Adam Peck, Riverwater: Thanks, Aaron.

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00:15:19.060 --> 00:15:34.600

Matt Drvaric: Performance for the strategy presented here and offers competitive performance across each period as a reminder. We have launched the Founders Class Cit vehicle for the strategy at 10 million dollars minimum for up to 5 plans at 48 basis points with Sei as the vendor

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00:15:34.620 --> 00:15:36.780

Matt Drvaric: offering documents are available at request.

94

00:15:36.970 --> 00:15:43.599

Matt Drvaric: and the net of the net of return figures are presented against 1% for retail clients.

95

00:15:43.730 --> 00:15:47.639

Matt Drvaric: Institutional fee schedules are available for investments. Over 5 million

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00:15:48.100 --> 00:15:48.760

Matt Drvaric: Adam.

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00:15:50.720 --> 00:16:03.070

Adam Peck, Riverwater: Thanks, Pat. Here we have our top 5 for the micro surprise surprise. Luminara is a top position and was a top contributor to performance in Q. 3. As it was up over 25%,

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00:16:03.770 --> 00:16:08.839

Adam Peck, Riverwater: we expect some news on their hiring of an investment banker in the near future.

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00:16:09.140 --> 00:16:17.469

Adam Peck, Riverwater: Again, we think the intrinsic values north of \$30 per share. We're cognizant of the position size as it approaches our internal limits.

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00:16:17.780 --> 00:16:19.779

Adam Peck, Riverwater: We did trim techno glass

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00:16:19.820 --> 00:16:31.119

Adam Peck, Riverwater: from our top, 5 as it climbed higher with a market cap breaking 3 billion dollars for reference. We 1st bought the stock in 2020, when it had a market cap of around 300 million.

102

00:16:31.180 --> 00:16:36.089

Adam Peck, Riverwater: We look to sell stocks in their market caps, eclipse the largest stocks in our benchmark.

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00:16:37.970 --> 00:16:45.350

Adam Peck, Riverwater: looking at the sector weights. Our largest underweight isn't consumer discretionary. If using the Russell 2,000 as a benchmark.

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00:16:45.400 --> 00:16:58.370

Adam Peck, Riverwater: our consumer exposure is mass, though, as we're exposed in the communication space to national Cine media or Ncmi Ncmi runs the commercials before movies and has roughly 50% market share.

105

00:16:58.670 --> 00:17:11.759

Adam Peck, Riverwater: We were recently attracted to it. Given its 20% free cash flow, yield clean balance, sheet post bankruptcy and a future movie slate that should improve after both Covid and the strikes decimated, the movie slates

106

00:17:13.060 --> 00:17:40.540

Adam Peck, Riverwater: moving over to our metrics. You can see we're fairly in line with the Russell. 2,000, I would note, we do consider the micro cap as our main benchmark, our weighted average market cap would be in line with the Russell micro benchmark, which is around 750 million. I think it's very important to note that every company in the portfolio is profitable or generates free cash. The last time I looked less than 50% of the Russell Benchmark companies were profitable.

107

00:17:42.020 --> 00:17:59.390

Adam Peck, Riverwater: Moving over to attribution, we outperformed versus the Russell 2,000 in the 3rd quarter, but also outperformed versus the Russell microcap

by over 100 basis points. The majority of the outperformance came from stock selection. We've had a string of returns out of our number of our top 10 holdings

108

00:17:59.430 --> 00:18:07.670

Adam Peck, Riverwater: which include the 3 companies shown here, Limanara, Mayville, and Technoglass. Those 3 were all up on average, over 30%.

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00:18:08.460 --> 00:18:22.919

Adam Peck, Riverwater: Our top underperforming performer was Vico, because a semiconductor manufacturing equipment provider and it benefited from the surge in enthusiasm around AI in the 1st half of 2024, which drove a 60% gain in the stock.

110

00:18:22.980 --> 00:18:36.670

Adam Peck, Riverwater: However, market sentiment towards AI semicap equipment stocks and semicap equipment stocks in general has cooled in the 3rd quarter, and Vico gave back much of its earlier gains. We trimmed our position during the quarter, but continue to hold the stock

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00:18:38.360 --> 00:18:54.780

Adam Peck, Riverwater: as we look at returns over the last year you can see at the top. We've underperformed the Russell 2,000 compared to the Russell microp. We've underperformed, but have underperformed by less than 5%. The portfolio is up just over 20% over the last 12 months, ending last quarter.

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00:18:54.920 --> 00:19:01.569

Adam Peck, Riverwater: The top detractor over the year was Perion, which again we sold with the change in their relationship with Microsoft

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00:19:01.670 --> 00:19:06.429

Adam Peck, Riverwater: and Techno Glass has been the top performer which we've spoken at depth

114

00:19:06.530 --> 00:19:18.139

Adam Peck, Riverwater: over the last few quarters for more detail on all stock spot and sold Acosta strategies as well as any deep dives on new names. Please reference. Our latest Quarterly letters which are available on our website.

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00:19:20.850 --> 00:19:34.709

Matt Drvaric: Sam. Last strategy performance is presented here against. As you said, the Russell 2,000. We do prefer the Russell Micro cap. Index, but due to licensing reasons. We are not showing that benchmark. Now, the returns are presented at 1%.

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00:19:35.130 --> 00:19:40.020

Matt Drvaric: Lately we've been receiving a lot of questions around our approach to nuclear energy.

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00:19:40.110 --> 00:19:44.160

Matt Drvaric: Adam will cover the team's thoughts in response to this, Adam, take it.

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00:19:45.100 --> 00:20:05.470

Adam Peck, Riverwater: Thanks, Matt. So I think the the nuclear energy talk basically blew up for lack of a better word over the last few months when both Amazon really all the hyperscalers have announced partnerships or intentions to use nuclear energy as a fuel source. And

119

00:20:05.570 --> 00:20:27.359

Adam Peck, Riverwater: it's become a big topic. So I thought we would we should take a step back and explain why we've been investing in the nuclear space since we started, and I know, Cindy and her discussions will get into a name or 2. But there's really 3 reasons why we felt okay investing in the nuclear space.

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00:20:27.380 --> 00:20:28.290

Adam Peck, Riverwater: And

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00:20:29.510 --> 00:20:45.879

Adam Peck, Riverwater: the 1st thing to think about is, does it align with our mission, which is to make the world a better place by growing wealth through sustainable investing? So that is the lens through which we view every company. When we looked at the nuclear industry, we determined that nuclear energy does make the world a better place.

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00:20:46.313 --> 00:20:55.869

Adam Peck, Riverwater: And many of our peers did not at that time, and still do not. So why do we differ well, 1st off, nuclear is low on emissions.

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00:20:56.690 --> 00:21:09.770

Adam Peck, Riverwater: So we like the carbon footprint, the only source of power. Lower on a tons per co. 2 per gigawatt over a life cycle is onshore wind, and it's lower by a negligible amount.

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00:21:10.030 --> 00:21:19.240

Adam Peck, Riverwater: Nuclear power is 97.6% lower than natural gas on a footprint basis and 98.5% lower than coal.

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00:21:19.970 --> 00:21:23.720

Adam Peck, Riverwater: So from an environmental standpoint, we like nuclear.

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00:21:24.540 --> 00:21:26.360

Adam Peck, Riverwater: The second factor is safety.

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00:21:26.650 --> 00:21:52.930

Adam Peck, Riverwater: We think the main reason investors have avoided nuclear exposure is the perceived safety risks. Chernobyl and Fukushima immediately come to mind. In 2011, after Fukushima was incapacitated by the tsunami. There was fear of nuclear exposure. Thankfully. No one died from radiation exposure, and only

one worker passed away from cancer in 2018, though it cannot be determined if that cancer was caused by exposure.

128

00:21:53.260 --> 00:22:07.129

Adam Peck, Riverwater: So here in the chart you can see that again. Nuclear is close to the top with only a slightly lower safety profile versus solar. And again, this is death. Rates per unit of electricity produced.

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00:22:07.390 --> 00:22:16.660

Adam Peck, Riverwater: Death rates in the oil industry are 614 times worse than nuclear and coal deaths are almost twice as bad as oil deaths.

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00:22:17.720 --> 00:22:20.039

Adam Peck, Riverwater: And then, lastly, capacity.

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00:22:20.050 --> 00:22:26.130

Adam Peck, Riverwater: So on a reliability basis, nuclear comes out on top with no other source anywhere. Close

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00:22:26.260 --> 00:22:30.789

Adam Peck, Riverwater: reliability is really where nuclear shines versus wind and solar.

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00:22:31.000 --> 00:22:39.969

Adam Peck, Riverwater: So we are in favor of a just transition to cleaner sources of energy and think nuclear will play a key role in driving a 0 emission grid.

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00:22:40.160 --> 00:23:09.530

Adam Peck, Riverwater: That is also one we can rely on. The largest companies in the world have already figured this out and have recently been lining up nuclear produced energy capacity to power their AI driven data centers. So in September, Microsoft announced plans to take up to 100% of a revived 3 Mile Island nuclear

power plant to fuel its AI Data Center ambitions. In October Amazon announced that they signed a 3 Year Agreement to support the development of nuclear energy products.

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00:23:09.800 --> 00:23:15.469

Adam Peck, Riverwater: And Google, the day after commissioned several new small modular reactors.

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00:23:15.580 --> 00:23:34.050

Adam Peck, Riverwater: So we've been investing in the nuclear space for years. Cindy will touch on one of our names, which has recently been discovered by the market. It tripled between the beginning of September and the end of October, as the market figured out that they would be needed to power the text giants plans, and with that I will pass it over to Cindy.

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00:23:35.830 --> 00:23:43.649

Cindy Bohlen: Thank you, Adam, and thanks everybody for joining us today. So today, I'm going to talk about sustainability in the age of AI

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00:23:44.210 --> 00:23:50.339

Cindy Bohlen: as responsible investors. Riverwater seeks to make the world a better place by growing wealth through sustainable investing.

139

00:23:50.560 --> 00:24:03.210

Cindy Bohlen: Our dual mandate mission requires that we consider how portfolio companies bring value to society and generate superior returns for our clients. So what does this look like in the age of AI

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00:24:04.340 --> 00:24:16.699

Cindy Bohlen: today? 2 truths about AI exist. One. The AI train has indeed left the station, and 2 AI is consuming vast amounts of energy to fuel its journey.

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00:24:16.890 --> 00:24:40.919

Cindy Bohlen: Riverwater believes it's critical that as the world realizes the benefits of AI, it also ensures that the world continues to provide clean, reliable, and affordable energy for all. With that in mind. Today, we'd like to highlight several of our portfolio companies that offer solutions to help mitigate the environmental footprint of AI

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00:24:40.990 --> 00:24:46.280

Cindy Bohlen: lcf international consults, electric utilities on their green energy transition.

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00:24:46.340 --> 00:24:50.830

Cindy Bohlen: uranium energy mines, uranium for nuclear energy

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00:24:51.050 --> 00:24:55.220

Cindy Bohlen: Centrus energy produces uranium for nuclear energy

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00:24:55.270 --> 00:25:08.930

Cindy Bohlen: Modine makes cooling systems that reduce heat and greenhouse gas emissions of data centers and sienna network equipment transmits data at the lowest energy per bit rate.

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00:25:09.070 --> 00:25:19.680

Cindy Bohlen: Importantly, the innovation offered by these companies is being recognized in the form of growing profits and stock prices which benefits our clients.

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00:25:20.710 --> 00:25:23.670

Cindy Bohlen: So let's talk about the power needed to power. AI.

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00:25:26.000 --> 00:25:35.279

Cindy Bohlen: The International Energy Agency estimates that global energy required to power AI data centers will double in the next 4 years

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00:25:35.290 --> 00:25:49.390

Cindy Bohlen: as responsible investors. We want to see the world lower its energy intensity and carbon footprint generally something that seems incongruous with the proliferation of AI and its power sucking servers.

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00:25:49.560 --> 00:25:55.640

Cindy Bohlen: Given that AI is powering ahead, it's paramount that it be deployed in a responsible manner.

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00:25:56.990 --> 00:26:04.960

Cindy Bohlen: Riverwater portfolio companies are working to ensure that we have clean, reliable, and affordable energy for all.

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00:26:05.240 --> 00:26:08.390

Cindy Bohlen: So let's talk about Icf international

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00:26:08.660 --> 00:26:25.520

Cindy Bohlen: Icf is a consulting firm that works with utilities to plan for and execute on energy deployment that meets their green energy objectives. They help identify ideal locations for renewable energy projects

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00:26:25.550 --> 00:26:31.189

Cindy Bohlen: evolve the distribution grid to get energy from where it's generated to where it's needed

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00:26:31.710 --> 00:26:40.120

Cindy Bohlen: plan and implement next generation customer programs like energy star, so that consumers are consuming less

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00:26:40.240 --> 00:26:46.189

Cindy Bohlen: and engage with regulators which are key actors in the clean energy movement.

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00:26:46.380 --> 00:26:55.940

Cindy Bohlen: Icf's ecosite tool helps utilities, explore decarbonization scenarios to achieve climate and clean energy goals

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00:26:56.010 --> 00:27:18.299

Cindy Bohlen: working with customers toward transportation, electrification building, decarbonization and clean energy. Icf has modeled a path for the United States to meet its stated Paris agreement goals to eliminate more than 40% of greenhouse gas emissions by 2030 and 90% by 2050.

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00:27:19.430 --> 00:27:25.329

Cindy Bohlen: So, turning to our nuclear companies, Centrus and uranium energy.

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00:27:25.860 --> 00:27:44.829

Cindy Bohlen: while solar and wind energy production have gained share at utility scale due to their recently achieved cost parity with fossil fuel energy sources. Their scalability and reliability come into question to feed the higher energy demands imposed by AI. Enter nuclear

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00:27:45.030 --> 00:28:11.390

Cindy Bohlen: as Adam discussed earlier Riverwater believes that nuclear energy must be part of a green energy transition. Given its ability to scale low carbon footprint and safety profile, Centrus energy and uranium energy are providers of the uranium that will be needed by utilities. Importantly, they offer an economical and geopolitically safe source of uranium.

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00:28:11.740 --> 00:28:24.510

Cindy Bohlen: The United States relies on clean, reliable electricity from its 99 nuclear reactors to produce about 20% of the electricity the country uses each year.

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00:28:24.620 --> 00:28:35.980

Cindy Bohlen: Today, nuclear power accounts for nearly 70% of the emissions free electricity produced in the country making it our largest source of clean energy.

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00:28:36.190 --> 00:28:44.550

Cindy Bohlen: In 1993, America produced more than 90% of the enriched uranium used in its nuclear reactors.

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00:28:44.570 --> 00:28:57.060

Cindy Bohlen: But by 2,008, only 15% of the enriched uranium fueling American reactors had been produced. Domestically, Centrus is working to resume commercial production this decade.

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00:28:58.310 --> 00:29:13.170

Cindy Bohlen: And then turning to modine data centers, that House AI servers account for 3% of total global energy use today and are projected to account for 8% by 2030

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00:29:13.220 --> 00:29:23.009

Cindy Bohlen: data center cooling systems are responsible for 25 to 40% of an individual data center's overall energy use

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00:29:23.140 --> 00:29:45.120

Cindy Bohlen: in a 2023 study Modine found that deploying its Airedale advanced cooling technology enabled data centers to reduce cooling energy use by up to 44% equating to 547 tons of Co. 2 per year in a 10 megawatt data facility.

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00:29:45.130 --> 00:29:56.449

Cindy Bohlen: additionally 389 million gallons of water use was avoided by deploying waterside optimization systems in data centers in 2021

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00:29:57.390 --> 00:29:59.100

Cindy Bohlen: and finally sienna

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00:29:59.330 --> 00:30:17.579

Cindy Bohlen: high performance communications. Networks move the bits of data used to inform AI models. Sienna's photonics. Technology provides the lowest cost, lowest power and lowest latency solution for moving bits of data in the network

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00:30:17.670 --> 00:30:23.289

Cindy Bohlen: over the past decade, while increasing fiber capacity by 35 times

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00:30:23.370 --> 00:30:38.910

Cindy Bohlen: sienna equipment has achieved 25 to 30% annualized cost and power per bit reduction and avoided over 5.5 million tons of Co. 2 emitted.

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00:30:39.080 --> 00:30:53.899

Cindy Bohlen: Siena has a stated goal of 71% reduction in its scope 3 emissions per unit of capacity, shipped in gigabits per second by 2030 and a year-end

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00:30:54.150 --> 00:31:06.910

Cindy Bohlen: 2023. Siena had already reduced its scope 3 emissions by 62, and a half percent. This innovation has made Sienna the leader in optical connectivity.

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00:31:07.910 --> 00:31:30.839

Cindy Bohlen: So, in conclusion, as the world seeks to make AI work for the world. It will be important that it be done in a responsible manner, one that ensures that all people have access to clean, reliable and affordable energy. Riverwater applauds the efforts of its portfolio companies highlighted here today, all of which, we believe

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00:31:30.840 --> 00:31:38.999

Cindy Bohlen: will be rewarded for bringing value to society, as well as superior returns, enabling our clients to grow their wealth

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00:31:39.000 --> 00:31:40.840

Cindy Bohlen: while making the world a better place.

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00:31:41.190 --> 00:31:42.110

Cindy Bohlen: Thank you.

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00:31:46.980 --> 00:31:50.409

Matt Drvaric: Thank you, Cindy and Adam, for the update on the strategies.

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00:31:50.840 --> 00:31:53.200

Matt Drvaric: At this time we welcome any questions.

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00:31:53.480 --> 00:31:58.390

Matt Drvaric: but first, st before we take them, Adam. We've been asked often by investors

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00:31:58.710 --> 00:32:00.239

Matt Drvaric: what makes us different.

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00:32:02.300 --> 00:32:08.230

Adam Peck, Riverwater: Yes. So we, we do get that often. I I typically say we are.

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00:32:08.820 --> 00:32:21.140

Adam Peck, Riverwater: you know, in a business where there isn't the ability to have a lot of differentiation. But I truly believe that we do differentiate in our tiny little piece of the market, and it's

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00:32:21.510 --> 00:32:24.300

Adam Peck, Riverwater: driven by 3 factors.

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00:32:24.310 --> 00:32:26.926

Adam Peck, Riverwater: One is that we

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00:32:28.120 --> 00:32:37.040

Adam Peck, Riverwater: lead with purpose, and that we're we're using an Esg framework in this small cap space which few and far between managers are doing.

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00:32:38.160 --> 00:32:44.140

Adam Peck, Riverwater: We use proprietary Esg analysis. We're not relying on 3rd parties to figure things out.

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00:32:44.220 --> 00:32:58.380

Adam Peck, Riverwater: We uncover high quality Esg opportunities where others aren't looking in the small cap space which we believe studies show Esg momentum is is a factor that creates Alpha number 2.

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00:32:58.756 --> 00:33:18.539

Adam Peck, Riverwater: We are contrarian, I think. Just. You know, we're contrarian from a market space. I think we're even contrarian from an Esg perspective. So when you think about esg investors, I think it's just assumed that you're not going to invest in, you know. Quote unquote, dirty industries, oil and gas and materials.

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00:33:19.676 --> 00:33:20.869

Adam Peck, Riverwater: We do.

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00:33:20.930 --> 00:33:27.552

Adam Peck, Riverwater: And you know our my normal responses. We do for a number of reasons. The 1st is that

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00:33:28.260 --> 00:33:46.500

Adam Peck, Riverwater: you know, we think acting or working with management teams and and boards to help them understand how focusing on their impact and environment can actually increase their bottom line and their returns on capital. 2, from a philosophical perspective. When we say, Does this make the world a better place like

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00:33:46.510 --> 00:33:47.640

Adam Peck, Riverwater: we say, yes.

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00:33:47.760 --> 00:34:10.139

Adam Peck, Riverwater: oil and gas companies make the world a better place if we were to remove oil and gas companies from the global economy, the whole thing falls apart. So again, we're looking for a just transition. And along that philosophical line, when I run into people that say, I want to divest from oil and gas in my portfolio, you know, I say. Well, then, you should divest of it from your life, and no one's willing to do that. So if you're not willing to divest of it from your life.

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00:34:10.330 --> 00:34:21.050

Adam Peck, Riverwater: probably shouldn't divest of it from your from your portfolio. And we're also gonna try. And like, I said, we invested in the nuclear spaces we set back and determine where the industries make something

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00:34:21.100 --> 00:34:28.359

Adam Peck, Riverwater: better or worse. And we thought, nuclear makes the world a better place. So finally, now we're active investors. We're not activists.

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00:34:28.370 --> 00:34:34.460

Adam Peck, Riverwater: but we are active. We're committed to actively guiding companies on their journey to making the world a better place.

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00:34:35.440 --> 00:34:42.929

Adam Peck, Riverwater: and we're not going to compromise on that. So I think that's in a nutshell. What? What makes us different from most other small cap investors.

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00:34:44.770 --> 00:35:07.779

Matt Drvaric: That's great and helpful. Thank you for sharing that, Adam. As all the questions at this time 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. We welcome your consideration as a manager. Additional data on the strategies can be found in investment. Morningstar investment metrics, Psm. Will share calend databases

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00:35:08.020 --> 00:35:17.559

Matt Drvaric: if you have additional questions or would like to speak directly with a member of our team. Please contact me. We look forward to talking with you again next quarter, and wish you and your families a happy Thanksgiving.