

The Small Cap Strategy slightly underperformed in the fourth quarter but outperformed for the year. The quarterly results were driven primarily by stock selection, reflecting our focus on bottom-up analysis rather than top-down sector allocation or macroeconomic bets. We seek companies demonstrating strong sales growth, good returns on invested capital, and a “growth at a reasonable price” valuation. While sector allocation is not our primary focus, we do identify some sectors to be more attractive than others, as discussed below.

Sector Highlights

The healthcare sector was our largest underperformer this quarter, driven by Anika Therapeutics, Inc. (ANIK) – discussed in more detail below. Despite this, we remain constructive on the healthcare space, particularly in MedTech, which we believe offers higher-quality business models than the more speculative biotech segment. Reflecting this conviction, we added Integer Holdings Corporation (ITGR), a leading MedTech company, to the portfolio during the quarter.

Financials were the top-performing sector for the quarter, and we remain favorable on the sector heading into 2025. The Federal Reserve’s ongoing rate-cutting cycle has created favorable conditions for banks, though Fed Chair Powell indicated that the pace of cuts could slow in 2025, which led to a selloff in the banks. Interestingly, as short-term rates have fallen, the 10-year Treasury yield has risen. This has benefited banks in two significant ways: first, by lowering funding costs on the short end of the curve, and second, by steepening the yield curve, enabling higher profitability on loans. These factors are expected to boost net interest margins in 2025; however, we are monitoring the risk that a sharp rise in the 10-year yield could create stress within the financial system.

To manage any potential volatility associated with the new Trump administration’s rhetoric on tariffs, we favor our position in StoneX Group Inc. (SNEX). SNEX is a financial services company with diverse operations in capital markets, including options, derivatives, equities, and futures trading. A significant portion of its business involves foreign exchange (FX) trading, which is expected to experience heightened volatility in 2025.

Sectors we are avoiding include real estate, energy, and consumer staples. Real estate within the small cap space is challenging due to a lack of scale, high leverage, and refinancing risks in a higher-for-longer interest rate environment. Energy faces headwinds from potential overproduction under the new administration, which could depress oil prices. However, we remain constructive on natural gas-related companies, which are better positioned for tailwinds. Consumer staples could struggle if inflation remains elevated, limiting pricing power and compressing margins. We are still able to find companies within these sectors that have idiosyncratic opportunities outside of the sector as a whole.

Top Contributors

Coastal Financial Corporation (CCB) was the top performer for the quarter. CCB, the bank holding company for Coastal Community Bank, benefitted from a post-election rally in bank stocks. Significantly, its Banking-as-a-Service (BaaS) segment, which partners with major firms like Walmart, Robinhood, and Progressive Insurance, has strong growth prospects. Programs launched by these partners are expected to drive significant revenue growth in 2025, further benefiting CCB.

Another top performer was InterDigital, Inc. (IDCC), a prime example of a company we target in the small cap core space. InterDigital boasts strong returns on invested capital and a robust intellectual property moat. While initially not optically cheap, the stock was significantly undervalued in the mid-double digits stock price due to the market underpricing its licensing opportunities. Strong performance this quarter reflects ongoing momentum in its IP licensing business and favorable litigation outcomes. With potential recurring revenues of \$650 million in 2025 and \$1 billion by 2030, IDCC is well-positioned for sustained growth.

Top Detractors

Anika Therapeutics, Inc. (ANIK) was the largest detractor for the quarter. The company divested a previously acquired business at a disappointing sale price, highlighting significant capital destruction from this prior M&A activity. As a result, we exited the position during the quarter.

Strategy Additions

Integer Holdings Corporation (ITGR), headquartered in Plano, Texas, is one of the world’s largest medical device outsourcing (MDO) manufacturers. ITGR serves diverse markets, including cardiac rhythm management, neuromodulation, orthopedics, vascular, advanced surgical, and portable medical devices. The company has an 80-year history of precision medical device manufacturing and has grown revenues at 6–8% annually through market share gains and tuck-in acquisitions. Strong operational expertise has driven margin expansion, resulting in 8–12% annual earnings growth. Trading at its historical valuation of 2.6x sales, ITGR is positioned for stock appreciation in line with its revenue growth.

Outlook

Small caps began to outperform large caps after the presidential election but finished the year trailing due to signals from the Federal Reserve about fewer rate cuts in 2025. We believe the market is underestimating the likelihood of



additional cuts, which should provide a tailwind for small cap stocks. Additionally, the new administration’s focus on tariffs and reshoring could offer insulation to small caps that are more domestic focused, particularly as large cap multinationals face potential risks related to geopolitical tensions with China and Taiwan. Many of the “Magnificent 7” are exposed to these.

regions, while our small cap portfolio is more domestically oriented and less vulnerable to international issues.

We anticipate that 2025 will present opportunities to acquire high-quality companies at attractive valuations amid potential market volatility. While small caps are currently underperforming large caps, the year ahead looks promising, with domestic tailwinds and rising uncertainty for many large cap companies.

Thank you for your trust and confidence and please reach out with any questions.

Nathan Fredrick, CFA

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

Small Cap Strategy
Largest Contributors and Detractors – Q4 2024

5 Best - Absolute Contribution			
Ticker	Company	Average Weight	Contribution
CCB	Coastal Financial Corporation	3.16%	137 bps
IDCC	InterDigital, Inc.	4.17%	122 bps
SNEX	StoneX Group Inc.	4.28%	75 bps
LOPE	Grand Canyon Education, Inc.	4.08%	58 bps
TGLS	Tecnoglass Inc.	3.95%	48 bps
5 Best Total		19.64%	440 bps

5 Worst - Absolute Contribution			
Ticker	Company	Average Weight	Contribution
ANIK	Anika Therapeutics, Inc.	1.21%	-107 bps
AMRK	A-Mark Precious Metals, Inc.	1.96%	-87 bps
CROX	Crocs, Inc.	2.38%	-80 bps
ICFI	ICF International, Inc	2.65%	-80 bps
CBT	Cabot Corporation	3.99%	-73 bps
5 Worst Total		12.19%	-427 bps

Disclosures:

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