WEBVTT

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The value of their real estate and water rights, not their current cash flows.

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Again, we think their assets are worth $40 a share versus a current stock price of around $23.

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This quarter's outperformance, again, is attributed to stock selection. We're happy to outperform in a slightly negative market.

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We had a worst to first with technology. As it was our worst performing sector last quarter, but was our best this quarter.

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Our performance was driven by both interdigital and Sienicorp. Interdigital's strong performance reflects ongoing momentum in its IP licensing business and favorable litigation outcomes.

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With the potential to achieve 650 million in annual recurring revenues in 2025 and a billion By 2030, we believe IDCC remains well positioned for continued growth.

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And just recently they sued Disney. As they have IP on video compression technologies that allows customers to download a two-hour movie in minutes.

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Versus four and a half days without compression. Without the technology, Blockbuster would be back in business.

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Disney takes in $25 billion a year in streaming, so we think there's tremendous potential, not just with Disney, but all streaming companies.

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The worst performer in the fourth quarter was Capri, which owns brands Versace, Jimmy Chu, and Michael Kors.

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Capri stock sold off drastically after a judge sided with the Department of Justice claim that a proposed merger with Tapestry would create a monopoly in the affordable handbag space. That would be

handbags priced between 200 and $1,000.

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The sell-off costs the portfolio 123 basis points and contribution to return.

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The holding was sized at the low end of our range, so the only positive takeaway is it never became a full position.

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We thought the decision was laughable, but decided to walk away as our thesis was no longer relevant.

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Over the last 12 months. We've beaten the benchmark.

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Almost all driven by stock selection. Sector allocation has been positive here as well. Industrials were our top contributor, driven primarily from standout performance from Dean.

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Which was levered to the build out of data centers. The worst sector was communications.

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It was entirely driven by weakness in iridium. Iridium ended a joint venture with Qualcomm to design and sell chips with satellite connectivity for the mobile space. We still think there is opportunity in mobile.

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As well as other end markets, though it remains smaller than average position size.

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The top contributor for the past year is the aforementioned Modine.

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And the top detractor is And with that, I'll pass it back to Matt.

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Thank you.

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Thanks, Adam. Performance for the strategy is presented here and offers competitive performance across each period.

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As a reminder, we have launched a founder cit vehicle for the strategy at 10 million minimum for up to five plans at 48 basis points with SDI as a vendor. Offering documents are available at request.

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I will note again with the new marketing rule, these neta fee returns are based on our highest fee schedule that can be applied.

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At 1% for retail clients. I will turn it over to Nate, co-portfolio Manager for the microcap strategy to review the performance.

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Nate.

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Thanks, Matt. Yeah, we'll start with the top five holdings for the micro strategy.

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Limonera appears again here in the micro cap as our top holding. Adam covered this sufficiently and We still believe that is an undervalued company.

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Coastal Financial Group, CCB, Adam also covered, and we believe is going to have a pretty good 2025 Walmart and Robinhood and Progressive launched their products with CCB.

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First Business Financial is also a bank. It's located here in Madison, Wisconsin is considered more of a quality bank and have had superior growth in tangible book value compared to their peers over the last five years.

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Aratamide is a medical technology company. They offer MRI compatible medical devices.

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Radamet is a company that we like to see in the med tech space as It is a compounder as above average gross margins and little competition.

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It is also still founder-led. Perella Lineberg Partners is an investment bank.

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I came public a couple of years ago. They have benefited from the excitement around the M&A market coming back after a sluggish two

years.

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And it also trades at a discount to some of its other boutique investment firms in the market like Evercore and PJT partners.

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So on to the next slide. So our sector weightings here compared to the Russell 2000 for the micro cap strategy, we do focus on stock selection more than making decisions on what sectors to overweight and underweight.

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However, we do have sectors we are more bullish on. As you can see from our top five holdings, we have an overweight in financials. We think there are a few tailwinds for banks specifically coming into 2025 as the Federal Reserve is

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Currently in a rate cutting cycle. Even though that might have paused here recently.

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That still helps their funding costs. While the 10-year Treasury has remained high, this has resulted in a steepening of the yield curve, which should help our banks earn more in that interest margin.

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They also should benefit from deregulation and M&A picking up as well.

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In the healthcare space, we have focused more on the med techs, similar to like we talked about with Eratomed.

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As opposed to the unprofitable biotech space, which we view as more of binary outcomes.

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Other themes we like that we've talked about in the past are the picks and shovels for AI.

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Reshoring industrial production and nuclear energy. Some spaces we've found it more difficult in micro are around consumer discretionary and energy.

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The one stock we actually own that's in the energy is New Park Resources, which recently changed their name to NPK International

after selling their energy business to focus on their industrial solutions business that provides matting for utilities, construction projects, and EMPs.

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Are one name that is actually exposed to energy is actually under the utilities sector and that's heirs And they actually provide pipelines that provide water to Permian operators.

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For the oil and gas sector. So on the next slide.

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So here is the micro cap portfolio compared to the Russell 2000.

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Remember that we are benchmark to the micro cap index and our numbers specifically around the market cap.

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Are more in line with those metrics. And in the microcap portfolio, we do focus on higher quality companies than the index.

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And all of our companies are profitable now. We're forecasted to be profitable in less than a year.

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So on to the next slide. So for the three-month performance. So we did outperform the Russell 2000 To end the year, but we did trail the micro cap index our top contributor was CCB, which I think Adam covered fairly well. So I think I'll actually touch

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On our second there is centrist energy which fits into our nuclear energy theme. We did, however, end up selling this position in the fourth quarter as the stock had substantially rallied to end the year on the expectation of winning government contracts to produce

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Both HALU and low enriched uranium both contracts they want a part of.

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Along with other companies. These projects are still many years away from actually being, you know, put into production.

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So there's some risk there. Plus what made us end up selling the entire position was Russia had ended up banning the exportation of enriched uranium to the United States which could impact Centrist's

core business was not worth the risk to us, even though we're still bullish on the nuclear energy space.

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So instead, we did decide to flip that into uranium Royalty Corp, which is more of a pure play uranium company with exposure to royalties and physical uranium.

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On the detractor side. Okay, Matt. On the detractor side AMARC Precious Metals was our top detractor.

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This stock tracks pretty much the gold price on the way up.

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And then on the way down. So it had a good year coming in.

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To the presidential election. And then there was a sell-off in the fourth quarter after the election and into year end, which AMERC stock ended up tracking. However, we do like this their business model Because it really shouldn't trade with the price of gold it actually

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When the price of gold is going up a lot, they're their clientele actually ends up being net sellers.

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So that can hurt their margins. But as we move into 25 here.

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And with the volatility and certainty in the market should see wider margins and more customers coming back to the market.

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So next slide. So on the one year, we slightly underperformed the Russell 2000.

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And ended up trailing the micro index for the year. Our outperformance, as you can see was driven by financials, specifically PWP and CCB, which We have discussed our top detractor.

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Was Harvard Biosciences. Develops, manufactures and sells products for the life sciences industry.

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Their end markets struggled with lower spending from customers in the

pharma and research space.

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And there was too many headwinds for us, so we decided to sell that name But on the positive side, it did end up being a good sale as the company is down significantly from where we sold it.

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And actually, we now do not own any of those top detractors from last year.

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And with that, I'll pass it back to Matt.

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Great. Thanks, Nate. The performance for the MicroStrategy is presented here against the Russell 2000. The preferred benchmark, as Nate mentioned, is the Russell Micro Index, but due to licensing, we use the Russell 2000.

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Benchmark. Netfee returns are based on the highest fee schedule that can be applied at 1% for retail clients.

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Adam, I'll turn it over to you to talk about our perspective on the impact of tariffs.

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And what the team is doing to manage the portfolio.

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Thanks, Matt. So tariffs have made the front page every day for the last couple of weeks and for good reason.

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With the success of globalization over the last 70 years tariffs have been relegated to a seldom used tool that changed in the current administration's first term and is being used in potentially greater use Here you can see the aggregate tariff rate in the US has been consistently below 5% for the last 20 years.

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If the proposed tariffs on China, Mexico, and Canada take effect.

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The rate would climb to 10%. A level less seen during World War II.

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If 20% universal tariffs were implemented, we'd be obviously at a 20%

rate.

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Rate, which was last seen during any one last seen Anyone? The Great Depression, which was exacerbated by anyone Anyone, the Holly Spoot Tariff Act. Okay, let's just go to the original

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Welcome to alleviate the effects of the anyone? Anyone? Great Depression.

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The appointment.

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Raised or lower.

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Well, I can't really hear what he's saying and technology isn't working perfectly here, but hopefully you get the point and hopefully I don't have you as bored as Stein.

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So if history is any guide, it's unlikely that tariffs make the economy better.

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Tariffs did not make the UK economy better in 1815 with the corn laws.

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The tariffs did not help U.S. Gdp in the 1930s, nor did tariffs help the economy over the last eight years.

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According to the Tax Foundation, the most recent tariffs reduce GDP by 0.2% per year or 58 billion.

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Per year. So this is an instructive chart that shows trade uncertainty as measured by the number of news articles.

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Obviously, we were at high levels last November, which is where this chart ends.

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And are likely still at record levels since data collection was started in the 1960s.

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Markets always price uncertainty. But less uncertainty is better than more uncertainty. And so we think until the picture becomes clear, volatility and lower multiples could prevail.

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We've completed a thorough review of every holding and all our strategies for China, Mexico, and Canada, as well as the entire globe from both the sales and supply perspective. We've done our best to either use publicly available data We've also used qualitative disclosures to approximate quantitative amounts.

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We've rolled up all our exposures by holding's weight to come up with aggregate exposures.

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I should mention we also did this for US government exposure given administration Doge initiatives.

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So this is just an example to show you what we did. And here on this page, we've got the aggregate numbers.

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Available. For the ones we could come up with. So here are the results.

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The first column is total sales exposure outside the US for the S&P 500, the Russell 2000, and then our strategies.

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The second column is the estimated tariff exposure, which includes services revenues.

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The third column is China goods exposure, and the last column is Canada and Mexican goods exposure.

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The takeaways are one, we're fully aware of where our tariff risks lie in the portfolios.

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Two, we have very small exposure to the most likely tariff victim, which is China.

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Roughly at 3.4% for the highest in our small cap and 0.3% in our micro.

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We have even smaller exposure to Mexico and Canada. And then finally, we have six to 18% global exposures, but this would only be at risk in a total across the board tariff scenario.

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We know that both Canada and Mexico export the vast majority of their goods to the US. It's 83% for Mexico and 77% for Canada.

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Neither can afford a fight with the US. So we think the most possible outcome probable outcome is additional tariffs on China, but time will tell.

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With that, I will pass it over to Cindy to discuss climate change scenario analysis Which actually seems easier to analyze than potential tariff scenarios.

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Cindy?

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Thank you, Adam. Today, I'd like to introduce Riverwaters Climate Change Scenario Analysis framework. This framework will serve to inform our thought process as it relates to the potential pecuniary risks and opportunities presented to companies.

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Into our entire portfolios under various climate change scenarios. So let me just start with the purpose of scenario analysis.

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A scenario isn't a forecast or a prediction. Instead, it's a hypothetical construct. And the purpose of a scenario analysis is to be a strategic planning tool to help an organization understand how it might perform in different future states.

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Enabling it to plan now for those different future states. Importantly, scenario analysis not only identifies potential risks, but can also offer insight into potential opportunities.

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And so why is climate change scenario analysis important to river water as an investment manager?

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This graphic provided by the Task Force on Financial Related Climate

Disclosure or TCFD, which is considered the de facto standard on climate change reporting and action.

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Indicates that short and long-term impacts resulting from climate change typically fall into transition risks and physical risks.

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As well as opportunities. You know, these include things like resource depletion, regulatory changes.

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Changes in energy sources or technologies, energy efficiency. New products and services, new markets or assets or stranded assets.

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And increased resilience. These factors have the potential to impact the financial outcomes of our portfolios, which are portfolio companies, which is shown at the bottom in these boxes, revenues and expenditures.

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And assets and liabilities and capital and financing flow through the income statement, cash flow statements, and balance sheets of our portfolio companies.

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And therefore, they have the potential to affect the performance of our portfolios and investment returns for our clients.

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These are pecuniary factors. And as an asset manager with a long-term perspective.

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And as a fiduciary, we believe it's imperative that we consider the potential effects of climate change on our portfolio companies.

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So in terms of how we intend to approach climate scenario analysis.

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Let's just start with we are not a team of scientists.

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And even if we were predictions of the precise impacts of various degrees of planetary warming.

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Have been questionable at best. So we're not trying to predict what

the world might look like at two degrees versus three degrees versus four plus degrees of warming.

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Instead, we've chosen a framework that considers how the world might look depending on how public policy and how business practice respond to climate change.

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We borrowed this Mark Cliff real world climate scenarios initiative framework.

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And it considers four scenarios. The vertical axis shows policy response.

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And the horizontal axis shows business response. So up and to the right in orange is the roaring 20s. And that is a scenario where policy and markets both align toward decarbonization.

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And up and to the left in pink. Is the carbon bubble where policy steps up after low market investment in decarbonization or fossil fuel bubble bursting.

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In the lower right in green is the Green Phoenix scenario where climate change is all market driven because policy lags.

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And in the bottom left is the meltdown scenario in brown where policy failures compound weak growth brought on by climate shocks.

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And so I thought it might be helpful to just kind of walk through an example of how various climate scenarios could unfold and how they could impact various industries.

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Let's just take a look at what's happening in the United States energy market today.

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This graph shows The levelized cost of energy or LCOE, which is the cost to produce one megawatt hour of electricity.

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The green dots are the cost to produce one megawatt of energy without inflation reduction act or IRA support.

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And the blue dots, the costs with IRA support. And as a reminder, the IRA was passed by Congress in 2022 and included $142 billion toward projects aimed at reducing greenhouse gas emissions in protecting against climate change. This would be things like

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Solar investment tax credits or HALU R&D for nuclear fuel, and even EV incentives.

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So I would characterize that time the past couple of years as a roaring 20s scenario with both policy And investment, business investment aimed at the green energy transition.

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And I would say today it appears that the US might be moving more toward the Green Phoenix scenario.

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With the anticipated repeal of most IRA funding and other policy initiatives that were aimed at the green energy transition.

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And in fact, I mean, hot off the press today, the new acting SEC chairman, Mark Uida, announced that he's taking action on the climate disclosure rules that were adopted in 2024.

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So this rule has already been challenged, but the new administration will likely kill it.

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And so what could this all mean moving from the roaring 20s to the green Phoenix scenario?

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I think this graph makes clear some of the potential impacts of that change.

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First, the LCOE for residential solar is significantly higher without IRA subsidies. So repeal of IRA subsidies will likely result in a slowdown in deployment of solar by individuals.

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On the other hand, the LCOE for utility scale solar with and without IRA tax credits are basically at parity today. And this is a result of previous IRA funding public policy and business innovation and

investment.

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Therefore, it's likely that utilities will continue to deploy solar energy Particularly given that the LCOE of solar is actually lower than it is for natural gas, even without tax credits for solar.

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But we have to remember that natural gas provides resilience to the energy grid, making it still a necessary option today. However, that could change if we see continued innovation in battery technology to bring the cost of solar plus battery

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On par with natural gas. And nuclear.

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I think it's worth talking about nuclear. It can be deployed to bring about both green and resilient energy production to the grid.

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While expensive today, more innovation will likely reduce the marginal cost to deploy nuclear energy. And the fact that major hyperscalers I think Google, Amazon Web Services, Microsoft, Meta.

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Have been laser focused on meeting their increasing energy needs and meeting their stated greenhouse gas reduction targets We believe there will be continued investment in nuclear energy even if US policy aimed at the green energy transition fades.

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So market dynamism will step up to propel nuclear energy forward.

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And river water has and will continue to invest in companies bringing this type of innovation to the market.

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In terms of conclusions, now that the framework has been created, we're in the process of evaluating industries in each of the seven regions of the world through the lens of these four scenarios. And some of our early conclusions are

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That physical risks of climate change, whether disaster like drought, flooding, wildfire, hurricane.

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As well as natural resource and fresh water depletion. Will likely

impact food and beverage, insurance, utility, manufacturing, and real estate companies.

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Transition risks of climate change, public policy. Perhaps a carbon tax, subsidies for renewables, as well as consumer preference will likely impact energy utility, consumer discretionary and financial services companies.

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I also think it's worth mentioning that the meltdown scenario could lead to a combination of inflation brought on by rising food prices and energy prices and insurance rates.

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And stagnation due to decreased consumption, lower government subsidies, et cetera.

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And stagflation is the worst economic environment for any sector to thrive.

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This scenario could cause all asset prices to decline materially. And so what can companies do? This graphic by Bain indicates the sources of value companies can realize from decarbonization.

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For example, operating cost savings and secure supply chain access can help the bottom line.

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Likewise, accelerated top line growth can come from premium pricing or stronger brand value for sustainable products.

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In fact, per se in fact. Pwc's 28th annual Global CEO Survey, which was just published. One in three CEOs report that climate-friendly investments made over the last five years have resulted in increased revenue. In addition.

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Two-thirds say that these investments have either reduced costs or had no significant cost impact.

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So savings to aid the bottom line and strategies to accelerate top line growth can both lead to preferred financing terms and or premium equity valuations.

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It is this value creation by companies that Riverwater seeks when looking for investment candidates.

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And then finally, our plan, having just completed the climate change scenario analysis framework that I showed you here. Our next step will be to consider how each of our portfolio companies might fare under each scenario. We'll engage with companies regarding business model optimization for climate change.

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All based on their industry. And we'll continue to engage with policymakers about climate resilience. We typically do this in partnership with our sustainability collaboration partners and if we believe we have a receptive audience.

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And finally, we'll make portfolio decisions that incorporate consideration of climate change. And this is all aimed at generating value and optimal performance for our clients.

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Matt, back to you.

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Thank you, Cindy, for the update on the climate scenario analysis. And Adam and Nate for the review of the strategies and tariffs.

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There are no 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.

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Through maintaining positions in 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, PSN, Wilshire, and Calend databases.

00:42:17.000 --> 00:42:24.000
If you have additional questions or would like to speak directly with the team or a member, please contact me.

00:42:24.000 --> 00:42:47.000
We look forward to talking with you again next quarter.

00:42:47.000 --> 00:43:00.000
You can stay on, Sophia.