

WEBVTT

1

00:00:17.375 --> 00:00:17.895

Good afternoon.

2

00:00:17.965 --> 00:00:19.015

This is Matt Drvaric.

3

00:00:19.145 --> 00:00:20.775

Thank you for joining and we welcome

4

00:00:20.775 --> 00:00:23.695

to the Riverwater Partners Q1 2025 webinar.

5

00:00:24.435 --> 00:00:27.055

All participants are in listen only mode.

6

00:00:27.225 --> 00:00:28.655

After today's presentation,

7

00:00:28.655 --> 00:00:30.775

there'll be an opportunity to ask questions.

8

00:00:31.235 --> 00:00:33.695

If you are at your computer, please submit your questions in

9

00:00:33.695 --> 00:00:36.175

the questions chat box located at the bottom

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00:00:36.235 --> 00:00:37.695

of the webinar control panel.

11

00:00:37.955 --> 00:00:39.735

Please note this event is being recorded

12

00:00:39.755 --> 00:00:41.295

and the replay will be made available.

13

00:00:44.065 --> 00:00:47.015

Riverwater Partners was founded in 2016 in Milwaukee.

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00:00:47.115 --> 00:00:50.335

As a dedicated, responsible investment small cap manager,

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00:00:50.915 --> 00:00:52.135

we are proud to be a signatory

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00:00:52.135 --> 00:00:54.455

to the United Nations Principles of Responsible Investment,

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00:00:54.775 --> 00:00:55.895

a certified B Corp

18

00:00:56.315 --> 00:00:59.615

and 100% employee owned the firm finished the quarter

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00:00:59.615 --> 00:01:01.895

with about 550 million in firm assets

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00:01:01.995 --> 00:01:04.815

to include over a hundred million across our three small cap

21

00:01:04.815 --> 00:01:09.285

strategies for a brief firm update.

22

00:01:09.305 --> 00:01:12.005

The Riverwater Sustainable Value Strategy was recently added

23

00:01:12.025 --> 00:01:13.645

to the BD separate account platform

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00:01:13.945 --> 00:01:15.925

and we look forward to engaging their advisor base

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00:01:16.075 --> 00:01:19.005

with our offering among mission-driven clients.

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00:01:19.065 --> 00:01:20.965

We have found interest from faith-based investors

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00:01:21.105 --> 00:01:22.645

as our approach naturally aligns

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00:01:22.645 --> 00:01:23.685

with the religious guidelines.

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00:01:24.185 --> 00:01:26.405

We believe there's an opportunity to serve these clients,

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00:01:26.765 --> 00:01:29.285

provided a limited offering of small cap managers

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00:01:29.475 --> 00:01:30.805

with a developed track record.

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00:01:31.515 --> 00:01:33.005

With that, I'll turn it over to Adam.

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00:01:34.215 --> 00:01:36.525

Thank you Matt, and good afternoon to everyone.

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00:01:37.305 --> 00:01:39.885

So as always, I'll cover the sustainable value strategy.

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00:01:40.105 --> 00:01:43.405

I'm happy to have Nathan Frederick join us to cover both our small cap

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00:01:43.425 --> 00:01:44.805

and micro strategies.

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00:01:44.825 --> 00:01:47.685

Nathan Frederick has been a co-manager since 2021

38

00:01:47.705 --> 00:01:49.765

and has been a member of the investment team since our

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00:01:49.765 --> 00:01:51.045

founding in 2016.

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00:01:51.795 --> 00:01:54.565

I'll cover the topic of idiosyncratic opportunities

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00:01:54.745 --> 00:01:59.165

and we'll use a holding Limoneira as an example of

42

00:01:59.165 --> 00:02:00.645

how we think about adding value.

43

00:02:00.815 --> 00:02:03.725

Cindy will conclude by sharing the high points

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00:02:03.825 --> 00:02:06.205

of our recently published sustainability report.

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00:02:07.055 --> 00:02:08.265

This is our sixth report

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00:02:08.405 --> 00:02:10.065

and I couldn't be more proud of the work Cindy

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00:02:10.125 --> 00:02:13.265

and the team have done to demonstrate the impact we make

48

00:02:13.285 --> 00:02:14.785

and how we fulfill our mission.

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00:02:15.565 --> 00:02:18.265

We plan to mostly covering Q1 performance,

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00:02:18.265 --> 00:02:20.305

which obviously doesn't include Liberation Day.

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00:02:20.435 --> 00:02:23.065

We're happy to take questions on the quarter date

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00:02:23.065 --> 00:02:24.305

markets in the q and a.

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00:02:24.655 --> 00:02:26.025

Also, I'm happy to report

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00:02:26.025 --> 00:02:27.985

that we just celebrated our ninth anniversary

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00:02:27.985 --> 00:02:30.065

and we look forward to having Big Bash for our 10th.

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00:02:30.615 --> 00:02:32.465

With that, I'll pass it over to Nathan Frederick

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00:02:32.605 --> 00:02:34.505

to cover the small cap strategy.

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00:02:37.245 --> 00:02:40.555

Thank you Adam. So I'll cover the small cap strategy.

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00:02:42.125 --> 00:02:44.385

So here's uh, our top five holdings.

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00:02:44.385 --> 00:02:47.305

Um, our top five holdings highlight idiosyncratic

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00:02:47.335 --> 00:02:50.265

investments that we believe can perform well in volatile

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00:02:50.265 --> 00:02:52.345

markets, um, and these types of markets.

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00:02:52.395 --> 00:02:55.905

Visibility into our company's earnings is highly important

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00:02:56.765 --> 00:02:58.025

of our top five holdings.

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00:02:58.025 --> 00:02:59.965

I wanted to highlight our top holding,

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00:02:59.975 --> 00:03:01.365

which is Stonex Group.

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00:03:01.425 --> 00:03:05.965

As an example. Stonex Group is a global financial services

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00:03:06.075 --> 00:03:09.965

firm specializing in market access, risk management

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00:03:09.965 --> 00:03:12.965

and execution across institutional, commercial

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00:03:13.185 --> 00:03:14.365

and retail segments.

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00:03:15.265 --> 00:03:19.245

As a current top 15 non-bank future commissions merchant

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00:03:19.585 --> 00:03:23.125

and soon to be top 10 after their purchase of RJ O'Brien.

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00:03:23.705 --> 00:03:25.565

It provides clearing, trading

74

00:03:25.785 --> 00:03:29.205

and market making services in commodities, equities

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00:03:29.625 --> 00:03:31.965

and fx with a focus on underserved

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00:03:32.065 --> 00:03:34.365

and emerging markets ignored

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00:03:34.585 --> 00:03:36.645

by most large money center banks.

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00:03:37.465 --> 00:03:40.085

Its diversified model, recurring float income

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00:03:40.425 --> 00:03:43.245

and growing internalization strategy support,

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00:03:43.245 --> 00:03:45.445

consistent double digit book value growth

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00:03:45.865 --> 00:03:46.925

and mid to high teens.

82

00:03:47.165 --> 00:03:50.605

ROE. Bottom line stonex benefits from volatility

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00:03:50.665 --> 00:03:53.805

and uncertainty in the market while taking market share from

84

00:03:53.815 --> 00:03:55.205

large investment banks

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00:03:59.005 --> 00:04:00.745

and for our sector weightings.

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00:04:00.745 --> 00:04:02.505

Uh, in the small cap portfolio,

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00:04:02.845 --> 00:04:06.705

we focus more on stock selection than making sector bets.

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00:04:07.125 --> 00:04:09.705

Um, but we do have sectors we like more than others.

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00:04:10.365 --> 00:04:13.185

Uh, we wanna highlight our more defensive positioning.

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00:04:13.525 --> 00:04:16.625

Um, we do like utilities and consumer staples.

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00:04:17.165 --> 00:04:20.225

Uh, sectors that we find more challenging are

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00:04:20.255 --> 00:04:22.025

discretionary and energy.

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00:04:22.685 --> 00:04:25.385

Um, you'll notice that we do have an overweight in

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00:04:25.665 --> 00:04:26.745

consumer discretionary.

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00:04:27.375 --> 00:04:30.985

This is mostly driven by Grand Canyon Education,

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00:04:30.995 --> 00:04:33.105

which owns Grand Canyon University

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00:04:33.725 --> 00:04:36.145

and we believe is more of a consumer staple

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00:04:36.255 --> 00:04:38.305

because of their stable customer base,

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00:04:38.305 --> 00:04:40.145

which is students and recurring revenue.

100

00:04:40.695 --> 00:04:42.985

They also have a high quality business model

101

00:04:43.375 --> 00:04:45.705

with over 30% EBITDA margins

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00:04:45.705 --> 00:04:48.145

and over 30% return on invested capital.

103

00:04:49.135 --> 00:04:53.465

Also, R one energy holding is uh, CNX,

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00:04:53.555 --> 00:04:56.425

which is a natural cat natural gas company

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00:04:56.535 --> 00:04:57.865

with no oil exposure.

106

00:04:58.845 --> 00:05:01.105

As we look for new names for the portfolio,

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00:05:01.685 --> 00:05:02.865

the focus will be on those

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00:05:03.175 --> 00:05:06.185

with higher quality defensive characteristics.

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00:05:08.895 --> 00:05:11.795

And as you can see here from our portfolio characteristics,

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00:05:12.015 --> 00:05:14.355

we do focus on higher quality names

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00:05:14.785 --> 00:05:17.115

that have better returns on invested capital

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00:05:17.375 --> 00:05:18.435

or returns on equity,

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00:05:18.935 --> 00:05:20.395

and we are also willing to pay more

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00:05:20.535 --> 00:05:23.195

for great companies if we think the valuation

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00:05:23.375 --> 00:05:24.595

is still reasonable.

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00:05:27.775 --> 00:05:31.955

So for performance in Q1 of 25, we did outperform

117

00:05:32.895 --> 00:05:37.275

the Russell 2000 that was driven by financials.

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00:05:37.375 --> 00:05:39.755

As you can see, our top two performers were

119

00:05:40.135 --> 00:05:41.475

Stonex and Palomar.

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00:05:42.015 --> 00:05:43.675

And uh, just to touch on Palomar,

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00:05:43.685 --> 00:05:45.715

which is a specialty insurer

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00:05:45.825 --> 00:05:49.115

with a strong presence in California earthquake, uh,

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00:05:49.115 --> 00:05:52.475

the profitability of earthquake in insurance has allowed

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00:05:52.585 --> 00:05:56.075

Palomar to diversify into other lines of specialty insurance

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00:05:56.695 --> 00:05:59.965

and gives good visibility into over 20% premium growth

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00:06:00.185 --> 00:06:01.285

for the foreseeable future.

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00:06:02.065 --> 00:06:03.765

The company differentiates itself

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00:06:03.765 --> 00:06:07.485

through data-driven underwriting, flexible product design,

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00:06:07.825 --> 00:06:10.405

and disciplined risk, uh, risk selection.

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00:06:10.955 --> 00:06:13.845

This has allowed the company to produce return on equity

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00:06:13.845 --> 00:06:16.885

of over 20% with growing demand

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00:06:16.985 --> 00:06:18.925

for specialized insurance solutions

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00:06:19.345 --> 00:06:21.565

and its nimble tech enabled platform,

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00:06:22.475 --> 00:06:25.485

Palomar is well positioned for continued profitable growth,

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00:06:25.905 --> 00:06:29.045

making an attractive investment in the financial sector.

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00:06:30.185 --> 00:06:33.365

Our top detractors, as you can see, our consumer staples.

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00:06:33.755 --> 00:06:35.685

This was driven by B Minera,

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00:06:36.015 --> 00:06:39.485

which Adam will do a deeper dive later in the webinar.

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00:06:42.945 --> 00:06:46.445

And for our trailing 12 month return, we have also

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00:06:47.025 --> 00:06:49.645

beaten the Russell 2000 as a benchmark.

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00:06:49.865 --> 00:06:53.645

Um, this again was driven by financials, um,

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00:06:53.665 --> 00:06:56.205

but our top performer was interdigital,

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00:06:56.735 --> 00:06:58.805

which is a technology research

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00:06:58.905 --> 00:07:02.725

and development company specializing in wireless video

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00:07:03.145 --> 00:07:04.525

and AI innovations.

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00:07:05.105 --> 00:07:07.205

The company generates revenue primarily

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00:07:07.205 --> 00:07:10.125

through licensing its extensive portfolio of patents

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00:07:10.585 --> 00:07:12.925

to major tech and telecom firms.

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00:07:13.675 --> 00:07:16.725

Over the past year, the stock has performed well due

150

00:07:16.725 --> 00:07:19.885

to strong licensing deals, particularly in 5G

151

00:07:20.345 --> 00:07:21.685

and video technologies,

152

00:07:22.055 --> 00:07:23.605

which has driven consistent revenue

153

00:07:23.625 --> 00:07:25.285

growth and profitability.

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00:07:26.405 --> 00:07:29.725

Additionally, interdigital has benefited from favorable

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00:07:29.725 --> 00:07:32.245

legal rulings and renewed contracts

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00:07:32.275 --> 00:07:35.165

with major players like Samsung and Apple.

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00:07:35.785 --> 00:07:37.805

The company's capital return strategy,

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00:07:38.035 --> 00:07:39.805

including share buybacks

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00:07:39.805 --> 00:07:43.045

and dividends, has also supported investor confidence.

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00:07:44.135 --> 00:07:46.975

IDCC has EBITDA margins greater than 60%

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00:07:47.155 --> 00:07:49.935

and consistently as a return on equity over 30.

162

00:07:50.725 --> 00:07:53.815

Overall, a steady execution in monetizing IP

163

00:07:53.915 --> 00:07:56.935

and navigating global licensing markets has contributed

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00:07:56.995 --> 00:07:59.295

to strong stock performance.

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00:08:00.435 --> 00:08:04.055

Our top detractors, um, was driven by industrials

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00:08:04.675 --> 00:08:06.815

and particularly at core, uh,

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00:08:06.815 --> 00:08:09.895

which is a leading manufacturer of electoral equipment

168

00:08:09.895 --> 00:08:12.695

and parts used in non-residential construction

169

00:08:12.795 --> 00:08:14.095

and industrial applications.

170

00:08:14.795 --> 00:08:17.015

The company has benefited in the long,

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00:08:17.155 --> 00:08:20.655

in the long term infrastructure trends and electrification,

172

00:08:21.195 --> 00:08:23.535

but has since underperformed over the past year due

173

00:08:23.535 --> 00:08:26.295

to softening demand and pricing tailwinds

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00:08:26.645 --> 00:08:29.975

that previously boosted margins, but have since moderated

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00:08:30.355 --> 00:08:32.735

and normalized post pandemic.

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00:08:33.865 --> 00:08:36.405

We have since sold the stock in 2024

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00:08:36.585 --> 00:08:41.285

and it did not impact our performance in Q1 25.

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00:08:41.995 --> 00:08:43.525

I'll pass it back to Matt.

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00:08:44.915 --> 00:08:46.135

Thanks Nathan Frederick. Performance

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00:08:46.135 --> 00:08:49.095

for the strategy is presented here against the Russell 2000.

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00:08:49.275 --> 00:08:51.575

Uh, the strategy will attain a three-year track

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00:08:51.575 --> 00:08:52.695

record this July.

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00:08:53.165 --> 00:08:54.615

With that, I will turn it over to Adam

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00:08:54.675 --> 00:08:56.485

to review the sustainable value strategy.

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00:08:58.955 --> 00:09:02.855

Thank you, Matt. Okay, here we've got our top five

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00:09:03.075 --> 00:09:07.135

for sustainable value four five were top holdings Last

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00:09:07.135 --> 00:09:08.855

quarter, the only new entrant is

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00:09:09.005 --> 00:09:10.895

Skyward Specialty Insurance.

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00:09:11.925 --> 00:09:14.935

Skyward as its name Aly Conveys is a specialty insurer

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00:09:14.965 --> 00:09:16.255

focused on property

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00:09:16.255 --> 00:09:19.855

and casualty that specializes in industries like healthcare,

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00:09:19.855 --> 00:09:22.455

professional liability and medical stop-loss.

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00:09:22.755 --> 00:09:25.015

It had a positive return in the first quarter

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00:09:25.035 --> 00:09:26.975

and what was obviously a difficult market.

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00:09:27.635 --> 00:09:29.575

All the top five have grown to be here

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00:09:29.875 --> 00:09:33.295

as the average position starting size, uh, is 3%.

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00:09:33.915 --> 00:09:36.935

We also have good diversification across the five

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00:09:36.995 --> 00:09:38.735

as all are in different sectors.

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00:09:39.035 --> 00:09:41.575

Lastly, there's di minimus tariff exposure

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00:09:41.675 --> 00:09:44.735

for the companies here and very little supply chain risk.

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00:09:47.885 --> 00:09:49.305

And here we have our sector weights

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00:09:49.305 --> 00:09:51.265

and I'll remind everyone we try to stay within 5%

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00:09:51.265 --> 00:09:53.865

of our benchmarks sector weight and have a hard

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00:09:53.865 --> 00:09:55.025

and fast limit at 10.

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00:09:55.025 --> 00:09:57.825

Headquarters end largest underweight was in industrial

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00:09:58.445 --> 00:09:59.745

at just over 8%,

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00:09:59.845 --> 00:10:03.505

and then the largest overweight was in healthcare at 7%.

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00:10:04.125 --> 00:10:05.345

We made small additions

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00:10:05.365 --> 00:10:08.825

to an existing holding in industrial post quarter, uh,

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00:10:08.885 --> 00:10:10.945

and one new position in April.

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00:10:10.965 --> 00:10:14.145

So we expect to be within 5% threshold, uh, for industrial.

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00:10:14.285 --> 00:10:17.345

By this quarters end. We spent a lot of time figuring out

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00:10:17.365 --> 00:10:19.705

how each sector is exposed to tariffs,

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00:10:19.705 --> 00:10:22.585

but it's very difficult to predict

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00:10:23.505 --> 00:10:25.445

how tariff negotiations will play out.

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00:10:25.625 --> 00:10:28.285

So we think it's prudent to hold on

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00:10:28.505 --> 00:10:32.285

to the quality companies we own that do have tariff exposure

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00:10:32.835 --> 00:10:34.925

because we expect they'll react

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00:10:34.985 --> 00:10:38.005

and adjust to optimize their supply chains

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00:10:38.105 --> 00:10:39.445

and sales channels.

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00:10:39.745 --> 00:10:41.245

And as we saw earlier this week,

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00:10:41.735 --> 00:10:43.485

deals can be made very quickly

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00:10:43.555 --> 00:10:46.765

that can change the tariff situation immediately.

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00:10:50.855 --> 00:10:55.715

So we know 35% of the Russell 2,500, uh, is not profitable.

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00:10:55.965 --> 00:10:58.275

Every company we own is pro is forecast

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00:10:58.415 --> 00:11:00.075

to be profitable in 25 except

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00:11:00.075 --> 00:11:02.355

for one potentially National City media.

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00:11:02.975 --> 00:11:05.315

Uh, they do advertisements, uh, before movies

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00:11:05.535 --> 00:11:08.555

and we know they'll generate a, a fair amount of free cash.

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00:11:09.055 --> 00:11:11.595

So when looking at it from a free cash flow perspective,

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00:11:11.735 --> 00:11:14.435

we think it's trained about 14 times they have a

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00:11:14.435 --> 00:11:16.115

and they have a totally clean balance sheet.

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00:11:17.095 --> 00:11:20.995

Our higher PE is swayed as usual by Limoneira, which trades

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00:11:20.995 --> 00:11:22.315

around 70 times earnings.

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00:11:22.815 --> 00:11:24.675

Uh, we'll spend a, uh, a fair bit

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00:11:24.675 --> 00:11:26.955

of time in the next few minutes delving into why it is

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00:11:26.985 --> 00:11:29.075

significantly undervalued.

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00:11:30.205 --> 00:11:32.585

And when you look across our holdings on a PE basis,

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00:11:33.565 --> 00:11:36.065

two thirds of PEs below 18

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00:11:36.645 --> 00:11:39.425

and a third trades at less than 14 times.

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00:11:39.765 --> 00:11:42.625

So we continue to own higher quality companies as measured

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00:11:42.625 --> 00:11:43.825

by returns on equity.

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00:11:44.365 --> 00:11:47.665

We think on average our portfolio earns its cost

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00:11:47.665 --> 00:11:49.505

of capital while the benchmark

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00:11:50.065 --> 00:11:53.415

unlikely does in aggregate when factoring in again

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00:11:53.415 --> 00:11:56.215

that 35% is not profitable.

247

00:11:59.985 --> 00:12:02.625

A majority of this quarter's out performance, again,

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00:12:02.685 --> 00:12:05.625

has been attributed to stock selection, uh,

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00:12:05.625 --> 00:12:08.585

and we're happy to have outperformed in a negative market.

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00:12:09.285 --> 00:12:11.905

Our top performer in the quarter was Mr. Cooper.

251

00:12:13.135 --> 00:12:16.835

Mr. Cooper is America's leading mortgage servicer

252

00:12:17.175 --> 00:12:18.635

and agreed to merge

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00:12:18.945 --> 00:12:21.435

with Rocket Mortgage in a stock or stock deal.

254

00:12:21.935 --> 00:12:24.875

As the combined company exceeded our market cap

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00:12:24.875 --> 00:12:26.075

range, we parted ways.

256

00:12:26.735 --> 00:12:28.835

Our worst performer of the quarter was Limoneira

257

00:12:28.895 --> 00:12:31.275

and I'll talk about this and the multitude

258

00:12:31.815 --> 00:12:33.155

of idiosyncratic drivers

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00:12:33.185 --> 00:12:35.995

that we think will drive the stock back much

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00:12:35.995 --> 00:12:37.315

closer to fair value.

261

00:12:37.495 --> 00:12:39.675

And out of this category

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00:12:42.775 --> 00:12:44.265

over the last 12 months,

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00:12:44.265 --> 00:12:46.465

we've beaten the benchmark almost all driven

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00:12:46.485 --> 00:12:49.465

by stock selection with a slight contribution, uh,

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00:12:49.535 --> 00:12:50.705

from sector allocation.

266

00:12:51.205 --> 00:12:53.905

It has been our top sector contributor

267

00:12:54.085 --> 00:12:56.105

and again was driven by Interdigital

268

00:12:56.445 --> 00:12:58.945

who was also our top contributor last quarter.

269

00:12:59.515 --> 00:13:02.945

Cindy clearly identified, uh, when their new CEO

270

00:13:02.945 --> 00:13:05.385

who has now been around for a few years that,

271

00:13:05.385 --> 00:13:06.505

that he was an a player

272

00:13:06.525 --> 00:13:08.145

and could execute on a plan

273

00:13:08.285 --> 00:13:09.945

to significantly grow their business.

274

00:13:10.685 --> 00:13:12.305

The worst sector was industrials

275

00:13:12.405 --> 00:13:15.265

and all, all the weakness, uh, was driven by acor.

276

00:13:15.605 --> 00:13:17.865

We sold Acor last year, so again that

277

00:13:17.865 --> 00:13:20.265

that was not in the portfolio in the first quarter.

278

00:13:21.595 --> 00:13:24.715

I won't delve into the issues, uh, as Nathan Frederick articulated them,

279

00:13:24.735 --> 00:13:27.955

but remind everyone that we did walk away with a profit

280

00:13:28.055 --> 00:13:31.235

as we had a very low cost basis in the twenties

281

00:13:32.105 --> 00:13:33.155

trimmed along the way.

282

00:13:33.175 --> 00:13:34.835

And so the net contribution

283

00:13:35.375 --> 00:13:38.675

to the portfolio was significantly positive in the range

284

00:13:38.675 --> 00:13:41.475

of four to five times, uh, return on investment.

285

00:13:41.935 --> 00:13:44.235

And with that, I will pass it back to Matt.

286

00:13:47.805 --> 00:13:49.155

Thank you, Adam. Performance

287

00:13:49.155 --> 00:13:50.315

for the strategy is presented here

288

00:13:50.315 --> 00:13:52.995

and offers competitive performance across each period.

289

00:13:53.775 --> 00:13:56.595

The strategy has flexibility for allocation

290

00:13:56.695 --> 00:14:00.275

as it is considered a small smid falling in the bottom

291

00:14:00.535 --> 00:14:02.075

decile of SMID managers

292

00:14:02.335 --> 00:14:05.835

and an average small as it is in the 66 percentile

293

00:14:05.855 --> 00:14:07.195

of small cap managers.

294

00:14:07.305 --> 00:14:09.355

From an average weighted market cap perspective,

295

00:14:10.075 --> 00:14:12.515

a founder's class CIT vehicle is available

296

00:14:12.535 --> 00:14:16.315

for the strategy at with a \$10 million minimum up for up

297

00:14:16.315 --> 00:14:18.675

to five plans at 48 basis points.

298

00:14:19.355 --> 00:14:21.235

Offering documents are available on request.

299

00:14:21.995 --> 00:14:24.075

I will turn it over to Nathan Frederick to review the performance

300

00:14:24.075 --> 00:14:25.235

of the mi MicroStrategy.

301

00:14:27.805 --> 00:14:28.835

Thank you Matt.

302

00:14:30.785 --> 00:14:34.315

Alright, so here's our top five holdings for the, uh,

303

00:14:34.325 --> 00:14:35.835

micro cap portfolio.

304

00:14:36.105 --> 00:14:38.155

Similar to our other portfolios, our,

305

00:14:38.255 --> 00:14:40.995

our top five holdings highlight idiosyncratic investments

306

00:14:40.995 --> 00:14:44.795

that we believe can still, uh, do well in a volatile market.

307

00:14:45.385 --> 00:14:48.235

Just to quickly highlight a couple of these companies,

308

00:14:48.335 --> 00:14:51.645

our top holding, uh, coastal Financial, um,

309

00:14:51.645 --> 00:14:52.805

we've highlighted in the past,

310

00:14:52.985 --> 00:14:56.365

but it looks like they are finally gaining some traction in

311

00:14:56.365 --> 00:14:59.085

their banking as a service business

312

00:14:59.515 --> 00:15:01.045

with partners like Walmart

313

00:15:01.185 --> 00:15:04.845

and Robinhood who have launched different FinTech platforms

314

00:15:04.845 --> 00:15:08.245

that need banking services that Coastal Financial provides.

315

00:15:08.745 --> 00:15:12.405

Um, so we look, we look to be excited for the second half

316

00:15:12.405 --> 00:15:15.325

of this year and also going into 2026.

317

00:15:16.145 --> 00:15:18.885

Uh, eradiate is another company we're excited about.

318

00:15:19.355 --> 00:15:23.045

It's founder led and develops MRI compatible

319

00:15:23.475 --> 00:15:24.645

medical devices.

320

00:15:25.025 --> 00:15:28.365

Uh, eradiate is a good example of a high quality business

321

00:15:28.635 --> 00:15:31.805

with opera operating margins greater than 30%

322

00:15:32.145 --> 00:15:34.765

and return on invested capital of over 20%.

323

00:15:35.115 --> 00:15:36.605

They also manufacture all

324

00:15:36.605 --> 00:15:38.605

of their products here in the United States.

325

00:15:39.225 --> 00:15:41.965

Um, we look forward to a big 2026 from them

326

00:15:42.425 --> 00:15:45.125

as they launch their new MRI infusion pump,

327

00:15:45.455 --> 00:15:47.685

which should see a great demand.

328

00:15:49.795 --> 00:15:52.455

And moving on to sector weights, again,

329

00:15:52.455 --> 00:15:55.575

we just wanna highlight that our benchmark for micro,

330

00:15:55.995 --> 00:15:58.775

for micro cap portfolio is the micro cap index,

331

00:15:58.885 --> 00:16:00.815

even though we have the Russell 2000 here.

332

00:16:01.115 --> 00:16:03.895

And if you look at the micro cap index, we are more in line

333

00:16:04.045 --> 00:16:05.095

with those numbers.

334

00:16:05.875 --> 00:16:08.615

And also we as our other portfolios,

335

00:16:08.615 --> 00:16:11.535

we focus more on stock selection as opposed

336

00:16:11.635 --> 00:16:12.855

to sector weights.

337

00:16:13.275 --> 00:16:17.415

Um, but we also here prefer defensive sectors like

338

00:16:17.525 --> 00:16:19.495

utilities and staples.

339

00:16:19.835 --> 00:16:22.455

Um, we also do have a big overweight to financials,

340

00:16:23.295 --> 00:16:25.775

specifically banks, uh, we do like banks.

341

00:16:26.115 --> 00:16:29.095

Is there more domestic focus, avoiding tariff risks?

342

00:16:29.715 --> 00:16:32.255

Um, and we also focus on higher quality banks

343

00:16:32.645 --> 00:16:35.215

that are growing with improving ROE.

344

00:16:36.435 --> 00:16:39.015

Um, we are also still avoiding energy

345

00:16:39.015 --> 00:16:40.215

and consumer discretionary.

346

00:16:40.875 --> 00:16:44.775

Um, we also usually avoid most biotechs that trade off

347

00:16:44.775 --> 00:16:47.295

of trial results that have binary outcomes

348

00:16:47.795 --> 00:16:49.335

as we don't think we have an edge there.

349

00:16:49.835 --> 00:16:52.495

Um, we also see here that we do have a weight

350

00:16:52.495 --> 00:16:53.695

and consumer discretionary.

351

00:16:54.085 --> 00:16:58.655

This is skewed by, um, a couple of names, Miller,

352

00:16:59.015 --> 00:17:00.855

Lakeland and Climb Solutions.

353

00:17:01.355 --> 00:17:03.695

The first two we believe are, are more correlated

354

00:17:03.725 --> 00:17:04.815

with industrials

355

00:17:05.195 --> 00:17:08.615

and Climb is a technology distribution company.

356

00:17:09.445 --> 00:17:11.575

Also, just to highlight in our energy, our,

357

00:17:11.715 --> 00:17:14.775

our one energy holding NPK International, uh,

358

00:17:14.795 --> 00:17:17.775

is still in the energy sector even though they've sold their

359

00:17:17.775 --> 00:17:21.255

energy business and are now focused more on providing mats

360

00:17:21.255 --> 00:17:24.015

to utilities and other construction projects.

361

00:17:28.195 --> 00:17:32.565

Okay. And for our metrics for the Microcap portfolio, um,

362

00:17:33.215 --> 00:17:36.245

again, we focus here on higher quality companies

363

00:17:36.245 --> 00:17:40.045

that are profitable or have visibility to be profitable.

364

00:17:46.185 --> 00:17:49.445

And for the first quarter of 25,

365

00:17:49.825 --> 00:17:51.525

we did beat the Russell 2000.

366

00:17:51.705 --> 00:17:54.485

We also did beat the micro cap index,

367

00:17:54.985 --> 00:17:56.005

um, in the first quarter.

368

00:17:56.705 --> 00:18:00.925

And this outperformance was driven by utilities, uh,

369

00:18:01.325 --> 00:18:04.165

specifically Aris Water Solutions, which we

370

00:18:04.745 --> 00:18:06.685

really wouldn't consider a utility

371

00:18:06.825 --> 00:18:08.525

as its more energy focused,

372

00:18:08.985 --> 00:18:11.885

but within the energy space it's more utility like.

373

00:18:12.385 --> 00:18:16.045

Um, it's an environmental infrastructure company

374

00:18:16.235 --> 00:18:18.165

that provides water handling

375

00:18:18.305 --> 00:18:20.205

and recycling services for the oil

376

00:18:20.205 --> 00:18:22.805

and gas industry primarily in the Permian Basin,

377

00:18:23.705 --> 00:18:26.405

the company focused on sustainable water management

378

00:18:26.785 --> 00:18:28.805

by recycling produced water

379

00:18:28.945 --> 00:18:32.325

and reducing reliance on fresh water and energy production.

380

00:18:33.085 --> 00:18:35.685

A says produce solid financial results in a tough

381

00:18:35.875 --> 00:18:37.765

environment for energy stocks.

382

00:18:38.825 --> 00:18:41.085

And then our top detractors, uh,

383

00:18:41.155 --> 00:18:44.205

were consumer staples driven by Limoneira,

384

00:18:44.455 --> 00:18:46.405

which Adam will talk about here shortly.

385

00:18:49.845 --> 00:18:52.305

And over the trailing 12 months,

386

00:18:52.445 --> 00:18:55.505

we have also beaten the Russell 2000.

387

00:18:56.095 --> 00:19:00.545

This was driven by the financial sector, um, particularly

388

00:19:01.135 --> 00:19:03.345

Coastal Financial, which we just touched on.

389

00:19:03.925 --> 00:19:06.425

Um, and think that there's still a lot

390

00:19:06.425 --> 00:19:10.105

of outperformance there as a unique bank, um,

391

00:19:10.165 --> 00:19:11.345

in the financial sector.

392

00:19:12.045 --> 00:19:16.425

Um, our top detractor was, uh, technology

393

00:19:17.205 --> 00:19:19.265

and our top holding

394

00:19:19.415 --> 00:19:21.585

that was a detractor was Harvard Biosciences,

395

00:19:21.955 --> 00:19:23.705

which is a global developer

396

00:19:23.705 --> 00:19:27.745

and manufacturer of specialized laboratory equipment used in

397

00:19:27.895 --> 00:19:29.145

life sciences research.

398

00:19:29.805 --> 00:19:31.305

The company serves academic

399

00:19:31.405 --> 00:19:34.625

and pharmaceutical research institutions worldwide.

400

00:19:35.175 --> 00:19:37.785

Over the past year, the stock has underperformed due

401

00:19:37.785 --> 00:19:40.145

to weak demand across core end markets

402

00:19:40.565 --> 00:19:43.985

and delays in capital spending by key customers.

403

00:19:44.645 --> 00:19:48.265

We did sell the name in 2024, so it did not impact

404

00:19:48.865 --> 00:19:50.545

Q1 25 performance.

405

00:19:51.205 --> 00:19:54.025

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

406

00:19:55.545 --> 00:19:56.765

Thanks Nathan Frederick. The performance

407

00:19:56.765 --> 00:19:58.725

for the MicroStrategy is presented here

408

00:19:59.265 --> 00:20:01.965

as he shared the preferred benchmark is the Russell Micro

409

00:20:02.095 --> 00:20:04.085

Index, but due to licensing agreements,

410

00:20:04.425 --> 00:20:06.565

we use the Russell 2000.

411

00:20:07.315 --> 00:20:10.325

Adam, I'll turn it to you to discuss Limoneira.

412

00:20:11.495 --> 00:20:13.205

Great, thank you Matt.

413

00:20:13.305 --> 00:20:15.645

So, uh, has been a poor performer, so I'm happy

414

00:20:15.665 --> 00:20:18.085

to delve deep into why we still like it.

415

00:20:18.985 --> 00:20:22.445

We love to find investments where idiosyncratic drivers

416

00:20:23.025 --> 00:20:24.725

can create asymmetric opportunities.

417

00:20:25.995 --> 00:20:28.615

Our research process favors fundamental analysis

418

00:20:28.715 --> 00:20:30.735

and a knack for finding value sometimes

419

00:20:30.825 --> 00:20:32.775

where apparently no one else is looking.

420

00:20:33.545 --> 00:20:35.775

Limoneira exemplifies this philosophy.

421

00:20:35.925 --> 00:20:39.015

It's 130 1-year-old agricultural business.

422

00:20:39.595 --> 00:20:41.415

It stands out not only for its longevity,

423

00:20:42.035 --> 00:20:44.375

but also for its commitment to environmental stewardship.

424

00:20:45.465 --> 00:20:47.725

The company is undergoing what we would consider

425

00:20:47.785 --> 00:20:48.925

to be a profound

426

00:20:49.465 --> 00:20:54.045

and underappreciated transformation with the stock trading

427

00:20:54.075 --> 00:20:57.125

that we would consider to be less than half its true worth.

428

00:20:57.745 --> 00:21:00.685

Why is that? And how does the gap closes?

429

00:21:01.425 --> 00:21:03.525

Before answering that question, I'll ask another

430

00:21:04.505 --> 00:21:06.195

what do we mean by idiosyncratic?

431

00:21:06.335 --> 00:21:08.675

And here is the definition above as well as

432

00:21:08.695 --> 00:21:09.995

how it is applied in finance.

433

00:21:10.285 --> 00:21:12.075

Below. We like Limoneira

434

00:21:12.545 --> 00:21:15.435

because we think it can create value in both good

435

00:21:15.775 --> 00:21:17.435

or bad economies.

436

00:21:18.145 --> 00:21:20.315

That that is, that the risk is un

437

00:21:20.865 --> 00:21:22.875

even though the market has not figured it out.

438

00:21:23.375 --> 00:21:25.275

Limoneira is a huge beneficiary

439

00:21:25.275 --> 00:21:27.795

of potential tariffs on Mexican imports.

440

00:21:29.235 --> 00:21:33.335

So what do we see? We see a company that checks all

441

00:21:33.355 --> 00:21:34.415

of our three pillars.

442

00:21:34.725 --> 00:21:36.135

It's a special situation

443

00:21:36.135 --> 00:21:38.455

and that we don't consider it a business with a large mode

444

00:21:38.475 --> 00:21:40.135

or one that has a network effect with scale.

445

00:21:40.135 --> 00:21:44.335

Rather, it has such an attractive valuation with a catalyst

446

00:21:44.795 --> 00:21:48.255

to realize value because the management team is incented

447

00:21:48.255 --> 00:21:49.895

and they're aligned with shareholders.

448

00:21:52.775 --> 00:21:55.635

I'm, I'm now controlling the, uh, the buttons.

449

00:21:55.635 --> 00:21:57.675

So I forgot to forgot to checks things here.

450

00:22:00.455 --> 00:22:03.315

So Limoneira is founding dates back to 1893.

451

00:22:04.175 --> 00:22:06.395

It was founded with 413 acres

452

00:22:06.535 --> 00:22:09.555

and named for the Portuguese word for lemon grove.

453

00:22:10.495 --> 00:22:12.835

The visual representation here is the baby lemon.

454

00:22:13.655 --> 00:22:15.475

The company went public in 2010

455

00:22:15.575 --> 00:22:17.875

and from the IPO until 2022,

456

00:22:17.995 --> 00:22:20.955

shareholders had very little in the name of returns.

457

00:22:21.015 --> 00:22:23.155

That's the lemon man in the middle

458

00:22:23.155 --> 00:22:24.995

with very little in the way of muscles.

459

00:22:26.305 --> 00:22:28.805

The board and management team realized they needed

460

00:22:28.825 --> 00:22:32.965

to create value and started in 2022 to divest

461

00:22:32.965 --> 00:22:34.725

of non-core assets, pivot

462

00:22:34.745 --> 00:22:36.845

to a less capital intensive operation

463

00:22:36.865 --> 00:22:38.725

and seek to rightsize the balance sheet

464

00:22:38.725 --> 00:22:41.165

and create value for shareholders.

465

00:22:42.185 --> 00:22:44.685

Now in 2025, they've done much

466

00:22:44.705 --> 00:22:47.605

of the heavy lifting having a bodybuilder's frame now,

467

00:22:47.785 --> 00:22:50.165

but the market doesn't seem to care.

468

00:22:53.085 --> 00:22:55.265

So there are four catalysts that I'll list here

469

00:22:55.265 --> 00:22:56.785

that can create value no matter

470

00:22:56.785 --> 00:22:58.385

what the economy does in the short term.

471

00:22:59.295 --> 00:23:01.835

The first is that Limoneira has an opportunity to

472

00:23:02.435 --> 00:23:05.875

increase cash flows by more than 50% over the next few years

473

00:23:05.895 --> 00:23:09.515

by converting break even lemon acreage into

474

00:23:09.945 --> 00:23:10.995

avocado acreage.

475

00:23:11.195 --> 00:23:14.275

Avocados are relatively new fruit in the American diets

476

00:23:14.275 --> 00:23:15.395

and have been growing in an

477

00:23:15.395 --> 00:23:17.635

above GDB clip for the last decade.

478

00:23:18.175 --> 00:23:21.755

90% of avocados are imported from Mexico.

479

00:23:22.915 --> 00:23:24.515

Avocados in the US mature

480

00:23:24.515 --> 00:23:26.115

during the Mexican shoulder season.

481

00:23:26.535 --> 00:23:30.805

So supply from Limoneira is perfectly synced with demand

482

00:23:31.345 --> 00:23:34.365

and unlike lemons, which have been oversupplied since covid,

483

00:23:34.865 --> 00:23:37.685

and you can really only grow avocados in the US

484

00:23:37.685 --> 00:23:38.925

in a few counties.

485

00:23:39.905 --> 00:23:42.565

And Limoneira is one of the few landowners

486

00:23:42.565 --> 00:23:44.645

that can actually grow avocados.

487

00:23:46.385 --> 00:23:50.865

Secondly, they've already monetized 150 million of land

488

00:23:51.485 --> 00:23:52.545

in non-core assets

489

00:23:53.085 --> 00:23:55.825

and have used the proceeds to pair down all their debt

490

00:23:55.845 --> 00:23:56.905

to negligible levels.

491

00:23:57.365 --> 00:24:01.265

And they still have 50 million of assets left for sale.

492

00:24:03.645 --> 00:24:07.465

They have a joint venture called Harvest, which is a JV

493

00:24:07.465 --> 00:24:09.385

with the Lewis group of companies, uh,

494

00:24:09.415 --> 00:24:11.585

real estate developer, which is forecasted gen

495

00:24:11.605 --> 00:24:14.465

to generate over 165 million in cash

496

00:24:14.465 --> 00:24:15.545

over the next six years.

497

00:24:16.165 --> 00:24:17.545

That's half the market cap.

498

00:24:18.375 --> 00:24:20.385

They're entering the third phase of development.

499

00:24:20.385 --> 00:24:24.145

So there's been a history of a success in this monetization.

500

00:24:25.255 --> 00:24:28.595

And then lastly, they have an underutilized packing plant

501

00:24:28.665 --> 00:24:30.115

that can service other farms.

502

00:24:30.705 --> 00:24:35.475

They historically made \$2 per carton growing packages

503

00:24:35.475 --> 00:24:36.515

and marketing lemons.

504

00:24:36.935 --> 00:24:38.715

Now with distressed lemon pricing.

505

00:24:38.765 --> 00:24:42.435

Since COVID, they can transition to packaging

506

00:24:42.435 --> 00:24:45.595

for other farmers and make that same \$2 a carton.

507

00:24:45.595 --> 00:24:49.715

Pre covid. The plant has the capacity to package a billion,

508

00:24:50.135 --> 00:24:52.155

say it again, a billion lemons per year

509

00:24:52.375 --> 00:24:54.355

and it's 50% powered by solar.

510

00:24:55.105 --> 00:24:58.475

They're in the process of going from 80% lemons produced

511

00:24:59.085 --> 00:25:03.155

internally to only 20% produced internally

512

00:25:03.215 --> 00:25:07.275

and 80% serviced with very consistent cash flows.

513

00:25:10.115 --> 00:25:12.975

So when we add up all these values, what is it worth?

514

00:25:12.975 --> 00:25:14.815

And I'll start with the dark blue at the bottom.

515

00:25:15.325 --> 00:25:17.815

When we add everything up, we think the company is worth

516

00:25:17.815 --> 00:25:21.415

\$819 million net of their debt.

517

00:25:21.505 --> 00:25:25.215

Their net debt at eight with 18 million shares, that equates

518

00:25:25.215 --> 00:25:27.455

to about \$45 per share today.

519

00:25:27.675 --> 00:25:29.735

The stock is probably about \$16.

520

00:25:33.295 --> 00:25:35.635

So starting with avocados where we think a lot

521

00:25:35.635 --> 00:25:38.275

of value lies, we think it's avocado business is worth

522

00:25:38.275 --> 00:25:40.315

243 million just today

523

00:25:40.965 --> 00:25:43.835

based on the trailing 12 months cash flows

524

00:25:43.835 --> 00:25:45.435

that they generated, which is 18 million

525

00:25:45.775 --> 00:25:50.075

and multiplying that times 13.5 times, which is

526

00:25:50.075 --> 00:25:52.715

where their best public comp that is growing.

527

00:25:52.835 --> 00:25:56.735

Avocados, trades, water rights,

528

00:25:56.735 --> 00:25:59.215

water is becoming scarcer and scarcer in the west.

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00:25:59.405 --> 00:26:02.175

They own over 21,000 acre feet

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00:26:02.715 --> 00:26:07.535

and they themselves sold some acreage this year at 30,000

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00:26:07.875 --> 00:26:11.495

per acre foot that's worth their entire market cap

532

00:26:11.635 --> 00:26:16.445

and would equate to 303 million as far

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00:26:16.445 --> 00:26:17.685

as non-core assets and harvest.

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00:26:17.915 --> 00:26:19.285

I've mentioned the details there.

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00:26:19.515 --> 00:26:21.485

When you add those altogether, we think

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00:26:21.485 --> 00:26:22.845

that's worth 200 million.

537

00:26:24.075 --> 00:26:25.535

And then the existing lemon business,

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00:26:25.545 --> 00:26:27.335

which is no longer the crown jewel,

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00:26:27.715 --> 00:26:31.015

but still has value in the 10,000 acres of land

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00:26:31.075 --> 00:26:34.175

and a huge call option on this land being entitled

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00:26:34.555 --> 00:26:37.415

for higher and better use, which typically is associated

542

00:26:37.415 --> 00:26:39.095

with a 10 times increase in value.

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00:26:39.515 --> 00:26:43.765

And they have intentions to retitle a number of acres.

544

00:26:47.815 --> 00:26:49.475

So the stock got clobbered

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00:26:49.625 --> 00:26:51.715

because they announced that no buyer,

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00:26:51.965 --> 00:26:53.715

there was no no buyer in their

547

00:26:53.955 --> 00:26:55.075

strategic alternatives process.

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00:26:55.895 --> 00:26:58.235

The management team was incented to sell the company

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00:26:58.255 --> 00:27:00.035

for more than \$28 a share.

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00:27:00.615 --> 00:27:01.715

We know there are bids,

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00:27:01.715 --> 00:27:03.995

but they were unlikely above that \$28.

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00:27:04.255 --> 00:27:07.235

So we think short-termism is endemic on Wall Street.

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00:27:07.695 --> 00:27:10.795

And while we're disappointed with the recent performance,

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00:27:10.935 --> 00:27:12.795

we are highly confident that the board

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00:27:12.795 --> 00:27:14.475

and the management team are gonna work hard

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00:27:14.475 --> 00:27:17.035

to extract the value that we see in the business.

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00:27:17.945 --> 00:27:20.405

So again, we have a company that meets all three pillars.

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00:27:20.475 --> 00:27:21.525

It's an improving business.

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00:27:22.025 --> 00:27:24.365

We have an aligned management team in a very, very,

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00:27:24.435 --> 00:27:25.925

very attractive valuation.

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00:27:26.705 --> 00:27:29.285

And so with that, I will pass it over to Cindy

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00:27:29.705 --> 00:27:32.525

to discuss our recently published sustainability report.

563

00:27:32.825 --> 00:27:36.045

Please give Cindy one moment while here we are. Here we go.

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00:27:36.105 --> 00:27:37.805

And with that, I will pass it over to Cindy.

565

00:27:39.035 --> 00:27:41.345

Thank you Adam. Excuse me.

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00:27:41.365 --> 00:27:43.465

And thank you all for joining us today.

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00:27:44.125 --> 00:27:46.865

Um, as Adam said today I'm gonna bring

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00:27:46.865 --> 00:27:50.225

to you some highlights of our 2024 sustainability report,

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00:27:50.715 --> 00:27:52.745

which we've titled Creating Value

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00:27:53.375 --> 00:27:55.545

because that is the North star

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00:27:55.885 --> 00:27:57.825

of all we do at Riverwater Partners.

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00:27:59.365 --> 00:28:01.985

And as a reminder, our mission

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00:28:02.765 --> 00:28:04.465

has two prongs.

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00:28:04.845 --> 00:28:06.585

One is to grow wealth

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00:28:07.205 --> 00:28:10.585

and the other is to make the world a better place all

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00:28:10.585 --> 00:28:11.985

through responsible investing.

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00:28:14.005 --> 00:28:17.985

So our asset management team invest in companies

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00:28:17.985 --> 00:28:20.105

that bring value to both society

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00:28:20.285 --> 00:28:24.825

and shareholders by generating strong returns on their

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00:28:25.415 --> 00:28:28.065

responsibly deployed physical, social,

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00:28:28.365 --> 00:28:29.425

and financial capital.

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00:28:30.525 --> 00:28:32.305

And this chart demonstrates

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00:28:32.525 --> 00:28:37.305

how our asset management team is delivering superior returns

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00:28:37.415 --> 00:28:38.545

with lower risk.

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00:28:39.365 --> 00:28:42.625

In this graphic of the river water sustainable value

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00:28:43.105 --> 00:28:45.505

strategy compared to its peers

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00:28:46.405 --> 00:28:48.505

and benchmarks on a risk

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00:28:48.605 --> 00:28:53.265

and return basis, we have delivered higher risk, I'm sorry,

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00:28:53.265 --> 00:28:56.705

higher returns with lower risk since inception.

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00:28:59.165 --> 00:29:03.495

Turning to the second pillar of our mission,

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00:29:03.745 --> 00:29:05.655

which is making the world a better place,

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00:29:06.545 --> 00:29:09.895

we've talked in the past about our three pillar framework

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00:29:10.075 --> 00:29:12.735

for responsible asset management, beginning

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00:29:12.735 --> 00:29:13.815

with due diligence,

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00:29:14.265 --> 00:29:17.735

which reveals company's responsible business practices

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00:29:18.585 --> 00:29:21.175

engagement, which allows us to consult

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00:29:21.175 --> 00:29:24.575

with companies on improving their efforts relating

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00:29:24.575 --> 00:29:25.695

to material factors

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00:29:26.755 --> 00:29:29.735

and collaboration with thought leaders to inform

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00:29:29.735 --> 00:29:30.855

and support our practice

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00:29:32.605 --> 00:29:34.785

during the due diligence process,

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00:29:35.315 --> 00:29:37.745

which begins at the same time.

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00:29:37.835 --> 00:29:41.485

We're evaluating companies on the more traditional

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00:29:41.485 --> 00:29:42.765

investment metrics.

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00:29:43.705 --> 00:29:47.285

We are considering physical, social and governance factors

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00:29:47.865 --> 00:29:49.845

and company's attention to them.

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00:29:50.625 --> 00:29:53.405

We call this the footprint, the impact

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00:29:54.125 --> 00:29:57.405

companies operations are having on the planet

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00:29:57.465 --> 00:30:00.485

and its resources and on its people

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00:30:01.385 --> 00:30:03.965

and the financial capital they're employing.

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00:30:04.785 --> 00:30:08.685

And this donut chart graph is a picture of

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00:30:09.155 --> 00:30:14.085

what portion of our portfolio companies across strategies

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00:30:14.355 --> 00:30:18.525

that have some sort of publicly disclosed attention

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00:30:19.225 --> 00:30:20.565

to each of these factors.

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00:30:21.065 --> 00:30:24.965

And these factors basically are our scoring system.

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00:30:25.625 --> 00:30:29.645

And so I think at a quick glance, you can obviously see that

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00:30:30.305 --> 00:30:33.485

on the physical factors, it's all roughly half

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00:30:33.485 --> 00:30:34.525

of the companies.

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00:30:34.625 --> 00:30:36.965

And this includes things like water stewardship,

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00:30:37.105 --> 00:30:40.605

energy stewardship, emission stewardship, waste reduction,

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00:30:41.265 --> 00:30:42.885

um, whereas the social factors

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00:30:43.025 --> 00:30:46.485

and governance factors have far higher participation.

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00:30:46.945 --> 00:30:49.005

And this shouldn't be surprising

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00:30:49.005 --> 00:30:52.765

because many of our companies are services companies

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00:30:52.765 --> 00:30:55.645

and many of our financial services companies, um,

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00:30:55.645 --> 00:30:57.605

you've heard about a few of those today.

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00:30:58.385 --> 00:31:01.925

And for those companies, things like water stewardship

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00:31:02.025 --> 00:31:05.445

and waste reduction are not as material.

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00:31:05.865 --> 00:31:09.285

So a lot of our companies aren't prioritizing

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00:31:09.395 --> 00:31:11.285

efforts in those areas.

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00:31:13.415 --> 00:31:17.515

So the second way we consider a company's, um,

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00:31:17.785 --> 00:31:21.515

stewardship, if you will, is what we call the hand print.

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00:31:22.015 --> 00:31:25.075

And this is how a company's business by its very nature,

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00:31:25.815 --> 00:31:28.995

offers a social or environmental good.

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00:31:29.615 --> 00:31:33.635

And we track this against the SDGs

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00:31:34.055 --> 00:31:36.915

and you can see here that a lot of our companies

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00:31:37.575 --> 00:31:41.115

are involved in SDG three, which is good health

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00:31:41.115 --> 00:31:44.675

and wellbeing, and also nine, um, number nine,

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00:31:44.675 --> 00:31:47.515

which is industry innovation and infrastructure.

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00:31:48.335 --> 00:31:51.435

And I think it's important to note that

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00:31:52.095 --> 00:31:54.875

our portfolios are, uh,

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00:31:55.365 --> 00:31:58.875

broad market portfolios investing in all sectors

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00:31:58.895 --> 00:32:00.115

and many industries.

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00:32:00.775 --> 00:32:05.675

And therefore it's hard to, um, sometimes see, um,

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00:32:06.135 --> 00:32:10.155

the these thematic, uh, good that our

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00:32:10.795 --> 00:32:12.475

companies are bringing to society.

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00:32:12.615 --> 00:32:16.875

And so we thought it might be nice to highlight them here.

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00:32:17.335 --> 00:32:20.435

And so one company I'm just gonna mention

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00:32:20.575 --> 00:32:24.155

as a good example is Ciena, which is a, um,

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00:32:24.155 --> 00:32:28.595

technology company involved in networking equipment.

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00:32:29.335 --> 00:32:33.915

And their technology today provides the lowest cost,

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00:32:34.055 --> 00:32:38.195

lowest power and lowest latency solution for moving bits

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00:32:38.195 --> 00:32:39.525

of data in the network.

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00:32:40.505 --> 00:32:41.765

And over the past decade,

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00:32:42.455 --> 00:32:45.965

while we have increased fiber capacity by 35 times,

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00:32:46.915 --> 00:32:51.765

Ciena's equipment has achieved a 25 to 30% annualized cost

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00:32:52.185 --> 00:32:55.245

and power per bit reduction for its customers,

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00:32:55.615 --> 00:32:58.165

which has helped them avoid five

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00:32:58.165 --> 00:33:00.365

and a half million tons of CO2.

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00:33:01.345 --> 00:33:05.565

And so it's this type of innovation that Ciena is bringing

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00:33:05.745 --> 00:33:09.765

to the market that allows them to be chosen

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00:33:10.065 --> 00:33:13.205

by their customers who are seeking the fastest,

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00:33:14.135 --> 00:33:15.245

least expensive

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00:33:16.185 --> 00:33:19.645

and most energy efficient

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00:33:19.885 --> 00:33:21.285

transmission of data.

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00:33:21.835 --> 00:33:24.885

This innovation is what allows Ciena to win.

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00:33:25.545 --> 00:33:28.485

That's why their revenues grow, their profits grow

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00:33:28.905 --> 00:33:30.165

and their share price grows.

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00:33:30.185 --> 00:33:33.445

And so it's this combination of value creation

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00:33:33.475 --> 00:33:37.085

that companies like Ciena bring to the world

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00:33:37.305 --> 00:33:38.845

and our portfolios.

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00:33:40.445 --> 00:33:42.105

Um, our second pillar is engagement.

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00:33:42.395 --> 00:33:44.225

We've always used a partnership approach.

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00:33:44.645 --> 00:33:47.745

We like to work hand in hand with our companies

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00:33:48.015 --> 00:33:51.985

regarding attention to, um, factors

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00:33:52.055 --> 00:33:55.585

that have the potential for material pecuniary impact

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00:33:55.765 --> 00:33:58.425

to them or their stakeholders.

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00:33:59.165 --> 00:34:01.745

And so in this report we're just highlighting a couple

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00:34:01.765 --> 00:34:04.465

of companies here that we had some engagement with.

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00:34:04.525 --> 00:34:06.625

In 2024, we talked

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00:34:06.625 --> 00:34:09.385

with a software company about cybersecurity,

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00:34:09.385 --> 00:34:12.105

something very important to their customers.

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00:34:12.565 --> 00:34:14.745

Um, we spoke with Jones Lang LaSalle,

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00:34:14.745 --> 00:34:18.705

which is a real estate company about, um, you know,

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00:34:19.065 --> 00:34:21.545

considering tying their incentive comp

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00:34:21.565 --> 00:34:23.345

to returns on invested capital

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00:34:23.765 --> 00:34:25.105

and they were quite interested.

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00:34:25.565 --> 00:34:29.185

And then the last one is La Mate, which is a small,

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00:34:30.575 --> 00:34:32.595

um, medical device company.

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00:34:33.135 --> 00:34:35.035

Uh, and we have been talking with them

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00:34:35.135 --> 00:34:38.235

for a few years about the sustainability journey.

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00:34:38.815 --> 00:34:40.995

And in our conversations with them over the years,

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00:34:41.225 --> 00:34:44.475

it's clear to us that they have it in practice

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00:34:44.935 --> 00:34:47.915

and we are just helping them start the storytelling process.

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00:34:48.735 --> 00:34:51.795

And then of course we vote our proxies, um, all in alignment

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00:34:51.795 --> 00:34:54.795

with our proxy voting guidelines, which favor our

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00:34:55.405 --> 00:34:58.395

views on environmental, social and governance topics.

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00:34:59.175 --> 00:35:03.355

And in 2024, we voted with management 73% of the time

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00:35:03.455 --> 00:35:05.395

and against 27%.

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00:35:06.095 --> 00:35:09.155

And most of our votes against were for governance issues,

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00:35:09.745 --> 00:35:12.995

like not having a separate chair and CEO role.

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00:35:13.175 --> 00:35:15.355

And some, um, say on pay.

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00:35:15.875 --> 00:35:17.075

I think it's important to remember

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00:35:17.075 --> 00:35:19.475

that in the small cap space there are a lot

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00:35:19.495 --> 00:35:21.195

of founder led companies

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00:35:21.335 --> 00:35:25.635

and so, um, they often continue to have combined chair

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00:35:25.635 --> 00:35:26.675

and CEO roles.

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00:35:26.805 --> 00:35:29.875

We're always happy to see them taking the next step

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00:35:29.875 --> 00:35:31.875

of having a lead independent director.

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00:35:32.335 --> 00:35:34.875

But, um, in any event, we're always encouraging them

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00:35:34.895 --> 00:35:36.555

to move toward best practice.

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00:35:37.755 --> 00:35:41.895

And our third pillar is collaboration with thought leaders.

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00:35:41.995 --> 00:35:44.255

And here are a lot of our collaboration partners

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00:35:44.955 --> 00:35:48.615

and, um, they help inform us on the most important

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00:35:48.875 --> 00:35:50.375

topics in this regard.

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00:35:50.955 --> 00:35:55.295

And in 2024, we partnered with some of our, um,

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00:35:55.915 --> 00:35:57.015

our peers

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00:35:57.435 --> 00:36:01.575

and, uh, these organizations to sign onto letters

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00:36:01.795 --> 00:36:05.375

to policymakers regarding plastics pollution

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00:36:05.595 --> 00:36:06.735

and climate change.

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00:36:07.515 --> 00:36:12.295

And then, um, we also worked in partnership with a couple

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00:36:12.295 --> 00:36:15.335

of investors in series, um,

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00:36:15.755 --> 00:36:19.575

and then also with the Water Council, which is, uh,

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00:36:19.855 --> 00:36:23.775

Milwaukee based and globally recognized leader in water

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00:36:23.885 --> 00:36:26.295

stewardship as it relates to

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00:36:27.105 --> 00:36:31.335

sound water stewardship for a food and beverage company

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00:36:31.875 --> 00:36:34.175

and a contract manufacturing company.

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00:36:34.595 --> 00:36:37.175

And I'm pleased to say that the introductions we've made,

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00:36:37.715 --> 00:36:40.455

um, to these companies, to the water council

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00:36:41.045 --> 00:36:43.655

have resulted in, um, good dialogue

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00:36:43.835 --> 00:36:48.375

and possibly even some work together toward improving their

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00:36:48.375 --> 00:36:49.535

policy and practice.

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00:36:50.315 --> 00:36:54.655

Um, and so we, um, are happy to report our,

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00:36:55.115 --> 00:36:56.975

our efforts here, our impact,

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00:36:57.355 --> 00:36:59.575

and we welcome you to take a look at our sustainability

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00:36:59.575 --> 00:37:00.815

report on our website.

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00:37:01.105 --> 00:37:04.575

Thank you, Adam, back to you or Matt.

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00:37:04.915 --> 00:37:06.375

Mm-hmm. Thank you Cindy.

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00:37:06.635 --> 00:37:08.295

Uh, thank you team for the update.

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00:37:08.435 --> 00:37:09.615

So I'll conclude the call.

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00:37:10.075 --> 00:37:13.055

We are passionate about small cap responsible investing

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00:37:13.115 --> 00:37:15.895

and believe that combining traditional financial analysis

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00:37:15.895 --> 00:37:18.895

with responsible investing leads to portfolios

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00:37:18.895 --> 00:37:21.975

that are more resilient, uncover hidden efficiencies,

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00:37:22.275 --> 00:37:24.415

and ultimately enhance return potential.

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00:37:24.475 --> 00:37:26.495

We welcome your consideration as a manager.

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00:37:26.825 --> 00:37:29.695

Additional data on the strategies can be found in

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00:37:29.695 --> 00:37:33.295

investment, Morningstar investment metrics, PSN Wilshire

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00:37:33.295 --> 00:37:34.495

and Calen databases.

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00:37:34.675 --> 00:37:35.735

If you have additional questions

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00:37:35.735 --> 00:37:37.335

or would like to speak with a member of the team,

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00:37:37.435 --> 00:37:38.575

please reach out to me.

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00:37:38.955 --> 00:37:40.735

We look forward to speaking with you again next quarter.