RIVERWATER PARTNERS

Q2 2025 Quarterly Commentary

By Nathan Fredrick, CFA

Strategy Overview / Performance Summary

The Micro Opportunities Strategy underperformed our benchmark in the second quarter of 2025. This underperformance can be primarily attributed to two factors. First, we maintain a more defensive positioning in the portfolio. This is borne out in our overweight position in Consumer Staples and Utilities and an underweight to Information Technology.

Second, the market's strong preference for low-quality companies as measured by earnings (or lack thereof), high short interest and high beta—factors that drove performance in the benchmark during the period. In contrast, our portfolio is tilted toward higher-quality companies, typically those already generating earnings or poised to reach profitability within the next few quarters.

Similar to our last quarterly letter, we are writing this update amidst ongoing global tariff negotiations. New information emerges daily, raising questions about which countries will be affected, how significant the tariffs will be, and whether implementation timelines will be extended. Given the high level of uncertainty and the unpredictability of outcomes, we believe the most prudent approach is to remain defensive while maintaining the flexibility to act on market dislocations. This strategy allows us to take advantage of mispriced opportunities in companies we believe are strong long-term investments.

Sector Highlights

Materials: Our top-performing sector in the quarter was Materials, driven by two holdings: Centrus Energy (LEU) and Uranium Royalty Corp (UROY). Both are part of our nuclear energy theme, which we believe has significant future potential as part of the energy grid buildout. Nuclear power delivers reliable, carbon-free baseload electricity—accounting for roughly 50% of America's clean power—and plays a critical role in stabilizing grids alongside intermittent renewables. Nuclear also avoids greenhouse gas emissions and harmful air pollutants from fossil fuels.

Meanwhile, the soaring energy demands of AI data centers are spurring U.S. corporate and federal initiatives. Big tech firms including Meta, Google, Amazon, and Microsoft are securing long-term nuclear power deals and investing in new small modular reactor (SMR) deployments to power their AI infrastructure while meeting emissions reduction goals. Recent executive actions have reformed licensing, expanded federal backing for advanced reactors, and promoted digital innovation in energy systems with federal loan guarantees—signaling an intent to quadruple nuclear electricity by 2050. The policy environment is now geared toward accelerating a nuclear-AI synergy, positioning nuclear power as a linchpin of both national decarbonization and advanced technology infrastructure.

Utilities: Utilities were our worst performing sector, driven by two holdings: Aris Water Solutions (ARIS) and Unitil Corporation (UTL). While ARIS is classified as a utility, it is more correlated with the energy sector and we discuss it further below as our top detractor. The utility sector, a defensive sector, underperformed as the benchmark rallied significantly off the Liberation Day stock market bottom. We still like the utility sector for its defensive characteristics and higher baseload demand forecasts versus history, but would unlikely be adding to it currently.

Top Contributors & Detractors

Top Contributors

Centrus Energy (LEU) was our top contributor for Q2 and a new addition to the portfolio in the quarter. LEU supplies nuclear fuel components for the nuclear power industry. The stock returned roughly 181% in Q2, driven by a strong earnings report, positive news flow on the nuclear industry from the US administration, large investment bank buy initiations with large price targets, and likely some short covering. LEU surged from the $60s—where we initiated our position—to over $200 per share by quarter-end.

While we did not establish a full position initially, we continue to believe there are meaningful catalysts ahead that could drive further upside. Given the rapid price appreciation, we took the opportunity to trim a small portion of the position in the $200s, maintaining a core stake in anticipation of continued momentum.

Top Detractors

Aris Water Solutions (ARIS) underperformed during the second quarter of 2025 due to a combination of company-specific and macroeconomic headwinds.

Although the company beat earnings and revenue estimates in Q1, the stock sold off sharply, falling around 20%, as investors reacted negatively to softer forward guidance and increased operational expenses. Management highlighted lower expected EBITDA for Q2, citing reduced skim oil recovery revenues and deferred maintenance costs. Additionally, ARIS's exposure to oil price volatility and broader concerns about tariffs and capital markets uncertainty further pressured the stock throughout the quarter. We continue to believe that Aris Water Solutions (ARIS) owns critical infrastructure in the Permian Basin that its major customers rely on. While the stock's performance last quarter fell short of expectations, we view ARIS as a relatively safer way to maintain energy exposure given its essential role in the region.

Strategy Additions & Sales

New Positions

We initiated positions in Abeona Therapeutics (ABEO), Centrus Energy Corp. (LEU), and Interface Inc (TILE) during the quarter.

Abeona Therapeutics (ABEO): Abeona Therapeutics offers a compelling opportunity as a first-mover in curative gene therapies for severe rare dermatological diseases, anchored by its FDA-approved Zevaskyn for recessive dystrophic epidermolysis bullosa (RDEB). Zevaskyn's single-treatment model—delivered via gene-corrected autologous skin grafts—has demonstrated high efficacy (≥50% wound healing in 81% of treated sites) with durable results and minimal safety concerns, differentiating it from its only rival, Krystal's Vyjuvek, which requires chronic re-application. The company has implemented an outcomes-based pricing model and is supported by favorable regulatory shifts enabling value-based reimbursement frameworks, easing Medicaid's historical reluctance.

Its vertically integrated cGMP manufacturing facility in Cleveland enhances supply chain control and scalability, mitigating risks that have plagued other gene therapy launches. ABEO operates in a niche market, targeting a subset of approximately 750 eligible patients in the U.S.—with the company focusing on roughly 20% of that population. Despite the small addressable market, the therapy commands a high price point of $3.1 million per patient, supported by potential gross margins in the high 80s as production scales. This dynamic positions ABEO to generate significant operating leverage. We plan to publish an in-depth research paper on ABEO later this quarter.

Centrus Energy Corp. (LEU): Centrus represents a unique investment opportunity at the intersection of national security, nuclear energy independence, and next-generation reactor technology. As the only U.S.-owned and licensed producer of both Low-Enriched Uranium (LEU) and High-Assay Low-Enriched Uranium (HALEU), Centrus is poised to fill a critical supply gap in a market historically dependent on Russian imports. The company's strategic transformation from a broker of foreign-sourced nuclear fuel to a domestic producer is underpinned by strong government support, demonstrated by multi-billion-dollar DOE contracts worth up to $3.4 billion and a growing backlog of $3.8 billion.

With an unmatched regulatory position and commercial partnerships with major players like TerraPower and Oklo, Centrus stands to benefit from both near-term LEU demand and long-term HALEU-driven growth. However, execution risks around scale-up, funding, and geopolitical volatility remain key factors to monitor as the U.S. nuclear renaissance unfolds.

Interface Inc (TILE): Interface, Inc. (ticker: TILE) is a global flooring manufacturer specializing in modular carpet tiles, luxury vinyl tile (LVT), and rubber flooring, primarily for commercial and institutional markets under brands like Interface® and FLOR®. The company presents a compelling investment opportunity driven by a disciplined, product-focused management team under CEO Laurel Hurd, strong replacement cycle dynamics in commercial flooring, and leadership in sustainable product offerings.

Financially, TILE offers upside potential from current levels with improving margins, recurring revenue characteristics, and exposure to a $9 billion addressable market within the broader $39 billion global commercial flooring industry. On the ESG front, Interface stands out for its significant reductions in product carbon intensity, elimination of harmful chemicals (including PFAS), and ambitious goals to become carbon negative by 2040, supported by executive-level sustainability oversight and dedicated board governance. These combined strategic, financial, and environmental credentials support a positive long-term outlook for TILE.

Strategy Sales

We exited our position in Lakeland Industries (LAKE) as they have struggled to integrate their M&A transactions and now have to deal with tariff disruption in their supply chain. In retrospect, we exited SuRo Capital Corp. (SSSS) too early. At the time of the exit their top holding CoreWeave, Inc. (CRWV) had just come public and had some concerning fundamentals in their S1. We decided to exit the name amidst the volatility; however,the stock has recovered significantly as all the AI names are moving back to all time highs. We also exited Docebo Inc. (DCBO), A-Mark Precious Metals, Inc. (AMRK), Alerus Financial Corporation (ALRS), and Aehr Test Systems, Inc. (AEHR) for better opportunities elsewhere.

These positions reflect our emphasis on acquiring undervalued companies at strategic inflection points, particularly those benefiting from innovative solutions in niche markets.

Outlook

Looking ahead, we remain optimistic about our strategy's positioning amid the favorable risk-reward dynamics inherent in the micro-cap space. Continued macroeconomic volatility and sector-specific disruptions offer substantial opportunities to identify mispriced assets. We believe our rigorous stock selection criteria focused on undervalued yet fundamentally strong companies positions the portfolio to capitalize on market inefficiencies effectively. We continue monitoring key economic indicators, industry trends, and company-specific catalysts to inform ongoing investment decisions.

While we are disappointed in this quarter's performance, we believe our process of preserving wealth is the best option in the long run and occasionally missing out on low quality stock rallies will happen from time to time.

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

Nathan Fredrick, CFA
Portfolio Manager

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

Micro Opportunities Strategy
Largest Contributors and Detractors – Q2 2025

5 Best - Absolute Contribution

Ticker	Company	Average Weight	Contribution
LEU	Centrus Energy Corp.	1.24%	175 bps
NPKI	Npk International	3.79%	157 bps
RDVT	Red Violet	3.35%	98 bps
PLOW	Douglas Dynamics	3.52%	94 bps
UROY	Uranium Royalty	2.14%	89 bps
	Top 5 Total	**14.04%**	**613 bps**

5 Worst - Absolute Contribution

Ticker	Company	Average Weight	Contribution
ARIS	Aris Water Solutions, Inc.	3.78%	-150 bps
LMNR	Limoneira	4.88%	-77 bps
NCMI	National Cinemedia	3.54%	-69 bps
LAKE	Lakeland Industries	1.25%	-49 bps
UTL	Unitil	4.12%	-39 bps
	Top 5 Total	**17.57%**	**-384 bps**

Disclosures:

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