RIVERWATER PARTNERS

Q2 2025 Quarterly Commentary

By Adam J. Peck, CFA

Strategy Overview / Performance Summary

The Sustainable Value Strategy underperformed the Russell 2500 Value Index in Q2 2025. This quarter's results were impacted by stock selection, while our sector allocation had a small positive impact on performance.

The quarter unfolded in two distinct phases. The first week (April 1-8) saw markets decline sharply following policy announcements, during which our qualify-focused approach provided relative protection. However, when the administration postponed tariff implementation on April 9th, markets reversed course and were driven by speculative momentum in lower-quality factors such as negative earnings and high short interest ratios—an environment that worked against our disciplined strategy.

Despite the quarterly underperformance, we remain confident in our approach. Our year-to-date performance has slightly outpaced the benchmark, and we believe our focus on profitable companies with strong fundamentals positions us well for sustainable long-term returns.

Sector Highlights

Sector allocation decisions did not notably impact the quarter's results and were modestly positive - inline with most quarters as we focus on keeping our sector weights close to our benchmark. Information Technology (IT) represents our largest overweight at just over 6% at quarter's end. IT was by far the best performing sector for our benchmark, but our names did not keep up and a negative selection effect overrode the positive allocation effect.

Our largest sector underweight is again the Industrial sector. We are approximately 5.5% underweight. We increased our weight in the quarter by adding to Everus Construction (ECG) and adding two new companies- MSA Safety (MSA) and Griffon Corporation (GFF). Both new additions were not initiated at full sizing so we would expect that there will be an opportunity to add as the year progresses.

Health Care has been a consistent overweight, though we trimmed our Excelixis (EXEL) position in both May and June following very strong stock momentum after the company announced positive Phase 3 trial results for its cancer treatment combination.

In its report, the company stated that the trial showed a "statistically significant" overall survival benefit in the combination of Zanzalintinib and Atezolizumab in patients with a certain type of metastatic colorectal cancer. It is both fantastic news for cancer patients and shareholders.

Top Contributors & Detractors

Top Contributor

Everus Construction Group (ECG) was our top performer, contributing over 150 basis points. We added to the position on April 7th as markets were imploding. It was fortuitous timing considering we missed the market bottom by less than one trading day. The stock had been gapping down day-by-day and we felt that their domestic backlog was fairly insulated from any onerous tariff levies. Trading at less than 13x our estimate of forward earnings with a solid balance sheet and a history of free cash flow generation made it palatable to buy as the economic outlook dimmed. We were rewarded quickly as the stock reverted back to where it traded when the year began. We go into more detail below in our deep dive.

Top Detractor

Our long-term holding **Limoneira (LMNR)** continued to sell off after announcing the conclusion of its strategic review without an outright sale of the company. Limoneira represented the strategy's worst performer for a second quarter in a row. While disappointing for the second consecutive quarter, we remain confident in our investment thesis. We recently published a deep dive report on Limoneira which can be read here.

Our thesis on its undervaluation has only gotten stronger since our reports as the company's assets continue to trade at roughly half their private market value, and management's strategy to improve profitability through crop conversion and land monetization remains sound.

Strategy Additions & Sales

New Positions

Griffon Corp (GFF): Griffon Corporation (GFF) Griffon operates through consumer/professional products (True Temper, AMES, ClosetMaid) and home/building products (Clopay garage doors). It's possible you may be a customer of Griffon without even knowing it. Riverwater has been a customer since 2017. We installed their Clopay garage doors for our conference room walls. We met with management recently in our office and they were surprisingly impressed with our design, which they had not seen before. Maybe we'll be able to take credit for a future growth opportunity!

The company has methodically streamlined its portfolio and is gaining market share through attractive product design and innovation. It has also significantly improved operating margins over the last five years. While the stock has performed well, it still trades at a significant discount to the market and what we believe to be the true intrinsic value - currently it is trading at 12.4x the next 12 month's earnings. We see potential for continued expansion in the fragmented commercial door market.

MSA SAFETY (MSA): MSA manufactures safety equipment (firefighter helmets, SCBA air respirators, gas detection devices and much more) for hazardous environments across oil & gas, construction, mining, and military applications. As the world navigates energy transition and electrification, safety remains paramount for executives, positioning MSA to benefit from sustained demand. We acquired this high-quality company at a discount to its historical valuation.

During our investment career of analyzing and learning about successful companies, it's clear that safety is a priority for many top-performing organizations. We've been watching MSA Safety (MSA) for a while and are excited about the opportunity to buy a high-quality company at a discount relative to its historical valuation.
As the world navigates the energy and electrification transition, safety will continue to be at the forefront of executives' decision-making, and MSA is poised to benefit.

Position Exits

Mr. Cooper Group Inc. (COOP): Our exit from Mr. Cooper Group was driven by their sale to Rocket Mortgage. We used the proceeds from the sale to add to Everus (ECG) and Veeco (VECO).

Holdings Spotlight: Everus Construction Group (ECG)

Everus represents the type of opportunity we seek: a quality company trading at a significant discount due to temporary market conditions. ECG is an engineering and construction company focused on Electrical & Mechanical (E&M) and Transmission & Distribution (T&D) markets.

The Spinoff Opportunity

ECG was recently spun off from MDU Resources, creating a pure-play engineering and construction company focused on electrical & mechanical (E&M) and transmission & distribution (T&D) markets. Since the spinoff announcement, ECG's backlog has grown by over 40% with a valuation now exceeding its former parent's market cap. This is primarily driven by data center and high-tech infrastructure projects.

Secular Growth Drivers

The company benefits from two powerful trends: exponential power demand from AI and data centers, exemplifying Jevons Paradox where efficiency gains are overwhelmed by usage growth; and grid modernization needs as aging utility infrastructure (graded "D+" by industry assessments) requires substantial investment.

Valuation Opportunity

At the time of the spin and the subsequent market pullback, we believed ECG's steady data center buildout and robust backlog were underappreciated by the market. At the time of our purchase, ECG traded at nearly a 50% discount to peers on a historical basis. This disconnect likely reflects its status as a newly public company and investor skepticism about AI-related demand sustainability. We believe the market underappreciates ECG's proven operating history and the management team's execution capabilities.

Forward Outlook for ECG

While we expect normal fluctuations in backlog, the long-term outlook remains favorable. ECG is well-positioned to benefit from sustained infrastructure investment driven by exponential growth in power demand from technological advancement.

Outlook

Looking ahead, we remain optimistic regarding our portfolio positioning despite potential volatility. We will continue monitoring key macroeconomic indicators, market dynamics, and company-specific developments closely, adapting our strategy as necessary. We maintain confidence in our disciplined investment process, focusing on companies that align financial objectives with sustainable practices, ultimately aiming to deliver consistent long-term outperformance.

Thank you for your continued trust and confidence.

Please reach out with any questions.

Adam J. Peck, CFA
Portfolio Manager

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

Sustainable Value Strategy
Largest Contributors and Detractors – Q2 2025

5 Best - Absolute Contribution			
Ticker	Company	Average Weight	Contribution
ECG	Everus Construction Group	2.62%	153 bps
EXEL	Exelixis	4.47%	89 bps
CIEN	Ciena	2.59%	85 bps
HAE	Haemonetics	3.01%	50 bps
LOPE	Grand Canyon Education	4.97%	47 bps
	Top 5 Total	**17.66%**	**424 bps**

5 Worst - Absolute Contribution			
Ticker	Company	Average Weight	Contribution
LMNR	Limoneira	3.61%	-56 bps
LNTH	Lantheus Holdings	2.83%	-49 bps
NCMI	National Cinemedia	2.60%	-48 bps
PNW	Pinnacle West Capital	2.94%	-17 bps
LPX	Louisiana-Pacific	2.12%	-14 bps
	Top 5 Total	**14.10%**	**-184 bps**

Disclosures:

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