

Tues August 19, 2025

Riverwater Small Cap Responsible Investment Webcast Transcript (Inline Timestamps)

00:00:02.115 --> 00:00:03.265 : Thank you for joining us

00:00:03.845 --> 00:00:05.705 : for the Responsible Investment update.

00:00:06.195 --> 00:00:10.465 : Cindy Boland joined River Water in 2017 as our director

00:00:10.465 --> 00:00:11.585 : of responsible investing

00:00:12.125 --> 00:00:14.705 : and has over 20 years of asset management experience.

00:00:15.155 --> 00:00:17.985 : River Water is proud to have crafted a unique approach

00:00:18.005 --> 00:00:19.225 : to responsible investing

00:00:19.225 --> 00:00:21.145 : through integrating our three pillar approach

00:00:21.205 --> 00:00:22.305 : in small cap equities.

00:00:23.125 --> 00:00:25.425 : She'll be leading today's discussion on climate change

00:00:25.785 --> 00:00:27.385 : scenario analysis, sharing

00:00:27.485 --> 00:00:29.865 : how we integrate this forward-looking tool into our

00:00:29.865 --> 00:00:32.665 : investment process to identify potential risks

00:00:32.805 --> 00:00:33.945 : and uncover opportunities

00:00:34.485 --> 00:00:37.345 : as the world transitions toward a lower carbon economy.

00:00:38.255 --> 00:00:40.425 : I'll turn it over to Cindy to share our approach.

00:00:45.565 --> 00:00:48.035 : Today I'm going to share an update on River Water's

00:00:48.035 --> 00:00:50.155 : climate change scenario analysis work.

00:00:52.285 --> 00:00:54.875 : We'll begin by talking about our framework

00:00:55.535 --> 00:00:58.715 : and then we'll take a look at the utility sector generally,

00:00:59.415 --> 00:01:02.355 : as well as detail on a few of our utility holdings.

00:01:02.945 --> 00:01:05.515 : Then we'll talk about a couple of engagement opportunities

00:01:05.895 --> 00:01:08.355 : and end with why this matters.

00:01:11.255 --> 00:01:15.195 : As a reminder, river Water is approaching climate change

00:01:15.635 --> 00:01:19.115 : scenario analysis by considering how various combinations

00:01:19.135 --> 00:01:20.195 : of public policy

00:01:20.695 --> 00:01:23.755 : and market dynamism, which includes corporate

00:01:24.175 --> 00:01:28.235 : and individual action relating to climate change, may cause

00:01:28.825 --> 00:01:31.595 : risk and or opportunity for companies specifically

00:01:32.255 --> 00:01:34.475 : and for so society generally.

00:01:35.385 --> 00:01:37.715 : This approach allows for consideration of

00:01:37.735 --> 00:01:40.875 : how scenarios might unfold in response to

00:01:41.055 --> 00:01:45.275 : how these two levers of action available to us are used.

00:01:46.695 --> 00:01:48.715 : Our analysis considered four

00:01:49.275 --> 00:01:51.195 : scenarios depicted in this graphic,

00:01:51.525 --> 00:01:53.715 : which we borrowed from Mark Cliff

00:01:54.175 --> 00:01:56.075 : for real world climate scenarios

00:01:56.075 --> 00:01:59.555 : initiative in the roaring twenties.

00:02:00.305 --> 00:02:04.115 : Both policy and market dynamism are aligned

00:02:04.175 --> 00:02:05.995 : for climate change mitigation.

00:02:07.615 --> 00:02:12.235 : The green Phoenix is market driven while policy lags.

00:02:12.895 --> 00:02:17.555 : On the other hand, the carbon bubble policy steps up

00:02:17.555 --> 00:02:19.675 : after fossil fuel surge bursts,

00:02:20.455 --> 00:02:23.115 : and in the meltdown scenario, neither policy

00:02:23.375 --> 00:02:24.795 : nor markets are aligned.

00:02:26.035 --> 00:02:29.475 : I, our analysis has begun

00:02:29.735 --> 00:02:32.875 : by looking at portfolio companies in the utilities sector

00:02:33.265 --> 00:02:35.275 : against these four scenarios.

00:02:36.135 --> 00:02:37.475 : We chose this sector

00:02:37.585 --> 00:02:40.435 : because utility companies are very impacted

00:02:40.735 --> 00:02:43.195 : and impactful as it relates

00:02:43.195 --> 00:02:45.395 : to greenhouse gas emissions and climate change.

00:02:46.695 --> 00:02:50.635 : We evaluated companies according to the TCFD matrix,

00:02:51.045 --> 00:02:54.755 : which contemplates physical, both acute and chronic risk

00:02:54.775 --> 00:02:58.155 : and opportunity and transition risk

00:02:58.155 --> 00:03:01.125 : and opportunity, which include things like technology

00:03:01.155 --> 00:03:02.805 : transitions, policy

00:03:02.905 --> 00:03:06.525 : and legal transitions, reputation and market.

00:03:07.945 --> 00:03:12.125 : Our process entailed creating a framework against which we

00:03:12.125 --> 00:03:14.445 : could evaluate a company's policy and practice,

00:03:14.905 --> 00:03:17.485 : and this page highlights the various risks

00:03:17.625 --> 00:03:20.525 : and opportunities presented to utility companies.

00:03:20.885 --> 00:03:23.605 : Specifically. As you can see,

00:03:24.145 --> 00:03:28.245 : the Roaring 20 scenario at the top has some green,

00:03:28.695 --> 00:03:30.445 : which represents opportunity.

00:03:31.155 --> 00:03:35.165 : However, as the scenarios which have lower attention

00:03:35.185 --> 00:03:37.805 : to climate change potentially unfold,

00:03:38.425 --> 00:03:42.325 : the page becomes very red, which in which represents risk.

00:03:43.625 --> 00:03:47.765 : So a few examples include in the far left column,

00:03:47.775 --> 00:03:50.605 : which is read for all of the scenarios,

00:03:51.405 --> 00:03:55.205 : physical risk is present, present under all four scenarios,

00:03:55.655 --> 00:03:56.765 : given that companies

00:03:56.765 --> 00:04:00.245 : with physical assets are already experiencing the impacts

00:04:00.265 --> 00:04:03.125 : of more and more severe weather events,
00:04:03.575 --> 00:04:06.365 : which may damage physical assets including
00:04:07.205 --> 00:04:09.005 : wildfire risk in the case of utilities.
00:04:10.785 --> 00:04:14.285 : In the next column, which is chronic physical risk,
00:04:15.105 --> 00:04:18.605 : you can see that the risk is reduced under the roaring
00:04:18.805 --> 00:04:20.565 : twenties in green Phoenix scenarios.
00:04:20.875 --> 00:04:25.165 : When corporates take action to reduce their physical risk
00:04:26.105 --> 00:04:29.165 : in terms of transition risks in the three right hand
00:04:29.235 --> 00:04:32.285 : columns, you can see that more opportunities
00:04:32.905 --> 00:04:35.325 : is realized in the top two scenarios.
00:04:37.305 --> 00:04:41.205 : So let's take a look at a couple of our utility companies.
00:04:41.815 --> 00:04:46.165 : First, pinnacle West located in the southwest is exposed
00:04:46.165 --> 00:04:48.165 : to wildfire risk from its operations.
00:04:48.595 --> 00:04:52.245 : Importantly, the company has a comprehensive wildfire
00:04:52.245 --> 00:04:53.245 : mitigation plan,
00:04:53.655 --> 00:04:56.725 : which should protect it from acute physical risk.
00:04:57.485 --> 00:05:00.125 : Pinnacle also faces chronic physical risk
00:05:00.125 --> 00:05:01.525 : relating to water use.
00:05:01.905 --> 00:05:05.685 : The company operates in severely water stressed areas,
00:05:06.585 --> 00:05:09.085 : and we're happy to see that the company is beginning
00:05:09.105 --> 00:05:12.725 : to implement new strategies to protect against this risk.
00:05:13.445 --> 00:05:15.845 : Pinnacle has earned a positive reputation
00:05:16.345 --> 00:05:19.445 : as a green energy producer, given its solid plan
00:05:19.465 --> 00:05:21.205 : to transition toward lower carbon
00:05:21.205 --> 00:05:22.765 : intensive energy production.
00:05:23.345 --> 00:05:27.845 : The key for them will be to earn a fair return on its CapEx

00:05:28.305 --> 00:05:31.605 : to achieve the goals, particularly if policy

00:05:31.815 --> 00:05:33.125 : fails to provide incentives.

00:05:35.315 --> 00:05:36.925 : Next is Black Hills Energy,

00:05:37.015 --> 00:05:39.325 : which engages in electricity production

00:05:39.325 --> 00:05:40.925 : and distribution, as well

00:05:40.925 --> 00:05:43.325 : as natural gas distribution in the north

00:05:43.425 --> 00:05:44.965 : and middle areas of the country.

00:05:46.255 --> 00:05:49.645 : Black Hills has also enacted a wildfire mitigation plan

00:05:49.945 --> 00:05:51.365 : for acute physical risk.

00:05:52.105 --> 00:05:55.445 : One additional area of focus could be mitigation

00:05:55.465 --> 00:05:57.725 : for extreme cold temperature events.

00:05:58.095 --> 00:06:00.285 : Given its geographic location,

00:06:01.225 --> 00:06:04.245 : the company relies on water which could present chronic

00:06:04.565 --> 00:06:07.245 : physical risk making water stewardship important.

00:06:08.435 --> 00:06:12.045 : Like Pinnacle, black Hills has earned a positive reputation

00:06:12.425 --> 00:06:15.525 : as a green energy producer given its solid plan

00:06:15.705 --> 00:06:17.965 : to transition toward a lower carbon

00:06:17.965 --> 00:06:19.485 : intense energy production.

00:06:19.985 --> 00:06:21.925 : And again, the key will be

00:06:21.925 --> 00:06:25.405 : to earn a fair return on its CapEx needed

00:06:25.505 --> 00:06:29.005 : to achieve its goals, particularly if policy fails.

00:06:31.725 --> 00:06:34.685 : Chesapeake also faces acute physical risks

00:06:35.105 --> 00:06:38.845 : and has developed a robust emergency response system.

00:06:39.865 --> 00:06:43.445 : The company like its peers, faces chronic risks related

00:06:43.465 --> 00:06:47.165 : to water, which have the potential to impact Chesapeake

00:06:47.165 --> 00:06:51.005 : and its customers, particularly if coastal areas experience

00:06:51.145 --> 00:06:54.205 : sea level rise and this again will make water

00:06:54.205 --> 00:06:55.245 : stewardship important.

00:06:56.165 --> 00:06:59.125 : Chesapeake like its peers is very well positioned

00:06:59.425 --> 00:07:01.925 : for a transition to a lower carbon energy future.

00:07:04.705 --> 00:07:08.565 : So overall, our climate change scenario analysis pro process

00:07:08.785 --> 00:07:10.205 : has given us confidence

00:07:10.475 --> 00:07:13.485 : that our utility holdings are well positioned

00:07:13.785 --> 00:07:16.405 : for the various scenarios that may unfold.

00:07:16.985 --> 00:07:20.685 : The slide summarizes potential engagement topics for each

00:07:20.685 --> 00:07:22.645 : of the utility companies discussed here,

00:07:22.935 --> 00:07:24.685 : which we will undertake this year.

00:07:25.345 --> 00:07:26.925 : The common themes that are

00:07:27.075 --> 00:07:29.845 : that emerged are chronic water risk

00:07:30.385 --> 00:07:33.325 : and the importance of staying the course toward green energy

00:07:33.325 --> 00:07:36.125 : production in the face of policy uncertainty.

00:07:37.825 --> 00:07:39.085 : So why does this matter?

00:07:40.225 --> 00:07:43.165 : The Morgan Stanley Institute for Sustainable Investing?

00:07:43.625 --> 00:07:46.965 : The Sustainable Signals 2025 report

00:07:48.085 --> 00:07:49.645 : summarized the effects felt

00:07:49.705 --> 00:07:52.845 : by its 325 participating companies

00:07:53.205 --> 00:07:54.685 : relating to climate change.

00:07:55.625 --> 00:07:58.885 : The graph on the left depicts which types

00:07:58.945 --> 00:08:01.285 : of weather events have impacted companies

00:08:01.475 --> 00:08:03.005 : that have experienced impact,

00:08:03.625 --> 00:08:05.965 : and the graph on the right depicts

00:08:06.075 --> 00:08:08.925 : what impact these weather events have had.

00:08:09.135 --> 00:08:12.525 : These include things like increased operational costs

00:08:12.945 --> 00:08:16.845 : for insurance and supply chain disruptions to workforce,

00:08:17.305 --> 00:08:19.085 : things like employee safety

00:08:19.465 --> 00:08:23.485 : and absenteeism, revenue loss due to business interruption,

00:08:24.225 --> 00:08:25.925 : shifts in consumer demand

00:08:26.505 --> 00:08:29.085 : and damage to physical infrastructure and property.

00:08:30.835 --> 00:08:34.605 : This is evidence that severe weather events caused

00:08:34.665 --> 00:08:38.845 : by climate change are having a pecuniary impact on companies

00:08:38.845 --> 00:08:42.885 : already River water's goal with its climate change scenario.

00:08:45.335 --> 00:08:48.165 : Today I'm going to share an update on River Water's climate

00:08:48.165 --> 00:08:49.965 : change scenario analysis work.

00:08:52.135 --> 00:08:54.845 : We'll begin by talking about our framework.

00:08:55.515 --> 00:08:58.525 : Then we'll take a look at the utility sector generally,

00:08:59.185 --> 00:09:02.165 : as well as detail on a few of our utility holdings.

00:09:02.755 --> 00:09:05.285 : Then we'll talk about a couple of engagement opportunities

00:09:05.665 --> 00:09:08.125 : and end with why this matters.

00:09:11.145 --> 00:09:15.125 : As a reminder, river Water is approaching climate change

00:09:15.405 --> 00:09:18.925 : scenario analysis by considering how various combinations

00:09:18.945 --> 00:09:20.005 : of public policy

00:09:20.505 --> 00:09:23.565 : and market dynamism, which includes corporate

00:09:23.985 --> 00:09:27.925 : and individual action relating to climate change may cause

00:09:28.555 --> 00:09:30.765 : risk and or opportunity for companies.

00:09:31.165 --> 00:09:34.845 : Analysis work is one, to make the case

00:09:35.145 --> 00:09:36.685 : to our portfolio companies

00:09:36.915 --> 00:09:39.765 : that they may be impacted by climate change.

00:09:40.825 --> 00:09:44.325 : Two, to promote that companies stay the course

00:09:44.585 --> 00:09:47.445 : and implement sound, climate change, policy

00:09:47.625 --> 00:09:50.765 : and practice despite policy changes.

00:09:51.745 --> 00:09:56.085 : And three, to offer suggestions where we see potential holes

00:09:56.625 --> 00:09:57.765 : in their strategies.

00:10:00.185 --> 00:10:04.285 : In conclusion, market dynamism in the form

00:10:04.585 --> 00:10:09.245 : of corporate action must rise to the challenge to change

00:10:10.105 --> 00:10:13.245 : the long-term trajectory of climate change.

00:10:14.285 --> 00:10:17.925 : Regardless of short-term policy to protect the planet,

00:10:18.745 --> 00:10:20.885 : its people and prosperity.

00:10:21.735 --> 00:10:22.925 : Thank you for your interest.