

Tues August 19, 2025

Riverwater Sustainable Value Webcast Transcript (Inline Timestamps)

00:00:00.015 --> 00:00:02.685 : Hello, thank you for your interest in the Riverwater

00:00:02.685 --> 00:00:04.125 : Sustainable Value Strategy.

00:00:04.585 --> 00:00:08.245 : Uh, over the next few slides, I will cover the

00:00:09.465 --> 00:00:13.165 : second quarter market rally as well as

00:00:13.345 --> 00:00:14.845 : how our strategy performed.

00:00:15.305 --> 00:00:18.845 : So let's get started. So the second quarter ended up, uh,

00:00:19.175 --> 00:00:21.165 : being a great corner on an absolute basis,

00:00:21.345 --> 00:00:24.085 : but it was driven by low quality stocks.

00:00:24.115 --> 00:00:25.645 : What are low quality stocks?

00:00:26.185 --> 00:00:28.805 : Uh, well, here you can see a lot of different factors

00:00:29.065 --> 00:00:30.645 : and some of the best performing factors.

00:00:31.545 --> 00:00:34.085 : Uh, were low share price, high beta

00:00:35.445 --> 00:00:39.645 : negative return on invested capital, no dividends, um,

00:00:40.185 --> 00:00:41.845 : and a significant amount of debt.

00:00:42.145 --> 00:00:45.565 : So not surprisingly, our strategy, uh,

00:00:45.565 --> 00:00:47.485 : does not exhibit a lot of these qualities and

00:00:47.485 --> 00:00:51.755 : therefore, uh, underperformed Drilling down into a couple

00:00:51.815 --> 00:00:54.315 : of these, you can see highly shorted stocks

00:00:54.975 --> 00:00:56.715 : or up 35%, uh,

00:00:56.835 --> 00:00:59.675 : from the market bottom in the quarter versus only 24%.

00:00:59.815 --> 00:01:01.475 : For the Russell 2000

00:01:01.495 --> 00:01:05.315 : and extremely highly shorted stocks were 52%.

00:01:06.055 --> 00:01:10.555 : Uh, so typically I believe we believe that, uh,

00:01:11.135 --> 00:01:13.515 : people who short usually have a pretty good idea about the
00:01:13.515 --> 00:01:14.555 : quality of the business, and
00:01:14.555 --> 00:01:16.595 : therefore there is a very strong correlation
00:01:16.595 --> 00:01:18.155 : between the quality of a business
00:01:18.495 --> 00:01:22.035 : and the percent of percentage of shares that are sold short.
00:01:22.935 --> 00:01:24.755 : And then lastly, money losing companies.
00:01:25.215 --> 00:01:28.315 : Uh, clearly the place to be negative, uh,
00:01:28.315 --> 00:01:30.195 : return on invested capital companies had returns
00:01:30.195 --> 00:01:34.155 : of over 30%, uh, compared to,
00:01:34.975 --> 00:01:38.715 : uh, about an average of probably 15 to 20%, uh,
00:01:38.715 --> 00:01:39.915 : for quintiles of costs.
00:01:40.455 --> 00:01:43.355 : Uh, the vast number of companies that actually make
money.
00:01:44.175 --> 00:01:46.595 : And I thought it would be instructive to actually show our,
00:01:46.855 --> 00:01:49.475 : our day-to-day relative performance versus
00:01:49.495 --> 00:01:50.715 : the benchmark for the strategy.
00:01:50.775 --> 00:01:53.675 : And it was really, it was a tale of two halves
00:01:53.675 --> 00:01:55.555 : with the first half being just a few days,
00:01:56.335 --> 00:01:57.675 : and, uh, the second half being
00:01:57.675 --> 00:01:58.795 : really the rest of the quarter.
00:01:58.975 --> 00:02:01.555 : And so on Liberation Day April 2nd,
00:02:02.095 --> 00:02:03.515 : you can see this orange line.
00:02:03.695 --> 00:02:06.435 : Our, uh, relative performance shot straight up, uh,
00:02:06.495 --> 00:02:07.675 : as markets cratered.
00:02:08.015 --> 00:02:10.755 : And then as the pause began, uh,
00:02:10.895 --> 00:02:13.475 : and markets started to really rally, we gave up all

00:02:13.475 --> 00:02:17.475 : of our gains, uh, by the end of June, uh, really

00:02:17.475 --> 00:02:18.635 : by the beginning of June.

00:02:18.635 --> 00:02:21.955 : And then by the end of June, we, uh, actually underperformed

00:02:22.055 --> 00:02:25.395 : by slightly over a hundred basis points moving along

00:02:25.415 --> 00:02:27.035 : to our top five holdings.

00:02:28.495 --> 00:02:32.795 : Uh, not a lot of movement, uh, from the last few quarters,

00:02:32.795 --> 00:02:36.115 : interdigital, uh, put up a stellar quarter.

00:02:36.815 --> 00:02:40.595 : Uh, they finally announced a resolution to their, uh,

00:02:41.355 --> 00:02:43.995 : negotiations with Samsung, uh,

00:02:44.015 --> 00:02:46.835 : and so that that company has grown to be, uh,

00:02:47.165 --> 00:02:48.195 : where it is today.

00:02:48.895 --> 00:02:50.595 : Uh, likewise, grand Canyon, uh,

00:02:50.655 --> 00:02:52.675 : has put up some very strong quarters, uh,

00:02:52.775 --> 00:02:54.555 : and it's also grown to be, um,

00:02:55.235 --> 00:02:58.395 : a 5% position. I'd also note Quest

00:02:58.505 --> 00:03:01.645 : Diagnostics, uh, has finally started

00:03:01.665 --> 00:03:05.445 : to recover from the COVID hangover in the testing space.

00:03:06.465 --> 00:03:09.685 : Uh, we had the opportunity to meet with, uh, the CEO,

00:03:09.705 --> 00:03:12.725 : who actually, uh, happens to have ties to Milwaukee, uh,

00:03:12.725 --> 00:03:14.725 : this last quarter, and, um, we're,

00:03:14.725 --> 00:03:16.205 : we're pretty confident in their future.

00:03:17.065 --> 00:03:20.965 : Uh, and I'd also would, uh, like to note

00:03:20.965 --> 00:03:22.085 : that both Grand Canyon

00:03:22.345 --> 00:03:25.685 : and Quest, uh, were in the portfolio since day one

00:03:25.685 --> 00:03:28.005 : of the strategy, uh, almost nine years ago.

00:03:29.505 --> 00:03:31.885 : So in this slide, we show our relative over
00:03:31.885 --> 00:03:33.445 : and underweights across sectors.
00:03:33.445 --> 00:03:36.805 : Just to remind you, we try to stay within 5%
00:03:36.905 --> 00:03:39.205 : of a sector's benchmark weight, and we have a hard
00:03:39.205 --> 00:03:42.085 : and fast rule that we won't be plus or minus 10%.
00:03:42.625 --> 00:03:45.205 : Uh, our biggest two underweights are consumer
discretionary,
00:03:46.085 --> 00:03:47.525 : consumer discretionary, and industrial.
00:03:48.145 --> 00:03:49.845 : Two largest overweights are healthcare
00:03:50.065 --> 00:03:52.885 : and it we'll say that we,
00:03:52.905 --> 00:03:54.765 : we have been adding to industrials.
00:03:55.545 --> 00:03:57.405 : We, we do have some nervousness, uh,
00:03:57.405 --> 00:04:00.245 : regarding the consumers starting to see a, a fair amount
00:04:00.245 --> 00:04:04.005 : of weakness across, uh, both retailers, uh, and restaurants.
00:04:04.145 --> 00:04:07.805 : And so, uh, more likely that we stay underweight there,
00:04:07.985 --> 00:04:09.165 : but our underweight, uh,
00:04:09.945 --> 00:04:11.325 : and industrials will likely
00:04:11.875 --> 00:04:14.125 : decline over the next quarter or two.
00:04:16.155 --> 00:04:17.605 : This slide, we show our key metrics
00:04:17.785 --> 00:04:21.525 : for the most part in line, uh, slight premium to
00:04:22.145 --> 00:04:26.045 : our benchmark, but again, uh, vast, vast majority
00:04:26.045 --> 00:04:28.765 : of our companies, uh, are profitable, uh,
00:04:28.765 --> 00:04:31.605 : whereas we're comparing, um, to a benchmark
00:04:31.725 --> 00:04:33.165 : that probably has about 25
00:04:33.165 --> 00:04:37.285 : or 30%, uh, consisting of unprofitable companies,
00:04:37.285 --> 00:04:39.165 : weighted market cap, slightly slower,

00:04:39.305 --> 00:04:43.325 : but on return on equity, uh, where, uh, where we shine, uh,
00:04:43.655 --> 00:04:47.605 : again, 18.7%, which is much higher than the benchmark at
10.
00:04:49.435 --> 00:04:52.405 : Also, uh, better balance sheets with long-term debt to cap,
00:04:52.425 --> 00:04:53.645 : uh, way under the benchmark.
00:04:53.785 --> 00:04:56.005 : Uh, back to performance again, we underperformed
00:04:56.005 --> 00:04:59.005 : by about a percent and a half in the quarter, uh, slight,
00:04:59.225 --> 00:05:03.005 : uh, positive, uh, attribution on, on a sector waiting basis.
00:05:03.265 --> 00:05:05.645 : Um, but stocks, uh, hurt us.
00:05:06.625 --> 00:05:10.005 : The, um, three biggest, uh,
00:05:10.965 --> 00:05:12.645 : negative contributors are on the bottom right.
00:05:13.115 --> 00:05:15.045 : Lima narrow was the worst performance stock last
00:05:15.045 --> 00:05:16.085 : quarter, I believe.
00:05:16.305 --> 00:05:19.405 : And so we did do a deep dive on that last quarter.
00:05:19.545 --> 00:05:22.085 : If you're looking for why we continue to hold it,
00:05:22.165 --> 00:05:25.125 : I would definitely listen to last quarter's call.
00:05:26.345 --> 00:05:30.405 : On the positive side, uh, Everest Construction Group, uh,
00:05:30.555 --> 00:05:32.765 : contributed 153 basis points.
00:05:34.265 --> 00:05:37.765 : Uh, we did a bit of a deep dive in this last quarter letter,
00:05:39.155 --> 00:05:42.455 : and I would say we, we owned it, uh, for a bit.
00:05:42.475 --> 00:05:44.095 : It was a spin out of another, uh,
00:05:44.095 --> 00:05:47.695 : company one we owned in the portfolio MDU, which is
utility,
00:05:48.755 --> 00:05:53.575 : and we got the spinoff,
00:05:53.635 --> 00:05:55.095 : uh, a di minimis position.
00:05:55.115 --> 00:05:56.855 : It was probably around something less
00:05:56.855 --> 00:05:57.855 : Than a percent.

00:05:58.305 --> 00:06:00.125 : Um, and then it ran really hard

00:06:00.125 --> 00:06:03.605 : because they are A-A-E-N-C contractor

00:06:03.625 --> 00:06:04.765 : in the electrical space.

00:06:05.225 --> 00:06:07.125 : And with the build out of data centers, uh,

00:06:07.675 --> 00:06:09.205 : investors got very excited.

00:06:09.235 --> 00:06:13.085 : Well, once the Deep Sea News came out in the earlier part

00:06:13.085 --> 00:06:16.165 : of this year and a lot of AI names sold off,

00:06:16.195 --> 00:06:17.405 : they sold off with it.

00:06:17.755 --> 00:06:19.325 : Then you combine Liberation Day

00:06:19.465 --> 00:06:21.405 : and we got an additional sell off.

00:06:21.865 --> 00:06:25.645 : And so we were able to, uh, almost pick the bottom, uh,

00:06:25.705 --> 00:06:28.085 : at taking this position up to, uh, a full position

00:06:28.105 --> 00:06:29.205 : around 3%.

00:06:30.625 --> 00:06:33.205 : Uh, and then it had a, a significant rally, uh,

00:06:33.275 --> 00:06:34.525 : obviously from the bottom.

00:06:34.705 --> 00:06:38.325 : So, uh, I think we at one point at least doubled, um, our,

00:06:38.705 --> 00:06:42.605 : our return, uh, in a very short time period here.

00:06:42.605 --> 00:06:43.845 : We've had returns over the last year,

00:06:43.845 --> 00:06:47.725 : and those are still, um, looking good with a, a total acts

00:06:47.725 --> 00:06:50.565 : of return, uh, performance of just under 5%.

00:06:50.825 --> 00:06:53.685 : Uh, again, driven by our top holding interdigital.

00:06:54.185 --> 00:06:56.805 : Um, worst performer, uh, has been Vico.

00:06:57.315 --> 00:06:59.405 : It's a, uh, semi cap equipment company

00:07:00.065 --> 00:07:03.045 : and, um, a lot of issues obviously with,

00:07:03.075 --> 00:07:04.405 : with tariffs in China,

00:07:04.945 --> 00:07:07.685 : but we feel that, um, they're

00:07:07.685 --> 00:07:09.325 : through probably most of those headwinds.

00:07:09.345 --> 00:07:11.965 : And so, uh, it's a name that we are sticking

00:07:11.965 --> 00:07:13.765 : with in the portfolio.

00:07:15.705 --> 00:07:16.805 : Here's our last slide.

00:07:16.905 --> 00:07:19.205 : Uh, just showing performance again, um,

00:07:19.255 --> 00:07:20.325 : slide on performance.

00:07:21.385 --> 00:07:24.125 : We don't feel bad. Uh, again, one driven by the fact

00:07:24.125 --> 00:07:25.525 : that this has been a low quality rally,

00:07:25.545 --> 00:07:29.285 : and typically we, uh, shoot for 90% upside capture

00:07:29.345 --> 00:07:30.965 : and about 70% downside.

00:07:31.755 --> 00:07:32.775 : Uh, year to date.

00:07:32.775 --> 00:07:36.095 : However, we are, we're actually still outperforming, uh,

00:07:36.165 --> 00:07:39.975 : with, uh, net performance of up 1.55% versus one.

00:07:40.235 --> 00:07:43.015 : And as you can see here, uh, across the 1, 3, 5,

00:07:43.015 --> 00:07:46.935 : and six inception numbers, um, we, uh, are continuing to

00:07:47.455 --> 00:07:49.375 : maintain a positive alpha.

00:07:50.115 --> 00:07:52.535 : So thank you for joining. Uh, I kept it under 10 minutes.

00:07:52.715 --> 00:07:55.735 : If you have any questions, uh, on performance, uh,

00:07:55.735 --> 00:08:00.015 : how we're positioned, uh, please reach out to Matt, uh,

00:08:00.595 --> 00:08:02.535 : and I hope you have a good rest of your summer.

00:08:03.075 --> 00:08:03.735 : Thanks again.