RIVERWATER PARTNERS
Third Quarter 2025 Webinar
Complete Transcript

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MATT DRVARIC (HOST):

Good afternoon and thank you for joining us today. We will begin momentarily.

Welcome to the River Water Partners third quarter 2025 webinar. My name is Matt Drvaric and I'll be your host for today's call. All participants are currently in listen only mode. If you'd like to submit a question during the presentation, please use the questions box located at the bottom of your webinar control panel.

Please note that today's event is being recorded and a replay will be made available following the webinar.

AGENDA

Let's begin with an overview of today's agenda. This afternoon we'll start with a brief firm update. Adam Peck, our co-founder and chief investment officer will discuss the small cap market environment and review performance for our sustainable value strategy.

Next, Nate Frederick portfolio manager will provide a performance update on the small cap and micro opportunity strategies as River Wire continues to gain traction among faith-based investors seeking responsible and values aligned investment solutions.

We'll close with Cindy Boland, our director of Responsible Investing, who will share how River Water aligns client portfolios with religious mandates and faith-based principles. After the presentations we'll address any questions.

FIRM OVERVIEW

River Water Partners was founded in 2016 in Milwaukee as a dedicated small cap responsible investment manager. Our mission is simple, yet powerful to make the world a better place by growing wealth through responsible investing.

We are proud to be a signatory to the United Nations principles of Responsible Investment. A certified B corporation, certified women owned, and 100% employee owned across six partners. Our passionate team combines deep investment expertise with a commitment to serving our client's missions.

River Water offers three concentrated small cap oriented strategies. Each strategy is guided by the same philosophy process and investment team, and differentiated primarily by valuation, discipline, and market gap focus.

FIRM HIGHLIGHTS FROM THE QUARTER

To highlight a few firm highlights from the quarter:

Lori Hoke joined River Water as our outsourced chief compliance officer on October 1st. Lori brings over 25 years of compliance and operations experience and most recently served as CCO and COO for Cortina Asset Management.

Next, our strategies are being onboarded to the Fidelity separate account network and will be made available there, expanding accessibilities for advisors and institutional clients.

Lastly, as mentioned earlier, we are seeing an increasing interest from faith-based investors and we are growing our reputation among investors seeking small cap managers who offer portfolios aligned with their mandates. This recognition has naturally evolved as our process and philosophy inherently offers a solution with limited small cap choices available.

We're excited about the firm's momentum and the growing opportunities within small caps. With that, I'll turn it over to Adam, who will share his perspective on why we believe small caps are positioned to outperform in the coming cycle. Adam.

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ADAM PECK (CO-FOUNDER & CHIEF INVESTMENT OFFICER):

SMALL CAP MARKET ENVIRONMENT

Thank you Matt, and good afternoon to everyone. So I'll walk through a major theme of the last quarter, which was a low quality small cap rally.

It was a tough quarter for active managers across the board. According to Fury, research partners, growth, core and value all underperformed. This underperformance all started April 8th. It is quite common for low quality stocks to outperform coming out of the bear market, which we had earlier this year.

However, this current low quality rally is stronger than any I've experienced and the data here bears that out. This is the worst trailing six month relative performance for active core small cap management in the last 25 years. The only other time that comes close

was the meme SPAC rally of 2021.

Unfortunately, October saw no reversal in unprofitable stocks outperforming the market. But if history is a guide, this should eventually end. At least we can hope. And again, if history is a guide, we don't need OB one Kenobi.

Typically, low quality as represented by unprofitability has the greatest outperformance in the first six months of a rally. It trails off quite significantly in the second six months and then reverts to normal after a year, which is when it starts to underperform. That is what normal looks like. Unprofitable stocks do not have a history of outperforming the index over long periods of time. So I certain believe this low quality rally will end.

And I'll make the case again that I think small caps are setting up for a decade of outperformance versus large. This is a chart of large caps, last 12 months, enterprise value to cash flow. We're at a record, at least since 1990, and I can't, don't think they can expand, that multiples can expand to the same degree they've grown since the great financial crisis and I'd argue that they are likely at some point to revert to a lower level.

And when comparing large valuations to small, we're at 35 year relative lows. And what this chart is showing is the Russell 2000 excluding financials divided by the S and P 500. And so a lower level again at 80%, is a record low at least for the last 35 years.

And while small caps have finally come to life in the last few months, they've actually marked times since COVID and appear though to have set up a base that previously came before all prior small cap runs.

So with that, I will pass it off to Nathan to cover our small cap strategy.

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NATE FREDERICK (PORTFOLIO MANAGER):

SMALL CAP STRATEGY - TOP FIVE HOLDINGS

Thanks Adam. Yeah, our top five holdings highlight idiosyncratic investments that we believe can perform well in volatile markets in these types of markets. Visibility into our company's future earnings is highly important to us.

We'd like to highlight some of our top five holdings. Our top holding Grand Canyon education, which offers graduate and undergraduate programs for Grand Canyon University. Earnings are more predictable than many other consumer-focused companies as students paying for

tuition is a large driver of performance. The stock has recently sold off from its highs in the two hundreds, driven by poor enrollment numbers from some of its peers and worry around the government shutdown. We believe these risks are overstated and we are confident in Loeb's business going forward.

Coastal Financial is a community bank headquartered in Everett, Washington, operating through its traditional banking segment and its rapidly growing banking as a service platform. The company provides commercial and retail banking services across the Pacific Northwest while partnering with FinTech firms nationwide through its CCBX division, which offers embedded financial infrastructure such as deposit accounts, payments and lending solutions.

This banking as a service business model has become a key growth driver generating scalable fee-based revenue without the capital intensity of a traditional branch network. As regulatory scrutiny increases across the FinTech ecosystem, Coastal's strong compliance framework and established partnerships position it as a trusted intermediary between fintechs and the banking system.

Looking ahead, the combination of stable core banking operations and high margin banking as a service expansion provides a compelling long-term growth trajectory for both earnings and return on equity.

Lastly, Stonex is a global financial services firm specializing in market access, risk management and execution across institutional, commercial, and retail segments. Now, a top 10 non-bank futures commissions merchant after their purchase of RJ O'Brien. It provides clearing trading and market making services in commodities, equities and FX with a focus on underserved and emerging markets ignored by the large money center banks.

Its diversified model, recurring float income and growing internalization strategy support, consistent double digit book value growth and mid to high teams ROE targets. Bottom line Stonex benefits from volatility and uncertainty in the market while taking market share from large investment banks.

SECTOR WEIGHTS

Next slide. In the small cap portfolio, we focus on stock selection over sector weighting, but have sectors we like more than others. Here are the sector weights for the small cap strategy compared to our benchmark. The Russell 2000 utilities and consumer staples are overweights as both sectors have good visibility into earnings.

Our overweight in materials is driven by our bullishness on the nuclear industry. Specifically the price of uranium sectors that are more challenging are consumer discretionary based on weakening

consumer trends. It might appear that we are overweight consumer discretionary, but that includes Grand Canyon, which we consider more of a staple and Atmos, which we would consider an industrial company as their business is one of the global leaders of filtration products for on highway commercial vehicles and off highway agricultural construction, mining and power generation vehicles and equipment.

Atmos designs and manufacturers advanced filtration products principally under the Fleet Guard brand that provides superior asset protection and enables lower emissions.

Also, the energy sector has been weak in an area we have been avoiding outside of natural gas, which we are bullish on as an energy source for data centers while other renewable energy sources ramp up. This is expressed through our ownership of CNX an independent natural gas midstream company.

We are finding better opportunities outside of real estate, so do not currently own anything in this sector. Sectors that we would add to are financials, specifically banks. We have added Provident Financial to the portfolio as we think the banging sector can benefit from rate cuts and a steepening yield curve. We would also add to MedTech and healthcare as we believe they are higher quality companies compared to unprofitable biotechs in the index.

PORTFOLIO CHARACTERISTICS

Next, as you can see from our portfolio characteristics, we focus on higher quality names that have better return on invested capital and return on equity. We are willing to pay more for some great companies if we think valuation is still reasonable.

An interesting fact unprofitable companies are actually excluded from the benchmark statistics and if they were added back would actually increase the valuation numbers of the benchmark.

QUARTERLY PERFORMANCE

Next small cap core underperformed the Russell 2000 in the quarter. This was driven by our higher quality positioning. Our strategy will underperform when there are more speculative rallies in the market, especially when it's driven by high short interest in unprofitable companies.

Our top sector was IT driven by Vico, which was recently bought by Excels and is also benefiting from Data Center buildout. Our top detractor for sectors was healthcare.

Our top performer, Uranium Energy Corp is a uranium mining company with assets located in the US and ready to ramp production. We have

highlighted our bullishness on the nuclear power industry in the past, so we won't go through that again. However, some of these stocks in this space have seen their valuations and stocks skyrocket this quarter.

We have since sold Centrus Energy after its run of over 300% year to date pricing and a lot of optimism in the name. We also trimmed UEC for the same reason, but still believe there are some catalysts coming down the line, specifically around the results of the 232 tariff investigation into critical minerals including uranium, which should be coming out fairly soon. Now that the government looks to be opening back up.

Our top underperformer was Palomar and this likely reflects a confluence of headwinds: weaker commercial market pricing pressure, a broader rotation away from defensive insurance oriented names into more cyclically exposed risk on sectors and investor concerns about underwriting margin pressure.

In particular, rate reductions in commercial earthquake and property markets have squeezed premium renewal yields. That said, we still believe the stock is by the company, has strong visibility into premium growth along with expansion into more diversified lines like crop insurance combined with higher return on equity and a proven ability to invest capital efficiently. Palomar retains upside if the market sentiment eventually rotates back to quality companies.

ANNUAL PERFORMANCE

Next, so small caps also underperformed for the last year. The top performer was driven by Stonex, which we have covered, and our top detractor was Limoneira. Adam has touched on this name in the past and we still believe management will be able to monetize its assets well above where the current market is pricing the stock. And I'll pass it back to Matt.

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MATT DRVARIC:

SMALL CAP STRATEGY PERFORMANCE

Thanks Nate. The small cap strategy is presented here relative to its benchmark, the Russell 2000. As a reminder in compliance with the SEC's marketing rule, all performance data presented today reflects net of fee returns based on the highest fee schedule applicable to retail clients at 1%.

The strategy recently achieved its three-year track record this quarter. This milestone marks a significant point in the strategy's

evolution and we view this as a cornerstone strategy for the firm's development going forward.

At this time, I will turn it over to Adam.

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ADAM PECK:

SUSTAINABLE VALUE STRATEGY - TOP FIVE HOLDINGS

Thanks Matt. So here on the next slide, we have our top five holdings in the sustainable value strategy. Again, as I always say, all top five have grown to be here as our average position size is usually around 3%.

AI is driving both the economy and I'd say the best performers in the market, both Ciena and Everest are benefiting from the data center build out and we're a couple of our top performers. The problem is I think a lot of AI names are getting extended on valuation and we've been trimming holdings that we believe have gotten ahead of themselves.

SECTOR WEIGHTS

Here we have our sector weights. I'll remind everyone we try to stay within 5% of the benchmark's weight and have a hard and fast limit at 10. Today's largest underweight is in consumer discretionary at 4.6% underweight, and the largest overweight is in technology at an eight-ish percent overweight.

And technology was one of the top performing sectors again this quarter. Driven by Ciena and Interdigital, the technology overweight has remained constant versus the benchmark only because we've been trimming both of those positions as they've grown in size. Both stocks have more than doubled this year as of last week.

And if you've been following us for a while, you'll see not much has changed here. We're a smidge higher on valuation, but our quality is at a multiple above the benchmark.

QUARTERLY PERFORMANCE

This quarter's underperformance is all attributed to stock selection, particularly in healthcare. Healthcare has been tough as we've had poor stock performance in a couple of names, both Hematics and Lathes.

Hematics is in the blood and plasma business. They lost a large customer and saw a deceleration in growth this year. The market assumes growth would never return and sent the valuation of Hematics

down to an all time low level. Since it first started trading in the late 1990s, it had about 10 times earnings, a level never seen before, and one which can be compared to its last five year average of 20 times earnings.

It consistently generates free cash flow, grows at a consistent clip, and has an appropriate debt level and generates high returns on capital. We think this is a good example of the market's behavior this year. It has been driven by story stocks and has punished profitable companies that show any blip in fundamentals, even if temporary in nature.

ANNUAL PERFORMANCE

Over the last 12 months, we've just slightly beaten the benchmark. To be honest, it hasn't felt like that. IT again led the way and Limoneira and Hematics were the top drags on performance.

I've repeatedly discussed Limoneira over the past few quarters. We believe it still trades at a more than 65% discount to its intrinsic value and are hopeful that near term catalyst will allow the market to see how mispriced it currently is.

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

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MATT DRVARIC:

SUSTAINABLE VALUE STRATEGY PERFORMANCE

Thank you, Adam. The performance of our mid cap strategy is shown here. The strategy has delivered competitive results across all longer term reporting periods. Returns here are also shown net of fee at 1% related to the retail fee.

Now turn things over to Nate Frederick to discuss the micro opportunity strategy.

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NATE FREDERICK:

MICRO OPPORTUNITY STRATEGY - TOP FIVE HOLDINGS

Thanks Matt. Yeah, and similar to our other portfolios, the market opportunities, top five holdings highlight idiosyncratic investments that we think can perform well in a volatile market. And again, I'll touch on some here.

iRadimed is now our largest holding after another stellar earnings report. They develop and manufacture MRI compatible medical devices. iRadimed is a good example of a high quality business that we look for with operating margins greater than 30% and a return on invested capital of over 20%. We look forward to a big 2026 for them as they launch their new MRI infusion pump, which should see great demand.

A new name to the top five and another beneficiary of AI build out is MPK International, which is also re-rated higher since they sold their oil and gas fluids business. Now they can just concentrate on their composite industrial mats business, even with the stocks outperformance, we believe the growth outlook is for multiple years just based on utility spending to build out power infrastructure.

Mama's Creations is a consumer staple company that has bucked the trend of underperformance of that sector putting up good earnings report, showing significant top line growth. Mama's is also a name that has multiple years of growth ahead as they grab market share in the fresh food aisle in the grocery store.

SECTOR WEIGHTS AND PORTFOLIO CHARACTERISTICS

Next, yeah, when looking at sector weights, we wanna highlight that our benchmark is the micro cap index and we are more in line with those numbers for each sector.

Next, again, the micro cap strategy is benchmark to the micro cap index where our numbers are more in line. Also, we focus on higher quality companies that are profitable or have visibility to profitability.

QUARTERLY PERFORMANCE

Next. So the micro opportunities portfolio underperformed last quarter. Our top contributor last quarter was Uranium Royalty, which we have talked about before. And as again, part of our bullish thesis on nuclear energy and the price of uranium.

Our top detractor Delcath underperformed in the third quarter after a strong start to the year that saw the stock rally sharply on optimism surrounding its commercial launch and expectations for the upcoming Chopin trial results, which ended up meeting its primary endpoint in the fourth quarter as the combination therapy of their Hep Auto kit and checkpoint inhibitors in treating metastatic uveal melanoma.

Shares have since come off the high as investors digested near-term headwinds, including pricing pressure tied to higher mix of Medicaid patients and a slower than expected pace of site activations, though management remains on track with its rollout goals of 40 sites by the end of 2026.

ANNUAL PERFORMANCE

Next, so the portfolio also underperformed over the last year. This was the top contributing sector was materials, driven by the uranium thesis, and our top detractor over the last year was communications services.

And I'll pass it back to Matt.

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MATT DRVARIC:

MICRO OPPORTUNITY STRATEGY PERFORMANCE

Great, thank you Nate. The micro opportunity strategy is shown here relative to the Russell 2000 benchmark. As Nate mentioned, the Russell Microcap Index is a more appropriate comparison. It's not displayed though due to licensing restrictions.

Similar to our other strategies, returns shown here are net of a 1% retail fee. I will turn it over to Cindy to discuss our faith-based integration. Cindy.

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CINDY BOLAND (DIRECTOR OF RESPONSIBLE INVESTING):

FAITH-BASED INTEGRATION

Thank you Matt. And thanks to everyone for joining us today. I'd like to just talk about how River Water's Responsible investing practice helps faith-based clients preserve and grow their financial assets while respecting their moral obligation to protect the planet and its people.

PRINCIPLES OF STEWARDSHIP

Faith-based investors seek to balance two principles of stewardship. Financial stewardship ensures that its members earn an appropriate risk adjusted return on their assets over the long term to serve their needs. And social and environmental stewardship ensures that these returns are not earned at the expense of others. River Water's responsible investing approach also balances these tenets of stewardship.

THREE PILLAR FRAMEWORK

River Water's three pillar framework to achieve this. Shared value

creation begins with due diligence where we seek to understand how our portfolio companies responsibly deploy human, physical and financial capital to generate financial return.

Our engagement practice works in partnership with corporate executives and boards toward continuous improvement on their social environmental and financial stewardship. And our collaboration with thought leaders and responsible investing peers, which includes several faith-based organizations, informs our practice and strengthens our engagement.

STRATEGIES FOR SHARED VALUE CREATION

So River Water employs several strategies aligned with faith-based shared value creation.

We avoid doing harm by excluding companies that derive a meaningful portion of their revenue from activities that do not meet moral teachings. Alcohol, tobacco, firearms, unconventional weapons for-profit prisons, pornography and coal production.

River Water does differ from some responsible investment managers in that we will invest in companies that enable energy production using both natural gas and nuclear sources. Nuclear is the cleanest and safest form of energy production, and natural gas is a necessary bridge to a carbon-free future.

Investing in natural gas producers and users rather than divestment also gives us a seat at the table for the second strategy, which is to actively work for change. Our dialogue seeks to ensure that natural gas providers continue to decarbonize their own operations and that they continue to invest in carbon reduction initiatives.

A great example is CNX, which was highlighted earlier. A natural gas provider, which has invested to capture methane and methane is 10 times more dangerous to the environment than carbon dioxide from abandoned coal mines. CNX has a negative scope one and two carbon footprint because of this investment.

And third, our system stewardship lens promotes the common good by ensuring that our company's efforts benefit their profits and society generally.

PORTFOLIO METRICS - ENVIRONMENTAL STEWARDSHIP

So a few examples of how River Water's process promotes care for our common home are that 47% of our portfolio companies measure and report on their greenhouse gas emissions. 48% employ circularity in product design and 44% measure and report on water metrics.

Because our portfolios invest across the economic sector spectrum,

these environmental factors are less material for some of them, which would include banks and healthcare companies. For example, if we were to exclude those companies from these metrics, the metrics would be more in the 75% range.

PORTFOLIO METRICS – HUMAN DIGNITY

River Water's process also promotes care for human dignity. 78% of our portfolio companies have a Glassdoor rating greater than 3.5. This is a third party affirmation of employee satisfaction with their fair treatment.

81% have formal policy aimed at including diverse perspectives, and 39% have human rights policy aligned with the UN guiding principles on human rights. And those policies protect workers in the supply chains across the globe. Again, only about half of our portfolio companies have global supply chains making 39% a pretty meaningful number.

DIRECT IMPACT EXAMPLES

And faith-based investors often also seek direct impact from their investments and River Water does too. A couple of examples are Ciena Corporation, which is a networking equipment company, and their telecom equipment offers the lowest power per bit transmission of data across the network.

And in the last 10 years, while fiber capacity has increased by 35 times, Ciena's equipment has allowed its customers to avoid over five and a half million tons of CO2.

Quest Diagnostics is a healthcare company that serves one in three Americans each year, performing 200 million tests to provide diagnostic insight to improve health outcomes. And Quest really seeks to address disparities in healthcare across the healthcare access through its Quest for health equity initiative, making it a very strong contributor to society's good.

CONCLUSION

In conclusion, I just wanna say that River Water understands well that faith-based investors are morally obligated to balance their financial and social environmental objectives. And our process seeks the same balance in pursuit of our own mission, which is to make the world a better place by growing wealth through responsible investing.

Thank you. And back to you, Matt.

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MATT DRVARIC:

Q&A SESSION

Awesome. Thank you Cindy. Thank you Nate, Adam, for your updates on the River Water strategies and initiatives. At this time, we'll open the floor for any questions.

We did receive a question in advance at the onset of the call, and it was in relation to AI asking about how it is represented in the portfolios and where do we believe we are in the AI cycle. Adam, I'll let you address that one.

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ADAM PECK:

AI EXPOSURE IN PORTFOLIOS

Sure. And Cindy, feel free to come in behind me if I miss anything.

Yeah, I guess I am, I'm just old enough to have experienced the last technology bubble back in 99, 2000. And obviously we get this question a lot. There's a lot of comparisons. I mean, AI is a transformational technology that will transform I think every business. We're implementing it across our business to try to become more efficient.

And we did a look into the exposure across all of our portfolios. Every name, you know, what we thought was a rough estimate of what the AI exposure was. So if it's a utility, you could say maybe a quarter to a half of its, not necessarily its revenues, but what the market's pricing into the stock is related to AI.

If you take a uranium name, any of our uranium names, we thought a hundred percent is related to AI. And then if you take some technology names, like Cindy just referenced, Ciena, we would say at least 75% of its performance over the last year is driven by AI.

And we actually bought Ciena. We've owned it for a number of years, but just got into it again recently. And our thesis really was AI the last time we got into it because the data has to travel from a data center to somewhere, and the market wasn't figuring it out. And then it quickly figured it out, and the stock has done very, very well just recently.

So when we wrap all that up, what we qualitatively think are exposures, we end up across portfolios roughly 12 to 17% exposure. And again, that's just a qualitative assessment on our part. I think if you brought it down to exact revenues, it would be much, much lower.

But if you have time to go back to our last quarterly letter, the

small cap macro, I think we do a decent job comparing this AI to the last CapEx technology CapEx bubble. And there are, you know, history doesn't repeat, but it echoes and rhymes.

And when you start to see some names, large cap names worth a half a trillion dollars traded 150 times sales, I think that's, you know, bubble-esque. So I think a bubble has started to form could it go on for another two to five years? Yes. And there's no way for us to handicap how long it's gonna go on, but within our portfolio, the best thing we can do is try to identify stocks that will benefit from it and hold onto them.

As long as the fundamentals look sound, the management team is great and the valuation is appropriate. And so if one of those things is off, then we start to lighten and or sell. And we have actually been selling a number of names just because valuations have gone haywire.

Could it mean we'll underperform more going forward if the exact same factors that are driving the market continue? Yes. And I'd call it the pain trade. But again, every stock we own, we have to be comfortable with owning. And again, when you've got stocks trading 80 times earnings, some trading 150 times sales, it just doesn't pass our three pillar approach.

So, happy to discuss it offline too, if anyone has any questions.

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MATT DRVARIC:

CLOSING REMARKS

Great. Thanks Adam. That concludes the questions for today. As we wrap up, I'd like to reiterate our passion for small cap responsible investing. We believe this approach enhances opportunity by promoting resilience, capturing inefficiencies, and improving long-term return potential.

We appreciate your time today and your continued interest in River Water Partners. If you have additional questions or would like to speak directly with a member of the team, please do not hesitate to reach out. We look forward to connecting again next quarter. Thank you. And we wish your families a happy Thanksgiving.

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END OF TRANSCRIPT