

## Q4 2025 Quarterly Commentary

By Nathan Fredrick, CFA

The Small Cap Strategy underperformed its benchmark, the Russell 2000, in the fourth quarter and for the full year. The quarterly underperformance was driven primarily by stock selection rather than sector allocation (which was also negative), consistent with our bottom-up investment approach that emphasizes individual company analysis over top-down positioning.

While the fourth quarter and full year proved challenging, particularly in Health Care, Consumer Staples, and Industrials, we remain confident in our portfolio positioning. Our focus on companies with strong balance sheets, quality fundamentals, and identifiable catalysts continues to guide our investment decisions. In particular, we did not have exposure to the more speculative AI investment theme, nor did we participate meaningfully in the biotech rally that developed in the second half of the year.

Our investment approach emphasizes higher-quality companies that are profitable or inflecting toward profitability and capable of generating attractive returns on invested capital over time. Many of the strongest-performing stocks this year—particularly in biotech, crypto-related businesses, select AI plays, and quantum computing—would not have met our quality criteria, as fundamentals were often difficult to substantiate despite compelling narratives. While we are long-term believers in AI and recognize that the Magnificent Seven are well-positioned to benefit from these trends, we believe many of the more speculative smaller companies face more operational and financial challenges than their stock prices currently imply. We prefer to play the AI theme through a picks-and-shovels approach, specifically semicap equipment and the utility infrastructure build out.

We did identify select beneficiaries of these themes, including **Modine (MOD)** and **Veeco (VECO)**, but our exposure was below benchmark levels. Factor performance within the Russell 2000 further contributed to the difficult year, with top-performing factors, according to Furey Research Partners, including high short interest, low near-term sales growth, low share prices, and negative free cash flow—characteristics we generally seek to avoid.

Fig 95. **R2 VALUE** Factors: Nominal & **RELATIVE** return (sorted by '25 return)

R2 VALUE	Nominal Return %					RELATIVE%				
	1Q25	2Q25	3Q25	4Q25	2025	1Q25	2Q25	3Q25	4Q25	2025
High EV/EBITDA (incl Loss-Makers)	-9.8	13.8	22.1	1.6	27.3	-2.1	8.9	9.5	-1.7	14.7
High GM Expansion	-5.5	10.9	15.7	3.7	25.8	2.2	6.0	3.1	0.5	13.2
Negative FCF	-10.4	10.0	21.1	5.2	25.7	-2.6	5.1	8.5	2.0	13.1
High LTM Sales Growth	-3.5	7.5	17.8	2.1	24.8	4.2	2.5	5.2	-1.1	12.2
Low ROA	-9.2	12.1	14.1	6.6	23.8	-1.5	7.2	1.5	3.3	11.2
Low Gross Margin	-8.5	10.9	16.6	4.3	23.4	-0.7	6.0	4.0	1.0	10.8
Loss-Making	-12.2	10.3	21.7	4.6	23.2	-4.5	5.3	9.1	1.3	10.6
No Dividend	-12.3	12.2	20.4	3.8	23.0	-4.6	7.3	7.8	0.5	10.4
Smallest Mkt Val	-10.5	12.2	17.5	2.9	21.5	-2.7	7.2	4.9	-0.3	8.9
High Chg in ROIC	-8.3	8.9	15.4	4.9	20.8	-0.6	3.9	2.8	1.6	8.3
High Momentum	-8.8	8.7	14.5	5.2	19.5	-1.0	3.8	1.9	1.9	6.9
Low ROE	-9.9	10.3	15.2	4.1	19.2	-2.2	5.3	2.6	0.9	6.6
High Beta	-12.1	10.9	22.1	-0.2	18.7	-4.4	5.9	9.5	-3.5	6.1
Low NTM Sales Growth	-5.5	3.8	14.6	5.4	18.6	2.3	-1.1	2.0	2.2	6.0
Low GM Expansion	-7.7	5.4	16.6	4.1	18.1	0.1	0.5	4.0	0.9	5.6
High P/S	-6.0	8.7	14.5	0.9	18.1	1.8	3.7	1.9	-2.4	5.5
Low Beta	-2.3	4.6	9.1	5.5	17.7	5.5	-0.4	-3.5	2.2	5.1
Low Leverage	-6.7	4.7	10.3	1.3	9.1	1.0	-0.3	-2.3	-1.9	-3.5
Profitable	-6.0	3.3	9.4	2.7	9.1	1.7	-1.7	-3.2	-0.5	-3.5
Low P/E (Profitable)	-6.8	1.8	12.5	1.8	8.7	0.9	-3.1	-0.1	-1.4	-3.9
Positive FCF	-6.7	3.4	9.2	2.8	8.4	1.1	-1.5	-3.4	-0.5	-4.2
Dividend Growers	-3.8	-0.2	8.6	3.6	8.2	4.0	-5.1	-4.0	0.4	-4.4
High Yielding	-4.6	0.7	7.9	4.0	7.8	3.1	-4.2	-4.7	0.7	-4.8
High Gross Margin	-6.0	2.6	10.2	1.1	7.4	1.7	-2.4	-2.4	-2.1	-5.2
Dividend Payers	-5.0	1.1	7.7	2.8	6.3	2.8	-3.9	-4.9	-0.4	-6.3
High ROE	-7.8	3.4	9.9	1.1	5.9	0.0	-1.6	-2.7	-2.1	-6.7
High ROA	-6.6	3.0	8.6	1.1	5.6	1.2	-2.0	-4.0	-2.2	-7.0
Dividend Shrinkers	-5.9	1.4	7.8	2.0	5.0	1.9	-3.5	-4.8	-1.2	-7.6
Stock Repurchasers	-7.7	3.9	7.0	1.8	4.5	0.1	-1.1	-5.6	-1.4	-8.1
High ROIC	-6.7	3.7	7.5	-0.8	3.1	1.1	-1.3	-5.1	-4.0	-9.4

Stocks with High EV/EBITDA, High GM Expansion, Negative FCF, High LTM Sales Growth, Low ROA and Low Gross Margin, Loss-Making and No Dividend stocks led Value last year.

High ROIC/ROA/ROE, Stock Repurchasers, Dividend Payers and High GM stocks lagged the most within the R2V last year.

Source: Furey Research Partners and FactSet. Industry neutral groups where possible. Factors are not mutually exclusive.

Historically, rallies driven by lower-quality factors tend to be short-lived, and as we move into 2026, we believe the environment should become more favorable for higher-quality businesses.

## Sector Highlights

From an attribution perspective, nearly all of our quarterly underperformance stemmed from both stock selection and sector allocation. This outcome reflects our concentrated, high-conviction approach where individual holdings can have outsized impacts on relative returns.

**Energy** was our strongest sector during the quarter. Our overweight position in CNX Resources drove the sector's outperformance through strong stock selection. Our natural gas stocks have benefited from the AI theme as a potential winner in powering data centers.

**Information Technology** also contributed positively, driven entirely by stock selection.

**Financials** added to relative returns, led by strong performance from Palomar Holdings and other banking positions benefiting from a steepening yield curve and improving net interest margins.

On the negative side, **Health Care** was our largest detractor, with significant negative selection impact compounded by our underweight allocation and significant biotech outperformance. **Consumer Staples** was also a significant drag, with SunOpta and Limoneira both experiencing sharp declines. **Industrials** underperformed largely due to Tecnoglass, which faced headwinds from slowing residential construction activity.

## Top Contributors & Detractors

### Top Contributors

**CNX Resources Corporation (CNX)** was our top contributor for the quarter. Natural gas prices rose into the end of the quarter. The gain was largely weather-driven and with \$5/mcf levels viewed as unsustainable in our long-term projections—CNX benefited in the short-term from a favorable near-term pricing backdrop. At the same time, the company continued to execute consistently, delivering on production targets, generating strong free cash flow, and returning capital through a disciplined and accretive share repurchase program, which together supported multiple expansion. The combination of improved commodity sentiment and company-specific execution

proved to be a catalyst for strong stock performance. We remain encouraged by the structural demand drivers for natural gas, which should support higher volumes over time while maintaining prices near historical norms. Given the strength of the move, we elected to realize a portion of our gains during the quarter while maintaining a constructive long-term view on the business.

**Centrus Energy (LEU)** was our top performer for the year as the market increasingly recognized its unique strategic positioning at the nexus of U.S. national security, nuclear energy independence, and next-generation reactor deployment. As the only U.S.-owned and licensed producer of both LEU and HALEU (high-assay low-enriched uranium), Centrus is a critical beneficiary of the structural shift away from Russian nuclear fuel supply and toward domestic enrichment, a theme reinforced by strong bipartisan and Department of Energy support.

Performance was further driven by rising demand expectations tied to advanced reactors and SMRs (small modular reactors), as well as the growing role of nuclear power in supporting AI-driven data center load growth and long-term decarbonization goals.

This thesis was validated when Centrus was awarded approximately \$900 million on January 5, 2026 (subsequent to quarter-end) by the Department of Energy to build out additional enrichment capacity, materially strengthening its long-term earnings visibility and strategic value. Following the significant re-rating, we exited the position in full as we believe a substantial portion of the favorable policy, contract, and growth outlook has now been reflected in the share price.

### Top Detractors

**Grand Canyon Education, Inc. (LOPE)** was our largest detractor during the quarter despite reporting solid operating results that were largely in line with expectations. The stock's weakness was driven less by company-specific fundamentals and more by negative read-throughs from peers and competitors that reported weaker-than-expected enrollment trends, which weighed on sentiment across the for-profit education space. In addition, the potential government shutdown during the quarter created an external overhang, raising concerns around Title IV funding flows and broader regulatory uncertainty, even though LOPE's direct exposure remains limited. These factors contributed to multiple compression and overshadowed the company's strong execution and resilient demand profile. Notwithstanding the recent selloff, we continue to view LOPE as a

high-quality compounder with a compelling long-term growth runway and consistently high returns on invested capital.

**Limoneira (LMNR)** was our top underperformer in 2025 as near-term results failed to reflect the value of long-cycle investments the company has been making for several years, testing investor patience despite a sound strategic foundation. As a 132-year-old California agribusiness and the largest avocado grower in the United States, Limoneira has methodically expanded its avocado acreage, planting roughly 1,500 acres, with approximately 700 acres still progressing toward full production—a process that inherently takes four to five years and cannot be accelerated.

Short-term earnings pressure, combined with the company's restructuring away from lemons to focus on avocados and the conclusion of a strategic review after bids failed to reflect intrinsic value, weighed on sentiment. However, this long-duration capital allocation increasingly looks well-timed given that the U.S. imports roughly 90% of its avocados from Mexico, where cartel-related disruptions, USDA inspection suspensions, and tariff uncertainty have highlighted supply chain fragility. As Limoneira's Southern California orchards approach peak production—maturing during periods when Mexican supply is seasonally constrained—we believe the disconnect between near-term stock performance and long-term asset value underscores exactly the type of patient, hard-to-replicate opportunity we seek to own through difficult periods.

## Strategy Additions & Sales

### New Positions

We initiated positions in several companies during the quarter that align with our focus on quality businesses trading at attractive valuations.

**BioHarvest Sciences Inc. (BHST):** During the fourth quarter, the team initiated a position in BioHarvest Sciences Inc. The BHST story has been on our radar for approximately 18 months, with multiple meetings with the CEO both in person and virtually. The firm participated in the company's recent secondary offering at a discount to its recent trading valuation. BHST's Botanical Synthesis platform is particularly compelling—it grows plant cells in a proprietary BioHarvester for use in food, beverage, pharma, and cosmetics products. This technology enables the mass production of plant phytochemicals without the need for a vast environmental footprint—a

compelling sustainability story. BHST currently generates revenue from its VINIA nutraceuticals franchise, which uses resveratrol derived from grapes to promote strong circulation and other health benefits. We initiated a small initial position and intend to increase it over the next 6–12 months as we see the company execute on its plan. We believe BHST can be a long-term compounder over time.

**Kodiak Gas Services, Inc. (KGS):** We added Kodiak Gas Services, Inc., a leading provider of contract compression services to the exploration and production and midstream energy markets. Founded approximately 15 years ago and remaining founder-led, KGS operates in a consolidated industry with a limited number of scaled competitors and has distinguished itself through innovation, best-in-class training programs, and disciplined capital allocation.

The long-term demand outlook appears favorable, with continued growth in oil and gas production volumes—particularly natural gas—driven by LNG export expansion, rising power demand from data centers, and broader electrification trends. While commodity prices are inherently volatile, we believe volume growth is the more relevant driver for compression demand, which directly benefits KGS. Supported by long-term, take-or-pay style contracts, the company is well positioned to generate durable free cash flow, return capital through dividends and share repurchases, and compound earnings at an attractive and consistent rate over time.

**NPK International Inc. (NPKI):** During the quarter, we added NPK International Inc., a manufacturer, renter, and seller of composite matting solutions primarily serving utility and energy-related end markets. We view NPKI as a differentiated way to participate in the multi-year infrastructure buildout required to support grid expansion, electrification, and energy system upgrades. As new infrastructure is constructed, composite mats provide a stable working surface that protects the environment while offering meaningful advantages over traditional timber mats, including longer useful life, easier transportation, and superior long-term cost efficiency. Following several years of portfolio optimization, NPKI is now at an inflection point, positioned to benefit from incremental capacity additions, internal efficiency improvements, and accelerating customer adoption. Collectively, these factors support improving margins, stronger free cash flow generation, and an attractive risk-adjusted return profile as infrastructure investment continues to scale.

## Additions

We added to our position in **Adeia, Inc. (ADEA)** during the quarter. The stock sold off after its third quarter earnings release when the company announced it had initiated patent infringement litigation against Advanced Micro Devices Inc. (AMD) relating to its hybrid bonding IP. ADEA had believed AMD was ready to sign a license agreement without legal proceedings. Later in the quarter, ADEA and Walt Disney Co. (DIS) entered into a media IP license agreement to settle their prior IP litigation, which lifted the stock again. Please see our “deep dive” on ADEA.

## Reductions and Sales

**HealthStream Inc. (HSTM):** We sold our position in HealthStream Inc. during the quarter. While we believe the company has developed the healthcare industry's largest ecosystem of platform-delivered workforce solutions that empowers healthcare professionals to do what they do best: deliver excellence in patient care, HSTM has faced challenges with commercialization of the offering. We may revisit the stock if we see evidence of commercial traction.

**Integer Holdings Corp. (ITGR):** We sold our position in Integer Holdings Corp. during the quarter. ITGR lowered its revenue and earnings guidance for the fourth quarter and 2026 during its third quarter earnings conference call due to unexpected notification by customers that sales of three new products (two electrophysiology products and one neuromodulation product for an emerging customer) will decline in 2026, given that market adoption of these products has been slower than forecasted. Given ITGR's limited visibility regarding these products, we chose to sell the position.

As noted in Top Contributors, we reduced our position in **CNX Resources (CNX)** following strong performance, locking in gains while maintaining exposure to the natural gas theme. We also sold **Centrus Energy (LEU)** as we believed much of the value had been reached.

## Company Deep Dive: Warby Parker (WRBY)

Warby Parker is a compelling long-term growth opportunity built on a differentiated, vertically integrated eyewear and vision-care platform. The company has significant room to expand both units and economics. It holds roughly 1% share of the \$66 billion U.S. eyewear market and continues to scale its omnichannel footprint. New stores drive higher conversion, more efficient

customer acquisition, and stronger lifetime value—especially as more locations add in-house eye exams and optometrists. Eyewear replacement cycles of two to three years create durable, recurring demand. After recent delays in discretionary purchases, this demand should normalize. WRBY could also benefit in 2026 from larger tax refunds and easing consumer pressure.

A key driver of the earnings inflection is margin expansion. Stores with eye exams consistently generate higher sales per customer. Management is increasing optometrist density across the fleet, improving productivity and fixed-cost leverage. Insurance participation is also rising. Expanded in-network coverage boosts conversion and repeat purchases, particularly for higher-value prescription lenses and contacts. Tariffs have been a headwind due to WRBY's sourcing exposure, but potential removal would provide a meaningful margin tailwind in 2026, accelerating EBITDA (earnings before interest, taxes, depreciation, and amortization) expansion as revenue scales faster than operating costs.

The core business also includes a meaningful call option on smart glasses and AI-enabled eyewear. Warby Parker's design capabilities, retail footprint, and prescription expertise position it well in the emerging smart-glasses ecosystem. This is why Google chose WRBY as its partner for new AI glasses. If smart glasses evolve into mainstream consumer products, WRBY could tap into a higher-ASP (average selling price) category with limited incremental investment, creating asymmetric upside.

The stock may appear expensive on near-term metrics, but few retailers offer a higher-quality or more disciplined store-growth strategy. Warby Parker can fund its entire store expansion through internally generated free cash flow while continuing to invest in optometry services, technology, and customer experience. As stores mature and sales per location rise, operating leverage should strengthen, driving meaningful EBITDA margin expansion. We expect ROIC (returns on invested capital) to inflect and eventually exceed 20% as fixed costs are leveraged and new initiatives scale. We believe today's valuation may prove attractive in hindsight as the market recognizes improving profitability and capital efficiency.

From an ESG perspective, Warby Parker is a certified B-Corporation with one of the highest Net Promoter Scores in global retail, reflecting strong customer satisfaction and brand trust. Its “Buy a Pair, Give a Pair” program has distributed more than 15 million glasses



worldwide, reinforcing its mission-driven culture and long-term brand equity.

## Outlook

Looking ahead to 2026, we are increasingly constructive on both small-cap equities broadly and high-quality small-cap businesses in particular. Small-cap performance in 2025 was largely driven by lower-quality factors—companies with weak fundamentals, negative free cash flow, and speculative characteristics—an environment that historically has proven unsustainable. In contrast, we believe 2026 will mark a rotation back toward fundamentals, with quality small-cap stocks outperforming not only lower-quality peers but also large-cap equities, supported by more favorable macro and earnings dynamics.

A key tailwind entering 2026 is easing monetary policy. The Federal Reserve has begun its rate-cutting cycle, which historically has benefited small-cap stocks. Lower interest rates and a steeper yield curve should disproportionately benefit small-cap companies by improving financing conditions, supporting economic activity, and accelerating earnings growth. Importantly, we expect small-cap earnings growth to outpace large-cap earnings, while valuation dispersion remains compelling: small-caps trade at meaningful discounts to large caps despite greater sensitivity to improving domestic economic conditions. This combination of improving fundamentals and attractive starting valuations creates a favorable setup for relative outperformance.

From a portfolio construction perspective, we are focused on companies that underperformed in 2025 but are positioned to inflect in 2026 as growth reaccelerates and returns on invested capital improve. We are seeing early signs of upward earnings revisions among businesses tied more closely to the real economy, particularly within financials, industrials, and select consumer-facing sectors. Banks should benefit from rate cuts and a steeper yield curve, while investment banks stand to gain from a rebound in M&A activity. In healthcare, while we continue to avoid biotech exposure directly, we favor high-quality MedTech companies and businesses levered to biotech funding activity, which offer durable growth and attractive ROIC profiles.

We are also selectively leaning into more contrarian sector opportunities. Consumer discretionary stands out as a potential beneficiary of higher tax refunds, easing tariff pressures following recent Supreme Court developments, and deferred consumer spending that we

believe could shift into 2026. Industrials tied to infrastructure, manufacturing activity, and domestic investment remain attractive as demand normalizes and capital spending improves. Overall, we believe 2026 presents a markedly better environment for cyclical sectors and companies than defensive ones, and we are positioning the portfolio accordingly—focused on quality businesses at inflection points, improving capital efficiency, and fundamentals that we believe the market has yet to fully discount.

As always, thank you for your trust and confidence and please reach out with any questions.



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

**Small Cap Strategy**  
**Largest Contributors and Detractors – Q4 2025**

**5 Best - Absolute Contribution**

<b>Ticker</b>	<b>Company</b>	<b>Avg Weight</b>	<b>Contribution</b>
CNX	CNX Resources Corporation	4.39%	84 bps
ATMU	Atmus Filtration Technologies, Inc.	4.04%	59 bps
BKH	Black Hills Corporation	4.48%	59 bps
PLMR	Palomar Holdings, Inc.	3.57%	51 bps
ATRC	AtriCure, Inc.	3.55%	45 bps
	<b>5 Best Total</b>	<b>20.03%</b>	<b>298 bps</b>

**5 Worst - Absolute Contribution**

<b>Ticker</b>	<b>Company</b>	<b>Avg Weight</b>	<b>Contribution</b>
LOPE	Grand Canyon Education, Inc.	4.97%	-153 bps
STKL	SunOpta Inc.	2.13%	-104 bps
TGLS	Tecnoglass Inc.	2.93%	-88 bps
ITGR	Integer Holdings Corporation	0.51%	-55 bps
WRBY	Warby Parker, Inc. Class A	2.45%	-51 bps
	<b>5 Worst Total</b>	<b>12.99%</b>	<b>-451 bps</b>

**Disclosures:**

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