RIVERWATER PARTNERS

Q4 2025 Quarterly Commentary

By Adam J. Peck, CFA

Strategy Overview / Performance Summary

The Sustainable Value Strategy underperformed its benchmark, the Russell 2500 Value Index, in the fourth quarter and for the full year. Quarterly underperformance was driven entirely by stock selection, while sector allocation contributed positively. While we are disappointed with the year's results, our investment process remains focused on identifying high-quality companies with strong fundamentals at reasonable valuations. This was not a year in which quality factors performed well.

Having spent more than 25 years in the markets, I can say this has been one of the most challenging environments I've experienced for quality-focused investors. We focus on quality factors—profitability, strong returns on capital, solid balance sheets, and attractive valuations—because over the long term, we believe they will continue to generate superior returns. Over the past decade, these factors have outperformed the majority of the time. Periods favoring low-quality assets, such as the post-Covid rally and the 2021 meme-stock surge, typically last only a few quarters. The last environment most comparable to today, in terms of quality underperformance, was the internet bubble of late 1999 and early 2000.

One example illustrates the current market dynamic. Regenecelle Bioscience (RGC), a Hong Kong–based biotech with no revenues and ongoing losses, now carries a market capitalization exceeding $20 billion. The stock traded near $0.10 in April of 2025 and rose to over $20. It is difficult to believe such returns will be sustainable. When speculative assets lead the market, it can be challenging to remain disciplined. However, as the old adage goes, "this too shall pass." We remain committed to our process and believe quality will ultimately reassert itself.

Top Contributors & Detractors

Top Contributors

Haemonetics Corporation (HAE) was the top contributor in the quarter. It was the worst performer during the 3rd quarter, when the stock sank 33% following a slightly disappointing second quarter report for its Hospital segment and lingering concern by some about the health of its plasma collections equipment business. We had high confidence that the plasma market was returning to its historic high-single-digit growth rate, and that HAE's Hospital portfolio has great potential; therefore, we added to our position. In November, HAE reported strong third quarter results in both its Hospital and Plasma segments, propelling the stock to recoup its prior losses and more. We believe these trends offer opportunities for HAE going forward.

Ciena Corporation (CIEN) was the top performer for the year with a remarkable 176% return. As a leading supplier of optical communications infrastructure, CIEN grew its revenue and EPS during 2025 as its equipment was deployed by the major hyperscalers and telecom service providers to enable movement of data within AI datacenter networks. CIEN's leading position and large backlog should enable the company to continue to benefit from this trend, particularly given that networking is a new key bottleneck for deploying AI widely. We trimmed our CIEN position several times during 2025 when its weight grew above 5%.

Top Detractors

Grand Canyon Education, Inc. (LOPE) was the portfolio's top underperformer in the fourth 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. In addition, potential, and eventual, government shutdown during the quarter created an external overhang, raising concerns around Title IV funding flows, 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 Company (LMNR) declined 14% in the quarter and was our largest detractor for the full year. The agricultural company's stock has been pressured by the cessation of a strategic alternatives review and by weaker cash flows stemming from a reorganization of its citrus business. Despite the disappointing price action, we continue to believe the company's land and water rights are significantly undervalued relative to the current stock price. We expect non-core asset sales in 2026 as well as improved cash flows from its citrus operations.

Strategy Additions & Sales

New Positions

During the quarter, we initiated two positions: **Adeia, Inc. (ADEA)** and **Synovus Financial Corp. (SNV)**.

Our bullish thesis for **Synovus (SNV)** rests on the view that the recent selloff reflects generalized market skepticism toward "merger of equals" bank transactions rather than deal-specific fundamentals. The Pinnacle–Synovus combination creates a top-tier Southeast regional bank with meaningful scale, strong capital, and projected 21% EPS accretion by 2027E alongside a reasonable tangible book value earnback of roughly 2.6 years, metrics that compare favorably to historical regional bank M&A outcomes. Importantly, this skepticism overlooks the fact that management teams at both institutions are widely regarded by Wall Street as best-in-class, with long track records of disciplined growth, strong risk management, and peer-leading profitability. The transaction structure preserves cultural alignment, limits operational overlap, and targets conservative, high-conviction cost synergies.

With execution milestones met and earnings accretion emerging, SNV shares appear poised to re-rate, offering attractive upside as merger uncertainty fades. The bank currently trades at a significant discount to its historical multiples on both P/E and P/TBV.

We initiated a position in **Adeia, Inc. (ADEA)** in the fourth quarter. ADEA licenses intellectual property (IP) to its customers for use in their media and semiconductor products and services. Spun out of Xperi Inc. (XPER) in 2022, ADEA has a broad range of media customers as licensees. Additionally, hybrid bonding is becoming a key technology used by semiconductor manufacturers as complexity increases. ADEA's IP is currently licensed by the major memory players, with several logic players also interested. See our Company Deep Dive below for additional detail.

Position Exits

We exited two positions during the quarter:

Cinemark Holdings, Inc. (CNK) was originally purchased on the view that normalized box office trends, improving studio release slates, and disciplined cost control would drive meaningful free cash flow inflection and balance sheet deleveraging. However, we exited the position as fourth-quarter box office results materially underperformed expectations. In addition, increasing strategic uncertainty, specifically the prospect of Netflix acquiring Warner Bros., represents a potential structural overhang for the exhibition industry by accelerating direct-to-consumer distribution and weakening the long-term negotiating position of theaters. While Cinemark remains a well-run operator, these factors materially reduced our conviction in the medium-term earnings power and risk-adjusted return profile of the stock.

Marex Group PLC (MRX) was held as a high-quality, diversified financial services platform with earnings resilience and strong performance in periods of elevated market volatility. We exited the position as the stock's more defensive profile reduced near-term upside in a constructive market environment, despite continued solid operating fundamentals. Additionally, a recently published short report has introduced an overhang that could weigh on investor sentiment and valuation for several quarters, regardless of underlying results. We continue to view Marex favorably on a longer-term basis and would consider revisiting the stock once these technical and perception-driven headwinds begin to clear.

Company Deep Dive: Adeia, Inc. (ADEA)

ADEA is a "practicing" or research-based licensing entity that invests in innovations and advanced research and development (R&D) to create market-leading technologies in its key areas of focus (media and semiconductors). ADEA has 138 employees, 60% of which are PhDs with 50–100 patents on average; the top engineer has 650 patents, approaching Edison-level prolificacy. The company has developed over $500M of R&D since 2010.

Media: Within Media, ADEA's intellectual property portfolio includes more than 9,500 worldwide patents that underpin how entertainment is developed, delivered, and consumed. The portfolio spans traditional Pay TV, streaming/OTT, and interactive and immersive experiences. ADEA's patents touch nearly every aspect of the smart home ecosystem—from devices such as connected TVs and smartphones to core enabling technologies, including guidance, discovery, search, recommendations, multi-screen functionality, personalization, data analytics, advertising, computer vision, content storage, and AI.

Semiconductors: Hybrid bonding (HB), pioneered by ADEA, is a direct bonding technology that interconnects wafer-to-wafer, die-to-wafer, and die-to-die at an ultra-fine pitch without the need for solder or other adhesives. ADEA has consistently been at the forefront of pioneering and enhancing hybrid bonding technology, which is emerging as an ideal solution to meet the requirements for high-density semiconductor structures and next-gen logic devices. This TAM (Total Addressable Market) could conservatively reach $250M+ by the end of the decade.

Financial Outlook: These dynamics translate to ~10% recurring revenue growth in 2026 and 2027. Combined with modest operating expense growth, we expect a run rate exiting 2027 of non-GAAP EPS of ~$2.00 (~$440 million recurring annualized sales) on track to approach $3.00 non-GAAP EPS by the end of the decade. Additionally, with more than $150 million of annual free cash flow, we continue to expect ADEA to pay down debt, buy back stock, and pursue opportunistic M&A and adjacent third-party IP portfolio acquisitions. These projections reflect our internal estimates and are subject to change based on company execution and market conditions.

Valuation: At the time of purchase, ADEA shares were trading at 4.5/4.3x 2025/2026 sales and 9.6/9.0x 2025/2026 EPS vs the average of its comps trading at 9.3/10.2x revenue and 34.9/39.7x EPS. If ADEA executes well, this valuation gap should close.

Responsible Business: ADEA's responsible business practice includes a materiality assessment, focus on an equitable and inclusive corporate culture, strong attention to cybersecurity, and significant energy consumption and greenhouse gas emission reduction in the products that incorporate its IP.

Outlook for 2026

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.

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).

Sustainable Value Strategy

Largest Contributors and Detractors – Q4 2025

5 Best - Absolute Contribution

Ticker	Company	Avg Weight	Return
HAE	Haemonetics Corporation	3.51%	+64.4 bps
CIEN	Ciena Corporation	3.03%	+60.5 bps
JLL	Jones Lang LaSalle Incorporated	3.50%	+12.8 bps
MDU	MDU Resources Group, Inc.	3.27%	+10.4 bps
EXEL	Exelixis, Inc.	4.21%	+6.1 bps

5 Worst - Absolute Contribution

Ticker	Company	Avg Weight	Return
LOPE	Grand Canyon Education, Inc.	4.52%	-24.2 bps
TGLS	Tecnoglass Inc.	2.34%	-24.6 bps
LMNR	Limoneira Company	2.99%	-14.0 bps
DGX	Quest Diagnostics Incorporated	3.78%	-8.5 bps
CNK	Cinemark Holdings, Inc.	1.61%	-15.9 bps

Disclosures:

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