Q1 2026 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 first quarter. Quarterly underperformance was driven entirely by stock selection, while sector allocation contributed positively. While we are disappointed with the start to the year, our investment process remains focused on identifying high-quality companies with strong fundamentals at reasonable valuations.

The quarter was truly a tale of two halves. The small-cap market got off to one of its strongest starts in history with an 11.1% return through February 20th. The strategy did not keep up and trailed the benchmark by over 5% in that short time span. Once hostilities began at the end of February, our relative performance improved with strong relative downside protection.

The messages out of the White House whipped markets around on an almost daily basis. One day messages of peace and the next day, the exact opposite. While we were getting very close to even against our benchmark by quarter's end, a monster rally on March 31st (based on the President's tweets) dashed our hopes of getting ahead.

Top Contributors & Detractors

Top Contributors

Plexus (PLXS) was the top contributor in the first quarter. The company reported a very solid fiscal Q2, with strength coming in all segments. PLXS has experienced significant momentum in its Industrial segment, with continued robust semiconductor capital equipment orders and new wins with a robotics customer. Health care also performed well, with new orders in surgical and monitoring devices. PLXS continues to be an exceptional operator, leveraging AI for process improvement, driving returns on invested capital to near record levels.

Top Detractors

Haemonetics Corporation (HAE) was the top detractor in the first quarter (after being the top contributor in the fourth quarter of 2025). It was also the worst performer during the third quarter of 2025. HAE has two main businesses: selling equipment and disposables into plasma collection centers; and selling devices into the vascular surgical market. While it has required patience, something investors are short on, HAE's position in the plasma market is seeing strength, with growing collection volumes, share gains, and favorable pricing, returning this business to growth for the first time in two years. The interventional cardiology business has been challenged by increased competition. HAE has invested in its commercial team and has begun to see share gains again. We feel confident that HAE will compete well fundamentally, and hopeful that the market will give them credit for it.

Strategy Additions & Sales

New Positions

During the quarter, we initiated five positions: Leggett & Platt, Inc. (LEG), Sprouts Farmers Market, Inc. (SFM), Methanex (MEOH), Dick's Sporting Goods (DKS) and Jack Henry & Associates (JKHY).

Leggett & Platt, Inc. (LEG) is a diversified manufacturer of engineered components for bedding, furniture, and automotive markets. We'd wager that at least one bed in your home contains Leggett components — at 50% market share, the odds are squarely in our favor.

With a veteran CEO returning, the company recently completed a major restructuring expected to generate meaningful annual cost savings, while deleveraging through asset sales and a reduced dividend. The stock has sold off to multi-decade lows as cyclical weakness across its end markets has pressured earnings.

LEG trades at less than 10x 2026 estimated earnings vs. historically trading at over 17x. We are confident in the underlying business given its durable market leadership, vertically integrated supply chain, strong free cash flow generation (it trades at a double digit free cash flow yield), and potential positive turn in the mattress industry. Furthermore, the recent unsolicited takeover bid from Somnigroup underscores the significant value not reflected in the current stock price.

Sprouts Farmers Market, Inc. (SFM) is a specialty grocery retailer focused on fresh, natural, and organic foods. Its unique health-focused stores built around its farm-stand heritage differentiate it from conventional grocers and position it to capitalize on the secular consumer shift toward better-for-you food. With stores in 25 states nationwide, the company is executing a long-term ~10% store growth algorithm, including into underpenetrated markets across the Northeast and Midwest.

The stock retreated meaningfully from its 2025 peak as comparable store sales decelerated due to macro-driven consumer caution. We are confident in the underlying business given its best-in-class gross margins, curated product selection driving customer loyalty, and improving fundamentals through private label expansion and supply chain self-distribution. We like that it trades at a below market multiple of 13.9x 2026 estimated earnings, but still is on track to continue its double digit earnings growth algorithm.

Methanex (MEOH) is the world's largest producer and distributor of methanol. We believe the stock is well positioned to benefit from a tightening global supply-demand backdrop, particularly in light of escalating conflict in the Middle East. The company's global production footprint and integrated logistics network provide a structural advantage in supplying customers during periods of disruption.

Recent geopolitical developments—specifically reduced Iranian supply and broader regional instability—are already contributing to higher methanol pricing. Importantly, this dynamic is occurring against a backdrop of structurally constrained supply and steady demand growth across industrial and energy-related applications, suggesting pricing strength may be more durable than typical cyclical spikes. It trades at 10.7x estimated 2026 earnings.

From a responsible business perspective, we believe that Methanex stands out within the chemicals sector. It has industry-leading safety performance, no major environmental incidents in recent years, and meaningful progress on emissions intensity reduction ahead of stated targets. The company is also actively investing in lower-carbon methanol pathways, including biomethanol and carbon capture initiatives, positioning it to participate in longer-term decarbonization trends such as marine fuel transition.

Dick's Sporting Goods (DKS) presents what we see to be a compelling investment case driven by a combination of cyclical tailwinds and company-specific execution. On the demand side, higher tax refunds relative to last year should provide incremental support to discretionary spending, particularly in categories such as athletic apparel, footwear, and equipment, where DKS has strong market positioning. This is further amplified by the upcoming 2026 FIFA World Cup in the United States, which is expected to drive increased participation and consumer interest in soccer and related sporting categories, creating a multi-quarter demand tailwind. It trades at 14.9x estimated 2026 earnings.

Importantly, DKS is also well positioned to benefit from improving industry dynamics, including a potential turnaround at Foot Locker in the second half of 2026. This could help stabilize key vendor relationships—most notably with Nike—and lead to a more rational promotional environment across athletic retail. While near-term consumer headwinds remain, we believe DKS's differentiated merchandising strategy, premium store experience, and strong relationship with youth sports position the company to capture outsized share as conditions normalize, supporting continued margin resilience and long-term earnings growth.

Jack Henry & Associates (JKHY) represents what we consider to be a high-quality compounder that we find to be recently more attractive following a valuation reset driven by broad-based concerns around AI disruption in financial technology. JKHY provides backend technology for small and medium sized banks. We believe the sell-off has been largely indiscriminate, creating a rare opportunity to acquire a mission-critical, deeply entrenched business at a meaningful discount to its historical valuation. We also believe their largest competitor will force RFPs to Jack Henry as they are consolidating platforms which can cause havoc for customers. This could create a very compelling opportunity to take market share.

JKHY's competitive moat remains intact, underpinned by several durable advantages: a highly regulated end market, long-standing customer relationships with community and regional banks, and deep integration within clients' core processing and digital infrastructure. These systems are not easily displaced, given high switching costs, regulatory complexity, and the operational risk associated with transitioning core banking platforms.

While the market has questioned the long-term impact of AI on traditional fintech providers, we view JKHY as a beneficiary rather than a casualty, given its role as a trusted technology partner and data steward within the banking ecosystem. With strong recurring revenue, high retention rates, and consistent free cash flow generation, JKHY offers a compelling combination of resilience and long-term growth, particularly at current valuation levels which we believe understate the durability of its business model.

Exits

We exited several positions during the quarter, reflecting our ongoing discipline around valuation, portfolio fit, and risk management.

We sold our position in **Amdocs (DOX)** as we chose to redeploy capital toward names with more attractive upside.

Our exit from **Ciena (CIEN)** came early in the quarter. The market cap blew past $50 billion (it is now $66 billion) and was added to the S&P500. Ideally every company we sell would be for this reason.

Federal Agricultural Mortgage (AGM) was sold in several tranches through the quarter. The agricultural lending environment has remained stable, but we felt there is more upside in JKHY.

We closed our position in **Lazard (LAZ)**. With the M&A cycle showing potential signs of slowing and two record-breaking IPOs stealing share, we felt the stock was pricing in a more optimistic capital markets environment than we were prepared to underwrite.

Our position in **Western Alliance Bancorp (WAL)** was liquidated in early March. The bank had been a strong holding for us, but we became nervous with their large loan balances to non depository financial institutions and credit issues with First Brands.

Company Deep Dive: Century Aluminum Company (CENX)

CENX is the largest domestic producer of primary aluminum in the United States, operating smelters in Kentucky, South Carolina, and Iceland with combined annual production capacity of approximately 770,000 tonnes. Glencore plc is the largest shareholder at approximately 30% beneficial ownership[1] and also the company's largest customer (54% of 2025 sales).[2]

U.S. Primary Aluminum

The U.S. went from producing 4.65 million tonnes of primary aluminum at 33 smelters in 1980 to approximately 670,000 tonnes at just 4 operating smelters today — a collapse from 33% of global output to under 1%.[3] The country now relies on imports for roughly 60% of its aluminum consumption.[4] Section 232 tariffs (currently 50% on imports) create a meaningful domestic price premium for U.S. producers. LME aluminum prices have risen above $3,300/ton[5] on tightening global supply, with Chinese production capped at 45 million tonnes and Gulf smelter capacity at risk from geopolitical disruption in the Strait of Hormuz — a dynamic we have termed the "Fog of Excursion" thesis.

Oklahoma Mega-Project

In January 2026, Century announced a landmark joint development agreement with Emirates Global Aluminium (EGA) to build a 750,000-tonne-per-year primary aluminum smelter in Inola, Oklahoma — the first new U.S. smelter since 1980. Century will own 40% of the joint venture, supported by a $500 million DOE grant.[6] This single project would more than double current U.S. primary aluminum production and represents a decade-long growth runway. Construction is expected to begin late 2026, with first production by the end of the decade.[7]

Financial Outlook: Century reported full-year 2025 adjusted EBITDA of $425.1 million on $2.53 billion of net sales.[8] Management guided Q1 2026 adjusted EBITDA of $215–235 million, implying an annualized run rate approaching $900 million as higher LME pricing flows through on a lagged basis.[9] Near-term catalysts include the Mt. Holly capacity restart (50,000+ tonnes, targeting full production by June 2026),[10] Grundartangi Line 2 recovery to near-full output by July 2026,[11] and the Hawesville smelter monetization ($200 million cash plus a 6.8% equity stake in a TeraWulf-developed data center project).[12] Each $100/ton movement in LME aluminum has an estimated $60–70 million annualized EBITDA impact.[13] These projections reflect our internal estimates and are subject to change based on company execution and market conditions.

Valuation

At the time of purchase, CENX shares were trading at approximately 6.1x our 2026E EBITDA and roughly 2.1x trailing twelve-month sales. Metals & Mining comps typically trade at 4.0–6.0x EBITDA, but CENX arguably warrants a premium given the structural growth optionality from the Oklahoma mega-project — which at mid-cycle prices could contribute $300–400 million in proportional EBITDA by decade-end.[14] We believe the market is assigning minimal value to the Oklahoma project and the broader reindustrialization narrative.

Responsible Business

Century's Grundartangi smelter in Iceland runs on nearly 100% renewable energy (geothermal and hydroelectric), producing the company's "Natur-Al" branded low-carbon aluminum for the European market. The Oklahoma project's potential to secure clean energy from wind and solar sources could make it the cleanest large-scale smelter in U.S. history. Century's role in reducing American dependence on imported aluminum from higher-carbon foreign sources provides an additional sustainability dimension. We note that the company disclosed a material weakness in internal controls over financial reporting related to a 2023–2025 restatement, which is being actively remediated.[15]

2026 Outlook

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.

We still believe that the artificial intelligence (AI) buildout has a number of innings left in it. We are exposed predominantly through industrial holdings, but also have exposure in technology and utilities. The excursion in the Middle East will likely drive markets through the rest of the year. We have made adjustments based on how we anticipate supply disruptions playing out and remain vigilant in understanding how long-term fundamentals of many commodity markets play out.

Thank you for your trust and confidence.

Adam J. Peck, CFA
Founder & CIO

[1] SEC Schedule 13D/A (Mar 27, 2026): Glencore plc beneficially owns 29.99% based on 98,969,007 shares outstanding.
[2] Century Aluminum 10-K and Q4 2025 earnings call.
[3] Light Metal Age (Mar 2025); USGS historical data; Aluminum Association.
[4] USGS Mineral Commodity Summary 2024; CRS Report R47294.
[5] CNBC (Mar 30, 2026): LME aluminum at $3,492/ton; management cited $3,300/ton on Q4 2025 earnings call.
[6] Oklahoma Department of Commerce press release (Jan 27, 2026); DOE Office of Clean Energy Demonstrations (Feb 10, 2026).
[7] Mining.com (Mar 4, 2026).
[8] Century Aluminum SEC Form 8-K, Q4 2025 earnings release (Feb 19, 2026).
[9] Riverwater Partners internal estimate based on annualizing Q1 2026 midpoint guidance.
[10] Manufacturing Dive (Aug 11, 2025); Fintool (Jan 29, 2026).
[11] Insider Monkey / BMO Capital (Mar 11, 2026).
[12] Century Aluminum SEC Form 8-K (Feb 2, 2026); Globe and Mail (Feb 3, 2026).
[13] Century Aluminum management commentary, Q4 2025 earnings call.
[14] Riverwater Partners PIC estimate. Subject to execution risk and power contract terms.
[15] Century Aluminum Q4 2025 10-K filing; Deloitte adverse opinion on internal controls.

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

Sustainable Value Strategy

Largest Contributors and Detractors — Q1 2026

5 Best - Absolute Contribution

Ticker	Company	Avg. Weight	Contribution
PLXS	Plexus Corp.	4.26%	1.31%
EVR	Everus Construction Group, Inc.	3.77%	1.12%
ADEA	Adeia Inc.	2.78%	0.93%
RRC	Range Resources Corporation	2.79%	0.69%
AZZ	AZZ Inc.	4.17%	0.59%

5 Worst - Absolute Contribution

Ticker	Company	Avg. Weight	Contribution
HAE	Haemonetics Corporation	3.30%	-1.16%
DOX	Amdocs Limited	2.17%	-0.50%
ICFI	ICF International, Inc.	2.13%	-0.49%
SKWD	Skyward Specialty Insurance Group, Inc.	2.35%	-0.41%
LAZ	Lazard Inc	2.14%	-0.40%

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