

MICRO OPPORTUNITIES STRATEGY

Q3 2026 Quarterly Commentary

By Nathan Fredrick, CFA

Strategy Overview / Performance Summary

The Micro Opportunities Strategy outperformed its benchmark in the third quarter of 2026, declining less than the broader micro-cap market during a difficult period marked by a sharp unwind of the artificial intelligence (AI) trade. While absolute returns were negative, we believe our emphasis on quality businesses and valuation discipline helped cushion the drawdown. The quarter's relative gains narrowed the gap that opened earlier in the year, though the strategy continues to trail its benchmark on a year-to-date basis.

Stock selection was the primary driver of the quarter's relative results, with our holdings in Information Technology, Consumer Discretionary, and Materials meaningfully outpacing their sector peers. These gains more than offset a negative allocation effect, most notably from our overweight to Consumer Staples, a sector that came under pressure from rising input costs. Disappointing selection within Industrials, our largest sector weight, was the single biggest drag on relative performance.

Market Context

Micro-cap stocks declined over the third quarter as investors unwound much of the enthusiasm that had built around the AI and data center buildout during the first half of the year. Information Technology was the weakest corner of the micro-cap universe, and the selling spilled into semiconductor and power-infrastructure names that had led the market earlier in 2026.

The macro backdrop offered few clear signals. An early-August employment report showing job losses reinforced expectations, at the time, that the Federal Reserve would hold rates steady, a development markets initially greeted as good news. Meanwhile, oil prices climbed through the quarter and accelerated in September amid renewed disruptions in the Middle East, leaving Energy as one of the few areas of the micro-cap market to hold its ground. Consumer Staples, typically a defensive refuge, offered little

shelter this quarter as rising food input costs raised questions about gross margins across the group.

Sector Highlights

Information Technology was our strongest sector relative to the benchmark. We were underweight in a sector that sold off sharply on fading AI-related enthusiasm, and stock selection added further, led by **Red Violet (RDVT)** and **Climb Global Solutions (CLMB)**. Consumer Discretionary and Materials also benefited from favorable stock selection, with **Uranium Royalty (UROY)** standing out.

Industrials, also caught up in the AI unwind, was the largest detractor. We hold a meaningful overweight to the sector, and several holdings, including **NPK International (NPKI)**, **Heartland Express (HTLD)**, and **Douglas Dynamics (PLOW)**, declined by more than 20% during the period. Heartland Express and Douglas Dynamics have no AI exposure but were hurt by rising diesel prices. Consumer Staples was the second-largest detractor, driven primarily by our overweight to a sector that fell sharply amid input-cost inflation, led by declines in **Mama's Creations (MAMA)** and **Lifeway Foods (LWAY)**. We have recently begun to see input-cost relief at both companies, which we believe should support improving results.

Top Contributors

Red Violet was our top contributor in the third quarter, with shares gaining roughly 24% after the company reported a record second quarter in August. Revenue grew 23% to \$26.7 million, while adjusted EBITDA rose 48% and adjusted EBITDA margin expanded seven percentage points to a record 42%, which we believe demonstrates the operating leverage built into its identity intelligence platform. Growth was broad-based: four of its five verticals reached all-time highs, and the company added a record 447 customers to its IDI platform. Its FOREWARN product, already contracted with 660 REALTOR® associations at a 100% renewal rate, expanded into home healthcare, a market of roughly 4 million home health aides. Management also pointed to a rapidly

growing enterprise pipeline, highlighted by a win at one of the country's largest law enforcement agencies, where Red Violet displaced a major incumbent that, according to management, had offered a last-minute price cut to keep the business.

Uranium Royalty, also ranked among our top contributors, rose roughly 45%. In late July, the company completed its transformational combination with Sweetwater Royalties, a privately held land and mineral royalty company. The transaction redomiciled the company in the United States with a sole Nasdaq listing and added a portfolio of long-life soda ash royalties in Wyoming's Green River Basin. The company describes the basin as the world's largest known trona deposit, with operators it places at the low end of the global cost curve. Those royalties provide steady cash flow that Uranium Royalty can use to fund additional uranium royalty acquisitions. The combined company also reports that it is now the largest landowner in Wyoming, with more than 5 million acres of surface and mineral rights that offer further optionality across uranium, oil and gas, and critical minerals. It has already leased roughly 38,000 acres for oil and gas exploration.

The backdrop for uranium also strengthened, with long-term contract prices moving higher as utilities continued to secure supply for a growing global nuclear fleet. We believe the transaction meaningfully de-risks the business by pairing its uranium focus with durable domestic cash flow, and Uranium Royalty remains one of our preferred ways to gain long-term exposure to the nuclear energy buildout.

Top Detractors

NPK International was the largest detractor during the quarter, with shares declining roughly 28% after a run-up over the prior year. NPK manufactures and rents composite matting that provides temporary site access for heavy equipment. Utility customers account for an estimated 60% of its revenue, primarily for power transmission projects. Management cites rising electricity demand from data centers among the drivers of the multi-year grid buildout behind its growth, and the stock has increasingly traded as part of the AI power-infrastructure complex. As enthusiasm for AI unwound during the quarter and investors sold power-infrastructure names broadly, NPK fell with the group, as rising long-term rates also weighed on utility-related stocks.

The decline came despite strong fundamentals. Second-quarter revenue grew 20% and adjusted EBITDA grew 37% on record rental revenue, and management raised its full-year EBITDA guidance. However, management left its revenue outlook essentially unchanged and guided to a seasonally softer third quarter as several large projects demobilized and product sales normalized from an exceptionally strong second quarter. We view the decline as a sentiment problem rather than a business problem. Transmission spending is also driven by aging infrastructure, grid hardening, and the need to connect new generation to data centers. NPK carries minimal debt, and its planned 50% manufacturing capacity expansion, on track for mid-2027, positions it to capture a buildout that its utility customers expect to last well beyond the end of the decade.

Mama's Creations also meaningfully detracted, giving back roughly 28% after the shares had nearly doubled over the prior twelve months. Following a recent equity offering, investors focused on the risk that inflationary inputs and the ramp of new products could pressure gross margins in the near term. Based on our conversations with management and industry analysts, we believe top-line momentum remains strong and operating margins should continue to improve, and we hold management in high regard. Given the size the position had reached and the near-term margin uncertainty, we trimmed our holding during the quarter.

Portfolio Changes

New Positions

We initiated a position in **908 Devices (MASS)**, a maker of portable chemical detection instruments used by hazmat teams, law enforcement, firefighters, and the military. The company recently completed a strategic pivot, selling its cash-consuming bioprocessing business and emerging as a focused, debt-free company with a strong cash balance. Its devices combine mass spectrometry, infrared, and Raman analysis in handheld form, and we believe its flagship mass spectrometry product holds a meaningful size, speed, and cost advantage over the nearest competing portable device. Upcoming catalysts include a next-generation version of that flagship device at roughly half the weight and cost of the current model, which we expect to drive a replacement cycle, and a potential multi-year military

program that we view as a call option. Management, led by a founder who previously sold a business to a large life sciences company, has executed well on the turnaround, and the company is approaching breakeven profitability. The shares trade at a discount to the valuation implied by a recent transaction in portable detection.

We initiated a position in **Gold.com (GOLD)**, formerly A-Mark Precious Metals and a past holding of the strategy. The company rebranded and moved to the NYSE late last year. We believe Gold.com is the only fully vertically integrated precious metals platform in the U.S., spanning two company-owned private mints, a wholesale desk that is among the largest buyers of U.S. Mint products, roughly 15 direct-to-consumer brands led by JM Bullion, and storage, logistics, and secured lending. The direct-to-consumer business has grown to 4.7 million customers and now generates roughly half of gross profit at margins several times those of wholesale, while a newer push into numismatics and collectibles through Stack's Bowers and GOVMINT adds a higher-margin leg we believe the market largely overlooks. A strategic partnership with Tether provides a low-cost gold leasing line and new digital channels, and on its most recent call, management noted that leasing activity is already running at a multiple of initial expectations. Near-term results have softened as bullion spreads normalized from their early-2026 peak and volumes declined, but with the shares well off their February highs and trading near 1.5x book value, we see an attractive entry point into a structurally improving business.

We initiated a position in **AnaptysBio (ANAB)**, which, following the April separation of its drug development pipeline into First Tracks Biotherapeutics, is now essentially a royalty company rather than a traditional biotech. Its core asset is a tiered 8% to 25% royalty on worldwide sales of GSK's cancer immunotherapy Jemperi, whose sales grew 34% year over year in the first half of 2026. GSK expects peak monotherapy sales above \$2.7 billion, which AnaptysBio estimates could translate into more than \$390 million in annual royalties as early as 2029, once a royalty monetization agreement is paid down in 2027. Near-term catalysts include an FDA decision on Jemperi in rectal cancer expected by February 2027 and a December 2026 decision on Quimilza, a second royalty-bearing drug partnered with Vanda. AnaptysBio is also in litigation with GSK

over alleged breaches of their collaboration agreement, with a ruling expected in late 2026 or early 2027. We view the potential outcomes as asymmetric: the status quo leaves a growing royalty stream we believe is undervalued, while a settlement or a reversion of Jemperi rights could add meaningful value. GSK's past attempts to acquire the royalty also underscore its value.

We initiated a position in **Bowhead Specialty Holdings (BOW)**, a specialty insurer founded in 2020 by industry veteran Stephen Sills. Bowhead focuses on casualty excess and surplus lines, the corner of the property and casualty market that has retained the most pricing power as the broader commercial market softens. Its partnership with American Family, which issues policies on Bowhead's behalf and has been a shareholder since inception, allowed it to scale rapidly without the capital a start-up insurer would normally require. After a sector-wide de-rating, the shares traded well below their 2025 highs at a valuation we viewed as reasonable for a franchise compounding book value at roughly 20% annually. In early August, alongside second-quarter results, American Family agreed to acquire the shares it did not already own for \$34.00 per share in cash.

Position Sales

We exited **Coastal Financial (CCB)** in July. Our thesis rested on its role as a banking partner to fintech companies and the operating leverage those partnerships were expected to deliver this year. Instead, investment in those relationships has weighed on profitability, the company's recently hired CFO departed, and an easing regulatory environment is encouraging some fintech partners to pursue their own bank charters, a potential long-term headwind. With the stock lagging other banks and the accumulating news pointing to a more difficult path than we originally expected, we chose to move on.

We exited our position in **Tecnoglass (TGLS)** during the quarter. The company continues to execute well commercially, with record second-quarter revenue, double-digit growth in both its residential and commercial businesses, and a record backlog. However, margins have come under pressure from forces largely outside management's control, including elevated aluminum costs, new Section 232 tariffs on aluminum-based products, and a Colombian peso that strengthened beyond the company's assumptions, which led management to revise its full-

year outlook. While pricing actions and automation should help in the second half, we believe the path back to its historical margin profile is now longer and less certain, and we chose to redeploy the capital into businesses with clearer earnings visibility.

We exited **Mayville Engineering (MEC)** following its second-quarter report. Demand improved in its commercial vehicle and data center end markets, but those wins came at a cost. Launch and outsourcing expenses tied to new data center programs compressed adjusted EBITDA margins year over year, management expects those pressures to persist through the second half, and free cash flow remained negative. The company also issued roughly \$94 million of new equity to pay down debt, diluting existing shareholders. With the earnings recovery we had underwritten pushed further out and the balance sheet requiring outside capital, we decided to sell.

We also exited **American Vanguard (AVD)**, a turnaround investment we initiated last year following the arrival of a new CEO. Management has made real progress on reducing costs and inventory, but second-quarter sales declined, adjusted EBITDA fell meaningfully year over year, and the net loss widened as distributors, retailers, and growers continued to order cautiously amid ongoing pressure on agricultural markets. Although management reaffirmed its full-year outlook, reaching it requires a substantial improvement in the second half, and we concluded the turnaround is likely to take longer than we had anticipated.

Holdings Deep Dive: Miller Industries

Miller Industries (MLR) describes itself as the world's largest manufacturer of towing and recovery equipment. Founded in 1990 by William G. Miller and headquartered in Ooltewah, Tennessee, the company is now led by his son, CEO William G. Miller II. Miller designs and builds the bodies for car carriers, light- and heavy-duty wreckers, rotators with lifting capacities of up to 100 tons, and multi-vehicle transport trailers. The bodies are installed on chassis supplied by third-party truck makers. Its brands include Century, Holmes, Challenger, Champion, Chevron, Vulcan, Jige, and Boniface, and it added Italy's Omars through an acquisition in December 2025. The company manufactures in Tennessee, Pennsylvania, France, the United Kingdom, and Italy, and sells through roughly 74 independent distributor

locations covering all 50 states, Canada, and Mexico, along with about 50 international distributors. Revenue was \$790 million in 2025.

We view Miller as a category leader with a durable moat in an essential, steady market. We believe the company holds a leading share across its product line, and management estimates that more than 90% of its independent distributors carry no competing manufacturer's equipment, even though most of its contracts do not require exclusivity. That level of channel loyalty is rare in industrial equipment. The Holmes and Century brands pioneered several of the industry's defining innovations, including the rapid reverse winch, the tow sling, and the underlift with parallel linkage and L-arms.

Demand for tow trucks is driven by accidents, breakdowns, miles driven, and an ever-older vehicle fleet rather than by the economic cycle. In our view, the 2025 downturn was an inventory correction as distributors worked down excess stock, not a decline in end demand. Miller's scale allows it to absorb tariff and emissions-compliance costs better than smaller rivals, and it is funding a roughly \$100 million, 200,000-plus-square-foot expansion in Ooltewah largely from operating cash flow, with production readiness targeted for late 2027. Military recovery-vehicle commitments now exceed \$200 million, with production beginning in 2027 and most revenue recognized in 2028.

We believe the shares are priced on trough earnings, with a recovery already underway. Diluted earnings per share fell from \$5.47 in 2024 to \$1.98 in 2025, and revenue declined 37%, as Miller deliberately cut production to clear excess distributor inventory. With channel inventory now back to normal, the recovery is visible in results: earnings per share rose to \$0.63 in the second quarter on revenue of \$240 million, well ahead of consensus expectations. That compares with \$0.05 in the first quarter of 2026, which absorbed roughly \$0.13 per share of non-cash charges related to the Omars acquisition. Management expects revenue of approximately \$250 million per quarter in the second half of the year, supported by a 3% price increase effective August 1. At the quarter-end price of \$52.61, the shares trade at about 27x depressed 2025 earnings but under 10x 2024 earnings and about 13x average earnings for 2023–2025.

As a simple illustration, if earnings were to recover half of their decline from the 2024 peak, the shares

would trade near 14x, before any contribution from new capacity or military revenue. The path is not without risk: distributor ordering can be cyclical, chassis availability and tariff costs remain variables, and the company must execute on its new plant and military program, but we believe the risk/reward is attractive at current levels.

Miller's sustainability strengths center on investment in its people and the road-safety role of its products. The company runs an in-house Welding School and a Weld Academy that recruits high school vocational students and retired military veterans into skilled manufacturing careers, along with a Front-Line Leadership Academy and tuition reimbursement for undergraduate and graduate degrees. It also maintains an educational fund that provides scholarships to employees' children and grandchildren.

Outlook

Heading into the fourth quarter, uncertainty is higher than at any point this year. Earlier in the year, markets appeared to have moved past the initial energy shock, with a ceasefire and a memorandum of understanding restoring a risk-on tone. That calm proved short-lived. Renewed disruptions in the Middle East, including a mid-September attack on a major Saudi pipeline, sent oil back above \$100 per barrel, and the inflationary pressure that followed has reshaped the rate outlook. Long-term interest rates have moved significantly higher, and a Federal Reserve that entered the year with a dovish bias has turned decidedly hawkish, with markets now bracing for a rate-hiking cycle.

Sentiment toward AI has shifted as well. The AI trade that led markets for much of the year has met more aggressive pushback, with investors selling first and asking questions later, even as the underlying fundamentals of many of these businesses remain sound. Our limited exposure to AI-linked technology names cushioned the strategy during the quarter. In the micro-cap market, where liquidity is thinner, this kind of indiscriminate selling can push quality businesses well below what their fundamentals justify, and we are watching closely for those opportunities as the dust settles.

From a sector standpoint, conviction is difficult to come by, as the areas that would typically offer shelter are not acting defensively:

- Utilities have moved lower as rising rates weigh on their appeal as bond proxies, even though their underlying fundamentals have not deteriorated.
- Consumer Staples, a meaningful overweight for the strategy and an area we had been adding to as a defensive way to maintain consumer exposure, is seeing margins pinched by inflation in key inputs while retailers push back on price increases.
- Insurance companies, after raising prices significantly over the last several years, are now operating in a softer pricing environment.

Health Care is the exception. A broader rotation into the sector has taken hold, and it was one of the few areas of the market that held its uptrend through the quarter. We remain underweight Health Care relative to the benchmark, largely because we avoid early-stage, binary biotech. However, we see good visibility into the businesses we own there, many of which are supported by multi-year product cycles, replacement demand, and recurring revenue that are largely insulated from swings in oil prices and interest rates. We added to our exposure during the quarter.

The bottom line is that in an environment like this one, our job is not to predict the next move in oil or the next decision from the Fed. It is to find high-quality businesses that have been sold off and now trade at attractive valuations. When we can identify companies with good visibility into their business and confidently underwrite their earnings into the future, we believe we can ride out the storm and be well positioned when it passes. Our activity this quarter reflects that approach. 908 Devices pairs a debt-free balance sheet with a next-generation product launch that we expect to spur upgrades across its installed base. We added to Lifeway Foods, which sold off on input-cost concerns that we believe are now largely reflected in its share price; milk prices have also begun to ease. And **IRadimed (IRMD)**, an existing holding, is entering a multi-year replacement cycle driven by its next-generation pump.

Taken together, we would characterize our stance as cautious but opportunistic. Periods of elevated uncertainty rarely feel comfortable, but they are often the moments when the market offers the best prices for the businesses we most want to own, and we intend to take advantage of them. Against this backdrop, our research discussions centered on two disciplines: maintaining balanced sector exposure in a market prone to sharp, factor-driven rotations, and

favoring fundamentally sound businesses whose shares have pulled back. We believe this posture, combined with our longstanding focus on quality and our avoidance of speculative, narrative-driven stocks, positions the strategy well for the volatility we expect to persist.

Closing Remarks

As always, thank you for your trust and confidence in Riverwater Partners. We remain committed to our disciplined, quality-focused approach to micro-cap investing, and we look forward to updating you next quarter. Please do not hesitate to reach out with any questions.

Nathan Fredrick, CFA
Portfolio Manager

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

Micro Opportunities Strategy Largest Contributors and Detractors – Q3 2026

5 Best – Absolute Contribution

Ticker	Company	Avg. Weight	Contribution
RDVT	Red Violet, Inc.	4.18%	0.88%
UROY	Uranium Royalty Corporation	2.72%	0.85%
MASS	908 Devices Inc.	1.46%	0.83%
CLMB	Climb Global Solutions, Inc.	2.39%	0.76%
DCTH	Delcath Systems, Inc.	2.63%	0.57%
5 Best Total		13.38%	3.89%

5 Worst – Absolute Contribution

Ticker	Company	Avg. Weight	Contribution
NPKI	NPK International Inc.	5.39%	-1.75%
MAMA	Mama's Creations, Inc.	4.27%	-1.03%
NGS	Natural Gas Services Group, Inc.	3.46%	-0.96%
HTLD	Heartland Express, Inc.	3.18%	-0.86%
LWAY	Lifeway Foods, Inc.	2.54%	-0.83%
5 Worst Total		18.84%	-5.43%

Disclosures:

The information contained herein represents the opinion of Riverwater and should not be construed as personalized or individualized investment advice. Analysis and opinion expressed in this report are subject to change without notice. Readers should not assume that investments in the securities identified were or will be profitable. Timing differences of purchases and sales may have a modest impact on the actual contribution numbers presented. The holdings identified do not represent all the securities purchased, sold, or recommended. The calculation's methodology and details on all holdings' contributions to the overall account's performance during the measurement period are available upon request. Past performance does not guarantee future results.

The contributions presented are shown on a gross basis and do not reflect the deduction of management fees or other fees. The deduction of management fees reduces investment returns and would also affect the investment characteristics presented. Each contributor's share of performance is shown for informational purposes only and is not predictive of future performance or investment outcomes.