

Q1 2026 Quarterly Commentary

By Nathan Fredrick, CFA

Strategy Overview / Performance Summary

The Riverwater Partners Small Cap Core Strategy meaningfully outperformed the Russell 2000 Index in the first quarter of 2026. It was the kind of quarter that rewards patience and discipline — and the sort of outcome that feels overdue after extended periods where what we consider quality takes a backseat to speculation.

The first quarter of 2026 was defined by a meaningful shift in market leadership and risk perception, driven primarily by escalating geopolitical tensions in the Middle East and evolving concerns around the durability of certain growth narratives. The outbreak of conflict involving Iran introduced a significant exogenous shock, most visibly through higher energy prices and increased volatility across global markets. While energy markets have historically responded to geopolitical events with short-term spikes, we believe the current environment may reflect a more structural repricing of supply risk, with implications for inflation, corporate margins, and consumer purchasing power. At the same time, equity markets began to reassess areas of prior strength, particularly within software and AI-linked businesses, where concerns have emerged around long-term monetization, competitive intensity, and the risk of overearning relative to sustainable demand.

In parallel, we are observing pockets of stress within private credit markets, driven more by liquidity constraints than underlying credit deterioration. As capital flows have moderated and financing conditions have tightened, certain borrowers—particularly those reliant on continuous access to private capital—are experiencing pressure. Importantly, we view this as a contained dynamic rather than a systemic risk, more akin to the liquidity-driven dislocations observed during the regional banking crisis in 2023 than a broad-based credit unwind. While this environment may create challenges for select companies, it is also contributing to more rational pricing of risk and capital.

Against this backdrop, we are increasingly focused on identifying dislocations created by what we view as indiscriminate selling, particularly in areas exposed to AI-related concerns. In several cases, valuations have compressed meaningfully despite limited change in underlying fundamentals, creating attractive entry points in high-quality businesses with durable growth profiles.

More broadly, periods of heightened uncertainty and liquidity-driven volatility have historically provided compelling opportunities for long-term investors, and we believe the current environment is beginning to present a similar setup.

Sector Highlights

Our overweight positions in Industrials, Materials, Consumer Staples, and Energy all contributed positively, while an underweight to Health Care was additive. The primary headwind came from Financials, where stock selection weighed on results despite a roughly in-line sector weighting.

Information Technology represented our largest sector attribution performer of the portfolio. Stock selection within the sector was the primary driver of a strong positive attribution effect, as several of our technology holdings delivered double-digit returns. Industrials, our second-largest absolute holding, also contributed meaningfully as our second top contributor to performance. Both of our top sectors were driven by stock selection.

Energy was the standout on an absolute return basis — our energy names returned nearly 30% on average during the quarter, driven by favorable commodity dynamics and strong company-specific execution. Meanwhile, our overweight to Consumer Staples and Materials paid off handsomely, with both sectors generating double-digit portfolio returns against low-single-digit benchmark gains. These were not macro bets; they were the result of owning specific businesses we believe are mispriced.

The drag came primarily from **Financials**, where our holdings declined roughly 6.4% while the benchmark's financial names were down less than 1%. Stock selection in this sector accounted for the vast majority of the negative attribution effect.

Top Contributors & Detractors

Top Contributors

Among our largest contributors, **Modine Manufacturing (MOD)** led the way during the quarter. The thermal management specialist continued to benefit from secular demand in data center cooling and a well received spinoff of their auto cooling business into a combined company with Gentherm (THRM), with the stock appreciating over 60% as the market recognized the

durability of its growth drivers. We have held Modine since early in the strategy's life and trimmed modestly during the quarter, but it remains a meaningful position.

Adeia (ADEA), an intellectual property licensing business, was the second-largest contributor. Adeia's strong stock performance in the first quarter of 2026 was driven by a combination of fundamental execution, increasing visibility around its licensing model, and a series of high-profile agreements that reinforced the value of its intellectual property portfolio. Coming out of 2025, the company reported record revenue and profitability, supported by a surge in IP licensing activity.

This improving sentiment was further reinforced by several strategic announcements during the quarter. Most notably, Adeia signed a multi-year licensing agreement with AMD tied to its hybrid bonding semiconductor technology—an area viewed as critical to next-generation chip architecture—as well as expanded partnerships with UMC and earlier agreements with Disney and Microsoft.

Top Detractors

Coastal Financial (CCB) was our largest detractor. CCB experienced a more volatile first quarter, with stock performance shaped by evolving investor perceptions around risks tied to its fintech partner ecosystem and broader private credit dynamics. While underlying fundamentals remained relatively stable—supported by its Banking-as-a-Service model and continued growth in partner-driven deposits and fee income—investors grew more focused on the durability of its fintech relationships amid increasing AI-driven disruption and tightened credit conditions. We reduced our position during the quarter but continue to hold CCB at a lower weighting, as we believe the core business model remains intact.

AtriCure (ATRC) underperformed during the first quarter of 2026 despite delivering a strong earnings report and providing 2026 guidance that came in above street expectations, reflecting continued momentum across its core atrial fibrillation and appendage management businesses. The stock's weakness was driven less by fundamentals and more by a shift in investor sentiment following Edwards Lifesciences' announcement of a competing surgical left atrial appendage closure (LAAC) product, which will directly compete with AtriCure's AtriClip franchise. This development created an overhang on the shares, as investors reassessed the durability of AtriCure's market leadership in appendage management. However, Edwards' product is not expected to be fully available

until late in 2026 or 2027, while AtriCure's AtriClip is already well established and widely adopted among cardiac surgeons, supported by strong clinical data and entrenched physician relationships. In our view, the sell-off reflects near-term competitive concerns rather than a deterioration in the company's underlying growth trajectory, and AtriCure remains well positioned given its first-mover advantage and deep integration within surgical workflows.

Strategy Additions & Sales

We were active during the quarter, initiating several new positions and exiting or trimming others where the risk-reward had shifted.

New Positions

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

We initiated a position in **Talkspace (TALK)**, a digital mental health platform with improving unit economics. TALK was taken out shortly after we made the purchase, providing an immediate return. The acquisition was bittersweet: while the takeout delivered strong performance on the day, we believed the company's improving fundamentals offered more upside over a longer horizon.

Perella Weinberg Partners (PWP) is an advisory-focused investment bank trading at a discount to peers. PWP continues to benefit from a more constructive M&A environment, with a growing backlog that provides increasing visibility into future fee realization. The firm served as advisor on Abbott's acquisition of Penumbra during the quarter — a transaction that should generate a meaningful fee and, for a smaller-cap advisory platform, has an outsized impact on earnings. However, our timing has been challenged, as escalating geopolitical tensions tied to the Iran conflict have weighed on sentiment around deal activity. We remain constructive on the longer-term outlook, as backlog conversion and continued deal flow should support earnings power as conditions stabilize.

We established a position in **Cushman & Wakefield (CWK)**, which we discuss in greater detail in the Holdings Deep Dive section below. In short, we believe AI-driven fears have created an attractive entry point in a high-quality commercial real estate services franchise trading at a significant discount to peers.

Interface (TILE) is a global leader in sustainable flooring solutions, with its carbon-neutral carpet tile program and use of recycled and bio-based materials positioning it as a preferred supplier in an era of growing ESG procurement standards. Financially, the business is leveraged to a recovery in commercial construction and renovation activity, with margin expansion potential from mix shift toward higher-value resilient flooring and continued operational efficiencies.

We initially identified a turnaround prospect in the luxury outerwear brand **Canada Goose (GOOS)**, noting positive customer engagement trends. Despite a significant sales beat that demonstrated strong brand resonance, the company reported higher-than-expected SG&A expenses, causing the stock to retreat. When coupled with the energy price spike resulting from the Iran conflict and its subsequent impact on consumer sentiment, we determined that the fundamental backdrop for GOOS had shifted materially, leading us to exit the position.

Position Exits

We liquidated our position in **SunOpta (STKL)** following its acquisition by an industry peer. We also exited **Uranium Energy (UEC)**, as the original investment thesis had been realized and the risk-reward profile shifted unfavorably. Our stake in **Bowhead Specialty (BOW)** was sold due to anticipated headwinds resulting from declining short-term interest rates. We chose to consolidate our insurance exposure into **Palomar Holdings (PLMR)**, which we believe offers superior long-term growth prospects.

We divested from **Tennant Company (TNC)** during the quarter following a significant ERP system implementation failure that halted customer orders for a three-week period. With the system still not fully recovered, we remain concerned about the potential for strained client relationships or the necessity of offering discounts to retain major accounts.

We trimmed **Black Hills Corp (BKH)**, **Grand Canyon Education (LOPE)**, and **Warby Parker (WRBY)** during the quarter. We also trimmed **Modine Manufacturing (MOD)** following its strong run, though it remains a meaningful position, and reduced our exposure to **Coastal Financial (CCB)**, which we discussed in the Detractors section.

Holdings Deep Dive: Cushman & Wakefield (CWK)

An AI-Driven Selloff Creates Opportunity

Cushman & Wakefield (NYSE: CWK) is one of the world's largest commercial real estate (CRE) services firms, operating in over 60 countries with approximately 52,000 employees. The company provides a comprehensive suite of services—leasing, capital markets advisory, property and facilities management, and valuation—to both occupiers and investors across the office, industrial, retail, life sciences, and data center sectors. Despite strong operational fundamentals and an improving earnings trajectory, CWK shares have traded under persistent pressure due to market concerns that artificial intelligence and technology-driven platforms could disintermediate traditional CRE service providers. We believe this fear is significantly overstated. CEO Michelle MacKay has emphasized that Cushman's key differentiator lies in delivering "tailored, bespoke solutions" through deep client relationships and human expertise—capabilities that cannot be easily replicated by a generic algorithm. The company's relationship-driven advisory model, particularly in leasing and capital markets, depends on nuanced local market knowledge, negotiation skill, and trust—attributes where AI augments rather than replaces the human element.

Durable Competitive Moat

CWK possesses a meaningful moat rooted in its global scale, diversified service platform, and entrenched client relationships. Over 53% of the firm's fee revenue comes from Property, Facilities & Project Management (PFPM)—a contract-based, annuity-like business secured through multi-year agreements on a fixed-fee or cost-plus basis. This recurring revenue base provides substantial earnings visibility and creates high switching costs, as institutional occupiers and investors are reluctant to transition the management of large, mission-critical real estate portfolios to untested providers. In the transactional businesses (leasing and capital markets), barriers to entry are equally formidable: brand reputation, regulatory compliance, deep broker networks, and the ability to respond to multinational RFP standards all favor incumbents.

A Consolidated Industry Favoring Scale

The global CRE services industry is highly consolidated, dominated by three firms—CBRE, JLL, and Cushman & Wakefield—that collectively command the vast majority

of institutional mandates and cross-border transactions. This oligopolistic structure creates significant advantages for incumbents: large corporate occupiers and institutional investors strongly prefer working with firms that can service their portfolios across geographies and asset classes from a single platform. For a new entrant, replicating the global infrastructure, talent bench, and data capabilities of these established players would require enormous capital and years of investment. While technology-enabled platforms like CoStar and VTS have carved out niche roles in data and analytics, they have not penetrated the advisory, brokerage, or management businesses where CWK's full-service value proposition is most difficult to displace. The consolidated nature of the industry also provides pricing discipline and limits the risk of destructive competition, which supports margin stability over the cycle.

Compelling Valuation With Multiple Catalysts

At its December 2025 Investor Day, Cushman & Wakefield outlined a 2026–2028 financial framework that includes 6–8% organic fee revenue growth, 15–20% annual adjusted EPS growth, 60–80% free cash flow conversion, 150 bps of adjusted EBITDA margin expansion by year-end 2028, and net leverage of 2x by year-end 2028. Management also said that this framework should translate into roughly \$800 million of cumulative free cash flow through 2028, supporting continued deleveraging and reinvestment. In its February 2026 full-year 2025 earnings release, the company reported adjusted EBITDA of \$656.2 million, free cash flow of \$293.0 million, and noted that it prepaid \$300 million of debt during 2025. Not only does CWK trade at a significant discount to peers but also a discount to its historical valuation, while in our view business is improving.

Outlook

Looking ahead to 2026, we entered the year with a constructive view on small-cap equities, supported by improving monetary conditions, attractive relative valuations, and an anticipated rotation back toward higher-quality businesses. As discussed in our prior commentary, we believed easing financial conditions and accelerating earnings growth would create a favorable backdrop for cyclically oriented sectors and companies positioned for fundamental inflection. However, the recent escalation of geopolitical tensions in the Middle East, specifically the onset of conflict involving Iran, has meaningfully altered the near-term

macro landscape and introduced a higher degree of uncertainty into both economic and market outlooks.

The most immediate impact has been a sharp increase in oil and broader energy prices, which we expect will act as a tax on the consumer and weigh on discretionary spending. Tax refunds are trending stronger than last year and would typically have provided a near-term tailwind to consumption, but we expect much of that incremental liquidity to be absorbed by higher energy and gasoline costs. This dynamic, combined with tariffs that remain in place and the growing likelihood that inflation reaccelerates in the coming months, reduces the probability and magnitude of near-term rate cuts.

As a result, areas of the market we previously viewed as poised to inflect—particularly consumer-oriented businesses—may face a more prolonged recovery path. While the long-term fundamentals for many of these companies remain intact, the timing of earnings acceleration has become less certain, warranting a more cautious near-term stance.

In response, we have begun repositioning the portfolio toward areas that are better aligned with the current environment. We see increasing opportunity in energy and materials, which we believe stand to benefit from supply disruptions and sustained higher commodity prices. At the same time, we are incrementally adding to more defensive sectors such as utilities and real estate, where cash flow visibility and relative insulation from economic volatility are more attractive. Importantly, this shift does not represent a departure from our core philosophy of owning high-quality businesses with durable competitive advantages, but rather a recalibration of where we see the most compelling risk-adjusted opportunities today.

Despite the heightened uncertainty, we would emphasize that markets tend to respond to changes at the margin. Similar to the most recent prior periods of disruption—including COVID, the 2022 rate shock, and the regional banking crisis—conditions do not need to fully normalize for equities to recover. Instead, stabilization and incremental improvement are typically sufficient to support a re-rating in risk assets.

We are closely monitoring developments in the Middle East and remain prepared to selectively add to high-quality businesses that have been indiscriminately sold and are trading at more attractive valuations. Over time, we believe this disciplined approach will allow us to capitalize on dislocations while maintaining a strong focus on long-term capital compounding.

We remain committed to our disciplined, quality-oriented approach. The first quarter served as a reminder that owning profitable, well-managed businesses purchased at reasonable valuations can and does work, even when the broader narrative favors something else entirely. We are grateful for your trust and confidence.



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

**Small Cap Strategy
 Largest Contributors and Detractors — Q1 2026**

5 Best - Absolute Contribution

Ticker	Company	Avg. Weight	Contribution
MOD	Modine Manufacturing Company	3.86%	2.11%
ADEA	Adeia Inc.	4.92%	1.69%
KGS	Kodiak Gas Services, Inc.	3.36%	1.50%
SNEX	StoneX Group Inc.	5.03%	1.18%
STKL	SunOpta Inc.	1.26%	1.14%

5 Worst - Absolute Contribution

Ticker	Company	Avg. Weight	Contribution
ATRC	AtriCure, Inc.	3.30%	-1.02%
CCB	Coastal Financial Corporation	3.03%	-1.20%
MMSI	Merit Medical Systems, Inc.	2.93%	-0.72%
ALLT	Allot Ltd.	2.32%	-0.73%
PWP	Perella Weinberg Partners Class A	1.60%	-0.50%

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