

Q3 2025 Quarterly Commentary

By Nathan Fredrick, CFA

The Small Cap Strategy delivered solid absolute returns in the third quarter of 2025 but lagged the benchmark as we did not keep pace with the sharp rally in equities. Our portfolio is dominated with profitable companies—only two holdings are not projected to earn a profit in the next twelve months.

The market's strong appetite toward lower-quality companies—those with limited or negative earnings, elevated short interest, and high beta—persisted throughout the quarter and drove much of the benchmark's outperformance. In contrast, our strategy remains focused on higher-quality businesses with durable fundamentals, steady earnings power, and clear paths to profitability.

While macro uncertainty remains elevated amid ongoing global trade and tariff discussions, investor attention has shifted toward optimism surrounding AI-driven growth. Given these crosscurrents, we continue to balance our quality positioning with flexibility to take advantage of market dislocations. Encouragingly, we are seeing an increasing number of small-cap companies demonstrating healthy sales and earnings momentum into 2026—businesses we believe are best positioned to outperform once fundamentals return to drive market leadership.

Sector Highlights

Information Technology, Materials, and Consumer Discretionary were our strongest sectors in Q3. Our positioning in these sectors, particularly through holdings exposed to secular themes such as artificial intelligence infrastructure and materials benefiting from energy transition trends, contributed positively despite the overall underperformance.

Conversely, our Healthcare, Financials, and Communication Services sectors weighed on relative performance. The Healthcare sector faced headwinds from company-specific challenges in select holdings. Our Financial holdings, specifically our insurance stocks, experienced volatility as investors rotated away from defensive names toward more economically sensitive financial stocks. Despite these near-term challenges, we remain confident in our sector positioning and believe many of our holdings are poised for improved performance as company-specific catalysts materialize.

Top Contributors & Detractors

Top Contributors

Uranium Energy Corp (UEC) outperformed as investor sentiment rallied behind the nuclear energy renaissance and U.S. policy pivots favoring domestic uranium supply. The administration and Congress moved decisively to restrict uranium imports from Russia and designated the nuclear fuel chain as a strategic priority—sending a strong signal that the U.S. is committed to rebuilding its domestic uranium industry. At the same time, tight global supply conditions and rising demand pushed uranium spot prices higher (trading in the high \$70s - low \$80s per pound range). Elevated term contract pricing also improves revenue visibility across the sector. UEC's assets—especially its U.S.-based in-situ recovery projects and its plans for a refining/conversion subsidiary—give it leveraged exposure to upward moves in uranium prices and to policy tailwinds. The combination of favorable regulation, improving fundamentals in the uranium market, and UEC's operational optionality created a potent confluence of catalysts that drove its Q3 outperformance.

Modine Manufacturing Company (MOD) was our second-best performer. Modine's thermal management solutions for data centers continued to benefit from exponential growth in AI-related infrastructure spending. The company's liquid cooling systems are essential for managing heat in high-density computing environments required for AI applications. While valuations have expanded significantly from our initial purchase, we maintain our position given Modine's strong market position, proven execution, and the long runway for data center infrastructure buildout to support AI workloads.

Top Detractors

Palomar's (PLMR) stock underperformance in Q3 likely reflects a confluence of headwinds: weaker commercial market pricing pressure, a broader rotation away from defensive, insurance-oriented names into more cyclically exposed "risk on" sectors, and investor concerns about underwriting margin compression. In particular, rate reductions in the commercial earthquake and property markets have squeezed premium renewal yields, pressuring growth in the core book. Meanwhile, with markets rallying behind growthier, more volatile sectors, capital may have rotated out of specialty insurers like Palomar in favor of higher beta plays. That said, the name still merits attention: the company has strong visibility into premium growth via its multi-year rate plans, along with expansion into more diversified lines like casualty and crop insurance that offer structural premium growth. Combined with a high return on equity and

proven ability to reinvest capital efficiently, Palomar retains upside if market sentiment eventually rotates back to quality insurance franchises.

Haemonetics Corporation (HAE) detracted as the blood management and hospital supply company experienced challenges related to softer-than-expected demand in certain product lines. While these near-term headwinds pressured the stock, we believe Haemonetics' essential role in hospital blood management, coupled with new product launches and operational improvements, support a recovery in performance. We exited the position during the quarter to redeploy capital into opportunities with clearer near-term catalysts.

Strategy Additions & Sales

New Positions

We initiated a few new positions during the quarter, diversifying across multiple sectors and themes:

Worthington Enterprises (WOR) is a diversified industrial manufacturer operating through two key segments. The Consumer Products segment produces propane cylinders, handheld torches, tools, outdoor living equipment, and celebration products under well-known brands such as Coleman®, Bernzomatic®, Garden Weasel®, and Halo®, selling primarily through mass retailers. The Building Products segment manufactures pressurized containment solutions like LPG cylinders, water tanks, and HVAC components, while also benefitting from highly profitable joint ventures in ceiling systems and light-gauge framing. Following its 2023 spin-off from Worthington Industries, WOR has repositioned itself as a more focused, asset-light growth platform with a three-pillar strategy of transformation, innovation, and strategic M&A.

Management is targeting 6–8% annual sales growth and EBITDA margin expansion toward 24%, leveraging automation, product innovation such as IoT-enabled SmartLid propane monitoring, and bolt-on acquisitions. With a strong balance sheet, over \$100M in expected annual free cash flow, and tariff-driven competitive advantages favoring U.S.-based manufacturing, WOR is positioned to deliver outsized earnings growth while trading at a discount to peers, making it an attractive industrial transformation and value story.

Provident Financial Services, Inc. (PFS) is the holding company for Provident Bank, a full-service community-oriented bank headquartered in Jersey City,

New Jersey. Through its network of over 140 branches across New Jersey, Pennsylvania, and New York, along with subsidiaries Beacon Trust and Provident Protection Plus, the company provides a wide range of services including traditional banking, wealth management, and insurance. Following its transformative acquisition of Lakeland Bancorp in 2024, PFS now manages roughly \$25 billion in assets, giving it greater scale and market share.

The bank is well positioned to deliver sustainable growth, with strong pipelines supporting mid-single-digit loan expansion, stable deposit funding, and an expanding net interest margin. Returns are expected to remain above peers with ROA around 1.15% and ROTCE near 16%, while disciplined cost management drives efficiency gains. With clean credit, limited exposure to riskier CRE segments, and a nearly 5% dividend yield, PFS offers investors an attractive combination of income, earnings growth, and upside valuation potential.

Digi International Inc. (DGII) is a leading global provider of business and mission-critical Internet of Things ("IoT") connectivity products, services and solutions. DGII helps its customers deploy, monitor and manage critical communications infrastructures that deliver important information in demanding environments with high levels of security and reliability.

The IoT industry is in the midst of a multi-year expansion as many industries are undergoing a digital transformation within their business that drives demand for IoT capabilities across a broad spectrum of services. Among others, IoT use cases include providing and maintaining secure connectivity and monitoring of operating assets, condition-based monitoring of perishable goods, and automating workflows and operations. As AI becomes more ubiquitous, edge applications, including IoT applications, will be the next beneficiaries.

Historically DGII revenues have been based on one-time product sales; more recently, DGII has placed greater emphasis on selling subscription-based solutions. Recurring revenue has grown from 4% to 27% of total between 2019 and 2025, resulting in 800bp of margin expansion and greater visibility. We expect this trend to continue as the company deploys more solutions for its customers, which will drive free cash flow generation and stock appreciation.

Founded in 1920, and public in 1939, **Belden (BDC)** is a leading provider of network infrastructure and broadband solutions, as well as cabling and connectivity solutions for

commercial audio/video and security applications. Fun Fact: Thomas Edison purchased enameled wire from Belden.

In 2023, Dr. Ashish Chand ascended to the role of CEO, having joined the company in 2002. Dr. Ashish recognizes that BDC has a unique portfolio that spans the entirety of networking applications which its competitors don't have; he took that portfolio and made a solutions strategy (rather than a back-end order business) that engages with customers at the front-end of network design and uses its networking/data expertise to solve problems. This has resulted in larger orders, higher margins, and more recurring-type business. One of its competitive advantages is its Horizon software platform, which speaks the languages of virtually all machines on a given network.

BDC has consistently grown revenue in high single digits and adjusted EPS by 10-15%. We believe the company is well positioned for continued growth at this pace, given its ability to solve communications needs of its customers, particularly as they seek to deploy AI solutions in their businesses.

Preformed Line Products Company (PLPC), an industrial company supplying crucial components and products to the utility, industrial and communication sectors. PLPC was founded in 1947 and is based in Mayfield Village, OH.

The company designs and produces components that support, protect, and connect overhead and underground cables in power transmission, distribution, and communication networks. While PLPC doesn't manufacture the actual power lines or fiber optic cables, it specializes in all the essential hardware that supports, connects, protects, and terminates those wires, making the infrastructure functional, resilient, and field-ready.

Their products include helical formed wire products, connectors, splicing devices, fiber closures, and substation fittings, which are essential tools for ensuring the reliability and performance of modern utility and telecom systems. We see revenue accelerating as demand for their utility and infrastructure products continues to increase. The demand should also allow margin expansion across their portfolio. Given their end markets and management's focus, we believe PLPC will be able to grow faster than their overall end market.

Even though PLPC has been around for decades, they are a relatively unknown company to many investors. They are not followed closely by any analysts and are

debt averse. PLPC plays a vital role in enabling grid modernization, broadband expansion, and network resilience across industries. We started with a small position in our portfolio but will be watching closely for an opportunity to increase our position.

Position Exits

We exited three positions during the quarter:

We exited **Crocs Inc. (CROX)** during the third quarter. The footwear company has struggled to turn around its Heydude brand and the consumer could be showing some signs of weakening. We remain impressed by Crocs' core brand strength and international expansion opportunities, but elected to redeploy capital into opportunities with more attractive risk-reward profiles.

We sold **Iridium Communications Inc. (IRDM)** due to concerns about growth trajectory and competitive dynamics in certain end markets. They have also increased their leverage ratio which brings added risk to the stock as growth slows.

We exited **Vestis Corporation (VSTS)** as the company is currently in the process of turning around the business and we believe it could take much longer than originally anticipated. Coupled with this is a debt overhang that could potentially make it difficult to reinvest in the business as funds are allocated to paying down debt.

We exited **Haemonetics (HAE)** in favor of health care names with more near-term visibility.

Outlook

Looking ahead, we believe the Small Cap Core strategy is well-positioned despite challenging third quarter results. We remain confident in our holdings and believe many of our positions are poised for improved performance as company-specific catalysts materialize and valuations reflect underlying business quality.

Several factors support our constructive outlook:

1. **Monetary Policy Tailwinds:** The Federal Reserve has begun its rate-cutting cycle, which historically has benefitted small-cap stocks by improving financing conditions and supporting economic activity. While the pace of cuts may be slower than initially anticipated, we believe the direction of policy remains supportive for smaller companies.

2. **Secular Growth Themes:** Exposure to AI infrastructure through holdings like Modine (MOD) and Veeco (VECO) provides participation in what we view as a multi-year investment cycle. Similarly, our utilities and energy holdings benefit from electricity demand growth driven by data centers and broader electrification trends.
3. **Attractive Valuations:** The valuation dispersion between large-cap and small-cap stocks remains historically wide. While large-cap technology stocks have commanded premium valuations driven by AI enthusiasm, many high-quality small-cap companies trade at attractive multiples despite solid fundamentals and growth prospects. We believe this valuation gap will narrow as investors increasingly recognize the opportunities in overlooked small-cap names.

We see particular promise in:

4. **Financials:** As banks benefit from improved net interest margins amid the Fed's easing cycle, we see promise in our selective additions in regional banks with strong deposit franchises and conservative underwriting should benefit from this environment.
5. **Healthcare:** We favor medical device companies with differentiated technologies and steady procedure volume growth, as evidenced by our investment in Merit Medical (MMSI) and AtriCure (ATRC).
6. **Materials:** Companies exposed to critical minerals and energy transition themes, remain attractive despite near-term volatility. While we harvested gains in uranium-exposed names, we continue to monitor the space for re-entry opportunities.
7. **Industrials:** Companies benefiting from infrastructure investment, manufacturing reshoring, and industrial automation.

We continue to monitor interest rates, economic growth, and sector trends closely as we evaluate opportunities across the portfolio. Our team actively manages position sizes—trimming or exiting holdings that reach fair value and redeploying capital into more attractive ideas—to ensure the portfolio remains aligned with our best risk-reward opportunities. This disciplined, bottom-up approach, combined with thoughtful risk management, keeps the portfolio balanced between defensive sectors like Utilities that provide stability and growth-oriented holdings in Technology and Healthcare that capture upside. By emphasizing strong balance sheets, cash flow generation, and compelling valuations, we aim to

navigate market volatility and compound capital over the long term.

Thank you for your trust and confidence and please reach out with any questions.

Nathan Fredrick, CFA
Portfolio Manager



Nathan Fredrick, CFA
Portfolio Manager

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

Small Cap Strategy
 Largest Contributors and Detractors – Q3 2025

5 Best - Absolute Contribution

Ticker	Company	Average Weight	Contribution
UEC	Uranium Energy	3.15%	227 bps
MOD	Modine Manufacturing	3.60%	152 bps
VECO	Veeco Instruments	2.73%	119 bps
IDCC	Interdigital	2.52%	115 bps
LOPE	Grand Canyon Education	5.27%	85 bps
Top 5 Total		17.27%	698 bps

5 Worst - Absolute Contribution

Ticker	Company	Average Weight	Contribution
PLMR	Palomar Holdings	3.75%	-117 bps
HAE	Haemonetics	1.86%	-102 bps
IRDM	Iridium Communications	1.72%	-102 bps
BOW	Bowhead Specialty Holdings	1.88%	-65 bps
TGLS	Tecnoglass	3.98%	-56 bps
Top 5 Total		13.19%	-442 bps

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. The analysis and opinion expressed in this report are subject to change without notice. Reader 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 along with details on all holding's contribution to the overall account's performance during the measurement period are available upon request. Past performance does not guarantee future results.