

Q1 2022 RIVERWATER BLUE PORTFOLIO UPDATE

By Connor Doak

The mission of Riverwater Partners, and the Riverwater BLUE portfolios, is to make the world a better place by growing wealth through sustainable investing. One underlying holding in the BLUE portfolios working to fulfill that mission is Community Capital Management (CCM), the adviser for the CCM Community Impact Bond fund. Last year, CCM invested nearly \$1.9 billion among various themes intended to deliver positive social outcomes. CCM invested over \$386 million in affordable mortgages, over \$654 million in affordable rental housing, and over \$804 million in other environmental and economic initiatives. Managers like CCM continue to be at the forefront of delivering positive economic and social change in the fixed income space.

On the performance side, Riverwater BLUE portfolios had mixed results during the quarter. Overall, two out of the five portfolios outperformed during the quarter, with the Sustainable Income portfolio and Sustainable Income & Growth portfolio outperforming their respective benchmarks. The positive relative performance is primarily due to having less interest rate sensitivity. These bond-heavy portfolios are less exposed to rising interest rates, so during periods like Q1, when inflation continued to spike and interest rates rose rapidly, this lower interest rate sensitivity, called duration, was beneficial in mitigating portfolio volatility.

As we move out on the risk spectrum, the portfolios with higher stock weightings, the Sustainable Aggressive Growth, Sustainable Growth, and Sustainable Growth & Income all underperformed their respective benchmarks during the first quarter. The main culprit for the difficult performance was the returns of the underlying stock fund managers. One of the detractors was that many of the underlying funds have an underweight to oil and gas sectors in the portfolio. Since these portfolios all integrate ESG criteria in their investment process, they tend to have less of the portfolio invested in high carbon emitting sectors than their peers. Over the last year, and especially the last quarter, the smaller exposure to the energy sector has been a significant detractor for the funds as oil and gas companies have drastically outperformed the broader market. That said, Riverwater continues its deep due diligence and maintains full conviction in the long-term ability of the underlying managers to add value.

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