ALLUVIAL

CAPITAL MANAGEMENT, LLC

First Quarter 2017 Letter to Clients, April 28, 2017

Separately Managed Accounts

	Q1 2017
Global Focused Value	**12.1%**
Russell 2000 Index	2.5%
Russell Microcap Index	0.4%
MSCI ACWI Small Cap Index	5.7%
Global Quality & Income	**6.2%**
50% MSCI ACWI SC Index / 50% Barclays US Agg. Bond Index	3.2%

	Performance Since Inception*	2017 YTD	2016	2015	2014*
Global Focused Value	**62.8%**	**12.1%**	**10.8%**	**13.0%**	**15.9%**
Russell 2000 Index	22.8%	2.5%	21.3%	-4.4%	3.4%
Russell Microcap Index	15.4%	0.4%	20.5%	-5.2%	0.6%
MSCI ACWI Small Cap Index	10.4%	4.0%	9.7%	-2.6%	-2.3%
Global Quality & Income	**24.9%**	**6.2%**	**8.2%**	**2.8%**	**5.7%**
50% MSCI ACWI SC Index/50% Barclays US Agg. Bond Index	9.0%	3.2%	5.5%	-0.8%	0.9%

* From March 31, 2014.

All figures are net of fees. See additional disclosures.

Alluvial Fund, LP

	2017 YTD
Alluvial Fund, LP	**5.1%**
Russell 2000 Index	2.5%
S&P 500 Index	6.1%

All figures are net of fees. See additional disclosures.

Dear Alluvial Clients,

I am pleased to report strong results for Alluvial's strategies this quarter. Alluvial has now completed three full years of formal operations, a milestone I was not sure would be reached when I began in 2014! Since its March 31, 2014 date of inception, Alluvial's flagship Global Focused Value strategy has produced annualized returns, net of fees, of 17.6%. This compares quite favorably with the Russell 2000 Index at 7.1% and the Russell Microcap Index at 4.9%. I have been consistent in requesting clients assess Alluvial's performance over time periods of multiple years. The small and often neglected or illiquid securities that are Alluvial's focus often move (or *don't* move) for no fundamental reason, and patience is required to see this investment approach to its fruition. In my view, a track record of minimum sufficient length to be meaningful has now been achieved, and I hope clients find Alluvial's results acceptable. In general, I am satisfied with Alluvial's investment decision-making processes and the results of those processes these three years. That does not mean I have not made errors. I certainly have and I have made efforts to discuss them candidly. But, I can say with confidence that I am better investor than I was three years ago. This is the result of constant effort to accumulate knowledge and understanding. An investor must never cease learning, because there is always more to know! More knowledge creates clearer sight, which allows better decisions and eventually, better results. I do not know if market conditions will be conducive to continued out-performance over the next few quarters or even years. I am *exceptionally* confident that Alluvial's approach will continue to bear fruit over any reasonable timeframe.

Alluvial is growing, and with growth always comes change. Alluvial Fund, LP commenced operations on January 1 and has already welcomed several limited partners. With the launch of the partnership, Alluvial's separately managed accounts are now closed to new clients. I believe the new partnership offers several advantages over the separately managed accounts. If you are an accredited investor and are invested in becoming a partner, please let me know.

Since Alluvial Fund, LP is now Alluvial's only open investment vehicle, I will no longer be reporting performance for Alluvial's legacy accounts. Doing so would only invite confusion and distract from efforts to attract new partners for Alluvial Fund. Because of rules surrounding general solicitation I am limited in my ability to provide information and commentary on Alluvial Fund's holdings and results to non-accredited investors. Writing two different quarterly letters, one for separately managed account clients and one for limited partners in Alluvial Fund is untenable, so I am currently assessing strategies for continued communication with separately managed account clients. Future quarterly letters to non-accredited clients may be summary in nature. Regardless, Alluvial will continue to provide its services to both its separately managed accounts clients and to Alluvial Fund limited partners for the foreseeable future.

But that's the future, and this is now. Let's discuss a few of Alluvial's holdings and their pertinent developments.

Contura Energy

A new position as of last quarter, the thesis surrounding Contura Energy is fully intact. Metallurgical coal prices are down from the lofty heights reached earlier this year, but seem to have found their footing at levels substantially higher than the prevailing prices at the time of Contura's exit from bankruptcy last July. Contura's results for the fourth quarter were excellent, and the company has sold forward the lion's share of its 2017 production at attractive rates. The company took advantage of its strong financials to refinance its debt, pushing out its maturity to 2022 and shaving over $10 million from annual interest expense. The company also increased its stake in the Dominion Terminal Associates export facility to 65%, purchasing bankrupt Peabody Energy's interest in the facility. The company remains on track for an uplisting following the requisite financial filings.

Retail Holdings NV

Following some year-end share price fireworks, Retail Holdings NV reported great results at its operating subsidiaries and progress on its multi-year liquidation process. The company will pay a $2 distribution from recent asset sales and is set to distribute additional cash before year-end. Despite the run-up, the company still trades at a sizable discount to NAV.

Meritage Hospitality

I have long considered Meritage one of Alluvial's most exciting "boring" holdings. While it may be difficult to get fired up over Wendy's franchises, Meritage's results and operating strategy are a different story. Having already engineered massive growth over the last decade, Meritage has a credible plan to become a much larger and much more profitable company. Management took a huge stride toward achieving that plan in the first quarter, announcing an agreement to acquire an additional 69 Wendy's units. Assuming the deal is completed, Meritage's restaurant base will increase by nearly 40%. There will be a lot of noise in the company's financial statements as the additional restaurants are integrated, but I expect this acquisition to increase Meritage's earnings power meaningfully on a per-share basis. Meritage's medium-term plan is to reach 300 Wendy's units. Alluvial owns a substantial portion of Meritage stock's float and we expect to maintain this investment for as long as the company can continue doing highly profitable acquisitions and benefiting from operating leverage.

MMA Capital Management

For the first time in quite a while, MMA Capital Management reported some negative news, disclosing a material loan loss that reduced book value by about $1 per share. The news sent the stock lower but not for long as investors used the dip as a chance to pick up more shares. Word of MMA's hidden assets and growing earnings stream seems to be spreading, as company shares are holding above GAAP book value for the first time in many years. Book value remains understated as the company has not yet recognized any income from its management of low income housing tax credit properties, though millions in fee revenue has accrued. The company's huge buyback authorization remains in place, though the company seems to be taking a more cautious approach to buying back stock than it has in years past. I expect continued book value growth this year as the company continues to transition from a collection of disparate but valuable assets into a true operating company.

Ferronordic Machines AB Preferred

One of the more unusual ideas I have ever come across is preferred shares of Ferronordic Machines AB. (I suspect a few of you have looked at your portfolios only to see the ticker FNMA and wondered if I've lost my mind buying Fannie Mae. No, it's Ferronordic.) A Swedish company, Ferronordic Machines is the authorized dealer of Volvo construction equipment and Terex trucks in the Russian Federation. The company deals in new and used vehicles and also supplies parts and support services. Ferronordic was founded in 2010 and expanded rapidly. The company issued a series of preferred stock in 2013 to provide growth capital in anticipation of an eventual IPO of its common shares. The preferred stock would be convertible into common shares in an IPO at a discounted rate. Well, the Russian economy ran into trouble, profits plunged, and no IPO would occur. Here is where things get interesting! The preferred stock has some neat features. First, the coupon increases by SEK 10 annually. The annual coupon is now SEK 110 and will top out at SEK 180 in 2023. Second, the delayed IPO has caused the effective value of the preferred stock in a conversion to increase to the maximum SEK 1,300 from the original SEK 1,150. In the event that a holder elects not to convert to common stock in an IPO, the preferred stock is redeemable by the company at a price of SEK 1,200.

Ferronordic Machines AB preferred shares trade at SEK 945. This represents a discount of 21% to liquidation/redemption value and 27% to conversion value, as well as a current dividend yield of 11.6%. Because the annual dividend will only increase, this is a very expensive source of financing for Ferronordic Machines. The company has every incentive to restructure these preferreds via an IPO or share exchange. An IPO is no longer a remote possibility as recovering market conditions have allowed the company to return to profitability. Ferronordic Machines used the downturn to become as efficient as possible and to pay down debt to a net cash position, so the preferred stock sits in a favorable position in Ferronordic's capital structure. For the preferred shares to be worth their full 1,200 redemption value, Ferronordic Machines AB must be worth at least 3.4x trailing EBIT. This is a very low hurdle. At the current price, Ferronordic preferred shares offer a potential IRR of 15%+ from rising dividend payments alone, and substantially higher if the company can pull off an IPO at some point in the coming years.

The main risks to the value of Ferronordic Machines AB preferred stock are macroeconomic and political. The Russian economy is ever precarious, heavily exposed to fluctuations in commodities prices and the whims of an autocratic government. While Ferronordic cites gradually improving conditions, a return to recession would impact the company's financial position and further delay an IPO.

CRH Medical

Finally, CRH Medical. This anesthesiology practice roll-up was a strong contributor to returns in the first quarter, and a large detractor since! After shares marched from under $4 to over $9 in just a few months, shares plunged to below $6 on the heels of a critical write-up by a Canadian fund manager. In his letter, the manager leveled several accusations against the company, accusing them of using aggressive billing practices and claiming that reimbursement rates for anesthesiology procedures were sure to decline. Management defended the company patiently but vigorously in the quarterly earnings call, carefully explaining how their billing and staffing practices are industry standard and that they have never had any pushback from insurers. Management also laid out the case for why current reimbursement rates would not be reduced substantially, arguing that both the government and private insurers are strongly incentivized to encourage colonoscopies and early colon cancer detection. While I was satisfied with management's explanations, the market clearly has its doubts. It may take some time for confidence in the company to return, but I do not believe the uncertainty will have any serious impact on CRH Medical's efforts to add new practices and grow its cash flow. Currently, CRH Medical's normalized free cash flow yield is around 8%, a level I believe is very attractive given the company's ability to invest substantial additional capital at high rates.

Housekeeping

I will be in Omaha May 5-7 for the Berkshire Hathaway shareholders' meeting. I would greatly enjoy meeting current and potential clients and partners. It is continually amazing to me that of Alluvial's several dozen clients, I have met only a handful in person. Some, I have not even spoken to via phone. Going forward, I expect to spend more time traveling and I will do my best to finally put more faces to names and voices.

Many Alluvial clients first became aware of the firm through my writings on OTCAdventures.com. While my increased responsibilities no longer allow me to post blog entries as often as I once did, I have renewed my efforts and will be posting more often than I have over the last two years. I find that writing publicly allows me to better organize and articulate my thinking, and there is no shortage of unusual and often under-valued companies to profile!

My thanks to the many of you who have taken the time to ask about my family and business. I can hardly believe our son, Samuel, is nearly one year old! He is happy and healthy. Juggling Alluvial's investment processes and administrative tasks while figuring out how to care for a tiny human being has certainly been a challenge. But it's also been the most fun I have ever had thanks largely to my wonderful wife, Kayleigh. Alluvial would not be the (modest) success it has been without her help.

In Closing

If there are any questions I can answer for you about Alluvial holdings or strategies, let me know. I have not been so excited about our portfolios for some time. I believe I have identified some extraordinarily values, companies with asset value, cash flows streams, or growth potential that is being ignored by the market. I don't know when the market will come around to my point of view concerning all this value, but I believe it eventually will.

Regards,

Dave Waters, CFA

Alluvial Capital Management, LLC

Disclosures

All Alluvial Capital Management, LLC investment strategies are subject to market risk, including the risk of permanent loss. Alluvial's equity strategies may experience greater volatility and drawdowns than market indexes. These strategies are not intended to be a complete investment program, and are not intended for short-term investment. Before investing, clients should carefully evaluate their financial situation and their ability to tolerate volatility.

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Performance Disclosures

Performance data provided in this publications is not audited. Alluvial Fund, LP has a fiscal year end of December 31, 2017 and is subject to an annual audit.

Performance figures for separately managed accounts are derived from actual account composites using Interactive Brokers reporting tools. All performance data is reported net of fees and trading expenses. *Individual account performance will vary due to timing of cash flows and any restrictions on securities ownership in client accounts.*

Performance figures for Alluvial Fund, LP are reported net of all partnership expenses, management fees, and performance incentive fees. Reported performance figures assume Alluvial Fund's standard management and performance incentive fees apply.

For further disclosures concerning performance calculations, please contact Alluvial.

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