Alluvial
CAPITAL MANAGEMENT, LLC

Dear Partners,

Alluvial Fund rose 6.1% in the second quarter, comfortably ahead of its benchmark indexes. As always, I caution partners from drawing conclusions on the success of our collective venture from a single quarter's results. I hope to be writing a letter much like this one to you in fifty years when I have just turned a youthful 84. (Please do make your assessment of my skills as an investor long before then.) We will experience many ups and downs along the way, but I am highly confident that diligent application of sound value investing principles will result in extremely satisfactory returns in the coming years and decades. My family's entire investable assets are held in Alluvial Fund and always will be.

TABLE I: Alluvial Fund LP Returns (%) as of June 30, 2019

	YTD 2019	2018	2017	Cumulative	Annualized
Alluvial Fund LP NET	14.3	-9.0	29.6	34.8	12.7
S&P 500 TR	18.5	-4.4	21.8	38.1	13.8
Russell 2000 TR	17.2	-11.2	14.7	19.3	7.2

Partnership began operations 01/01/2017

I enjoy the outdoors, especially backpacking. Any experienced hiker knows choosing the proper footwear is essential for a successful excursion. Hiking boots are often heavy and rarely fashionable, but they provide the support and protection needed to handle any conditions. A hiker wearing inadequate footwear may move quickly and comfortably on ideal terrain, but trouble will arrive when conditions turn challenging.

In recent years, beating the market has been as simple as buying the fastest-growing, most innovative companies, regardless of their actual earnings, cash flows, or assets. This approach is not devoid of merit. Some forward-thinking investors were quick to realize the astonishing potential of these companies and the real economic value being created. However, the runaway successes of these "new paradigm" companies have led many investors to conclude all conventional measures of value are now meaningless and obsolete.

Those who have discarded all traditional valuation approaches in favor of a growth-at-any-price strategy are the equivalents of hikers choosing to hit the trail in lightweight running shoes. As long as conditions are ideal, these hikers will make wonderful time and feel great doing it. But sooner or later, the path will turn wet or rocky or steep or all three together. Then, the lightly-shod hiker may meet with blisters, fatigue, or even injury. Just as there's a lot to be said for the classic hiking boot, there's also a lot to be said for investing in earnings, cash flows, and assets. Companies cannot grow at torrid rates forever, the economy does occasionally contract, and the market's mood does turn gloomy from time to time.

I strive to make our Alluvial Fund portfolio "all-terrain," capable of handling many types of economic and market conditions. While American markets have provided easy hiking for the last several years, sooner or later the landscape will change. We do own some fast-growing companies in exciting industries, but we have invested in these companies at reasonable multiples of their current and prospective earnings. We also own several companies in extremely dull industries that nevertheless offer high free cash flow yields and strong balance sheets. Finally, we own special situations trading at large discounts to asset value. These companies offer a hedge against market fluctuations and will converge to their intrinsic values when a sale or other catalyst is realized.

Portfolio Updates

Syncora Holdings is now our largest position at 13% of the fund. The company continues to negotiate a sale of its insurance subsidiary or the entire company. I continue to expect a sale announcement later this year with shareholders receiving at least $6.00 per share. Underpinning my sale price estimate is Syncora's adjusted book value per share of $7.54. Book value per share may rise as the company repurchases subsidiary obligations at a discount and as some of its legacy insured credits strengthen or roll off, resulting in releases from loss reserves. Even after doubling, Syncora shares continue to offer great risk-adjusted value.

The fund continues to hold a large position in **Nuvera Communications**. First quarter cash flow was excellent. I expect more of the same as the company benefits from higher FCC subsidies and the continued integration of Scott-Rice Telephone. After 40 services of service to Nuvera, CEO Bill Otis is stepping aside. I have complete confidence that his replacement will steer the company responsibly as it continues to transition to a modern provider of broadband services. The company recently announced a very welcome share repurchase plan. As the company's already modest leverage declines, I expect additional dividend increases and share buybacks. Additional increases to the FCC's A-CAM rural broadband program are not a part of my Nuvera thesis but would benefit the company.

MMA Capital Holdings seems to be suffering from a post-index inclusion hangover. The company is now part of the Russell 3000 and Russell Microcap Indexes. After popping to $35 in early June, shares have slid back to $31. The company continues its development into a major solar construction lender, selling off legacy bond holdings to reallocate capital to higher-yielding opportunities in solar. After a years-long transition, the company has nearly exited its legacy businesses and is now focused on the future. It may take some time for the market to appreciate MMA's growing earnings stream, but management is making all the right moves. Shares once again trade at a meaningful discount to book value. If this discount persists, I expect the company will resume its share repurchase plan.

Happily, our holding in **Polaris Infrastructure** has rebounded sharply this year. The political situation in Nicaragua is far from resolved, but the market's fears of imminent disruption have lessened. The company's Peruvian hydroelectric assets are performing well with the El Carmen and 8 de Agosto projects expected to commerce generation only a few months from now. The company continues to produce substantial cash flow and is exploring further acquisitions outside Nicaragua.

Shares of **Bredband2 i Skandinavien** have been pressured this year by a large investor reducing his stake, but the company's results remain strong and the future of the business is as bright as ever. In the quarter just ended, revenue increased by 11% and operating income rose over 30%. The company continues to produce free cash flow far in excess of its reported net income and is investing in sales and marketing staff in order to support its growth. I have been a buyer at these levels, relishing the chance to invest in such an impressive company at a double-digit free cash flow yield.

TABLE II: Top Ten Holdings (%)

Syncora Holdings	12.9
Nuvera Communications	9.3
MMA Capital Management	9.3
Rand Worldwide Inc.	6.2
P10 Holdings Inc.	5.5
LICT Corporation	5.5
Polaris Infrastructure	5.3
Intred S.p.A.	5.1
Meritage Hospitality	5.0
Crawford United Corp.	4.2
Total, Top Ten	***68.3%***

We parted ways with **Calloway's Nursery** this quarter, realizing a nice gain on our investment. The company's 2019 results have been hurt by weak oil prices weighing on consumer moods and a cold start to the Texas spring. While these issues may be temporary, I grew concerned with the company's decision to pay out substantially all its earnings in dividends for the last couple years rather than reinvest in new stores. Absent earnings growth from profitable new garden centers, the company's value was no longer compelling compared to our opportunity set.

Newcomers

There are some additions to our portfolio that merit discussion. Whenever I contemplate adding a new holding to the Alluvial Fund portfolio, I always ask "Why does this opportunity exist?" Understanding why a mis-pricing exists also sheds light on what might cause the mis-pricing to correct. The three securities discussed below are mis-priced for different reasons, but each has an excellent chance of seeing this mis-pricing correct in reasonable time.

In my last letter, I discussed the Italian IPO market and the value I was finding there. The best of these unexpected bargains was **Intred SpA**. Intred operates a fiber-optic network in Northern Italy, offering broadband services to homes and businesses. The company was founded in 1996 by Mr. Daniele Peli, who remains the CEO and largest shareholder. Starting from a base of practically zero, Intred grew at an extraordinary pace, passing €17 million in annual revenue and twenty-six thousand customers in 2018. The company elected to list on the Italian AIM in 2018 in order to access additional capital for growth. Compared to the typical American tech or tech-adjacent IPO, the company's valuation was extraordinarily modest. Intred SpA went public at a valuation of just over 4x EBITDA, adjusted for listing costs. To put this valuation into context, the company grew its revenue at an annual pace of 24% from 2015 through 2018, profiting each year and avoiding all debt.

The company has grown its owned and/or operated fiber network by hundreds of kilometers since its IPO. The company has reached agreements with major telecoms to lease dark fiber, allowing Intred to reach many thousands more customers. Despite a huge rally in its shares, Intred remains reasonably priced with an extremely bright growth outlook. I expect Intred's revenues to continue to grow at a mid-teens rate for the foreseeable future, bolstered by the company's planned network expansion.

Intred was and is cheap for two reasons: size and liquidity. The company's IPO can more accurately be described as a micro-offering. The company sold only €11 million worth of new equity. Though this €11 million is now worth more than twice the IPO price, the company remains far too small and its share float too limited to allow investment by large institutions. If Intred simply grows its revenues and profits at an acceptable rate, its increased valuation will attract the attention of larger pools of capital and allow for an uplisting to the main Italian exchange.

TABLE III: World Allocation (%)

United States	76.2
Eurozone	9.0
Sweden	5.7
Canada	5.3
Australia	1.9
United Kingdom	1.8
Other	0.1
Total	***100%***

Cumulus Media is another newcomer. Cumulus Media operates the third-largest radio network in the United states with over 400 stations in nearly every major market. Cumulus declared bankruptcy in 2017, struggling with a massive debt load created from a series of acquisitions. The company emerged from bankruptcy less than one year later having shed $1 billion in debt.

Cumulus trades at the lowest valuation in the terrestrial radio industry and offers an eye-popping free cash flow yield. This discounted valuation can be explained through typical post-bankruptcy dynamics. The market remains pessimistic on the prospects of the radio industry in the face of competition from satellite radio and streaming services. Cumulus has a convoluted share structure, with over half of its shares untradeable Class B shares and warrants. Finally, despite shedding debt in bankruptcy, leverage remains elevated. The market's pessimism is overdone, the share structure issue will resolve in time, and the company will continue to reduce its debt to sustainable levels.

Radio is as close to a "living fossil" as an industry can be. I sit only a few miles from the transmitter for KDKA, the world's first commercial radio station, broadcasting since 1920. Digital broadcasts are overtaking analog, but the essential mechanism of radio has not changed meaningfully since the beginning. Despite the market's impression of industry obsolescence and decline, Cumulus is growing its revenues. Revenue rose 0.4% in calendar 2018. The company's revenue for the quarter ended March 31, 2019 grew 1.4% year-over-year despite fewer stations owned. Perhaps not much, but meaningful after multiple years of decline. Cumulus has done an excellent job promoting its digital offerings, including podcasts. The upcoming 2020 election will be hotly contested, and Cumulus's ad revenue will benefit. I don't expect Cumulus to grow its top line at any impressive rate, but neither do I expect to see revenues fall off a cliff.

On the debt front, Cumulus has already managed to cut its total debt from $1.3 billion to $1.05 billion in just over one year. The company achieve this reduction via combination of free cash flow and asset sales. The company has been selling stations outside its top-priority markets with the goal of lowering net debt to 4.0x EBITDA as quickly as possible. Cumulus recently succeeded in replacing more than half of its bank debt with 7-year senior notes at a reasonable rate of interest. Once the company's leverage picture has been fully addressed, it will be able to make investments to bolster revenue growth or to return capital to shareholders.

Cumulus's share structure should simplify over time and as it does, trading liquidity will improve. The company is seeking a waiver to allow foreign holders of its penny warrants to convert them to common stock. At present, only the company's Class A shares are tradable. Excluding blocks of shares own by major holders, the value of free-floating Cumulus stock is only $120 million.

Cumulus management projects free cash flow of as much as $100 million per year, a reasonable target given the company's reduced debt load and minimal investment needs. Cumulative cash flow may exceed the company's market capitalization over the next three years. It could take some time for the market to wake up to Cumulus's value and shares will likely behave in a volatile fashion in the interim. Downward moves in the stock may present excellent opportunities to add more cheap shares.

The final newcomer I wish to discuss is a special situation in the junior debt of **Frontier Communications**. Frontier is a telecom provider with a national footprint and a focus on internet operations. Frontier Communications was cobbled together in a series of acquisitions, the largest of which was Verizon's FIOS assets in California, Florida, and Texas. The company is deeply troubled. Unlike our Nuvera Communications and LICT Corp., Frontier is massively leveraged, struggles with a low-quality network, and faces aggressive competition. Despite a huge effort to upgrade its aging copper network to modern fiber, Frontier has not managed to stem customer losses. The company has used operating cash flow and asset sales to reduce debt, but it has not been enough. The market clearly expects Frontier to declare bankruptcy and restructure, shedding many billions in debt.

So why get involved? Turns out Frontier's junior debt trades at highly distressed levels. Despite its obvious issues, Frontier has quite a bit of value as a going concern. The company will earn roughly $3.5 billion in EBITDA this year, ignoring the contribution of assets earmarked for sale. Even assuming a rock-bottom valuation of 4x EBITDA, Frontier is worth $14 billion. Frontier's total debt is over $17 billion, so there's little hope for the equity except under the most optimistic scenarios. Frontier has $5.5 billion in secured debt and net pension and retirement obligations of around $2 billion. Deducting those obligations from the $14 billion enterprise value leaves $6.5 billion in value. Frontier has unsecured junior debt totaling $11.7 billion. In a bankruptcy scenario, junior debtholders could reasonably expect to receive about 56 cents on the dollar. This aligns well with recent trading in the various series of junior debt.

So, what makes this debt interesting? As it turns out, there is a way to invest in Frontier's debt at a far lower price. **Merrill Lynch Depositor Inc., PreferredPlus, 8.375% Trust Certificates, PreferredPlus Trust Series CZN-1** may be a mouthful, but it is simply some long-term unsecured Frontier debt repackaged into an exchange-listed baby bond, ticker PIY. Underlying each share of PIY is $29.71 face value of Frontier debt due 2046. Adjusted for accrued interest, PIY allows us to invest in this debt at 43% of par value, a 17% discount to the trading price of the underlying bonds. It gets more interesting. Should Frontier default enter bankruptcy, PIY's trustees will immediately sell the underlying bonds and distribute the cash to PIY's holders, closing the gap between PIY's trading price and the value of the underlying bonds. Trading at 52, these bonds are clearly already pricing in a bankruptcy filing, so I don't expect them to fall materially when and if the company files. If Frontier does pull off a near-miracle and regain its financial footing, we will benefit as the value of the underlying bonds rise. There are two ways to win, and the discount to the value of the underlying bonds protects us should Frontier's value decline further.

The reason PIY is cheap should be a familiar one for Alluvial Fund partners: illiquidity. PIY's dollar volume averages only $40,000. What's more, the baby bond market is highly retail driven. Many holders may be unaware of the value of the value of the underlying securities.

I have been adding to our roster of special situations, including an intriguing revenue royalty security that offers an expected annualized return of 16% over its life. This security is exceptionally difficult to buy. It has taken me months to build up even a small position, so I must refrain from naming it for now. I don't have a particular view on the likelihood of a major market downturn ahead of us, but I am always happy to add holdings that offer a double-digit return with a risk profile much different than the broader market or ideally, practically no risk at all!

Other Updates

Alluvial Fund now sits at just under $23 million total assets. I continue to seek likeminded partners to join our venture. If you know of anyone who would enjoy hearing about Alluvial Fund, I would appreciate the referral! I have no shortage of ideas for places to employ capital.

For those partners in New York City and environs, I will be in the city on September 17 to present on Alluvial Fund. You are welcome to attend the event or to meet with me before or after. Details will follow.

Thank you for reading. Please let me know if you have questions or comments about our portfolio or strategy. I welcome the opportunity to discuss our holdings with partners, or simply to catch up. I hope you are enjoying the summer months and I look forward to writing to you once again in October.

Best Regards,

Dave Waters, CFA
Alluvial Capital Management, LLC

Disclosures

Investment in Alluvial Fund are subject to risk, including the risk of permanent loss. Alluvial Fund's strategy may experience greater volatility and drawdowns than market indexes. An investment in Alluvial Fund is not intended to be a complete investment program and is not intended for short-term investment. Before investing, potential limited partners should carefully evaluate their financial situation and their ability to tolerate volatility. Alluvial Capital Management, LLC believes the figures, calculations and statistics included in this letter to be correct but provides no warranty against errors in calculation or transcription. Alluvial Capital Management, LLC is a Registered Investment Advisor. This communication does not constitute a recommendation to buy, sell, or hold any investment securities.

Performance Notes

Net performance figures are for a typical limited partner under the standard fee arrangement. Returns for partners' capital accounts may vary depending on individual fee arrangements. Alluvial Fund, LP has a fiscal year end of December 31, 2018 and is subject to an annual audit by Cohen & Company. Performance figures for year-to-date periods are calculated by NAV Consulting, Inc. Year-to-date figures are unaudited and are subject to change. Gross performance figures are reported net of all partnership expenses. Net performance figures for Alluvial Fund, LP are reported net of all partnership expenses, management fees, and performance incentive fees.

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