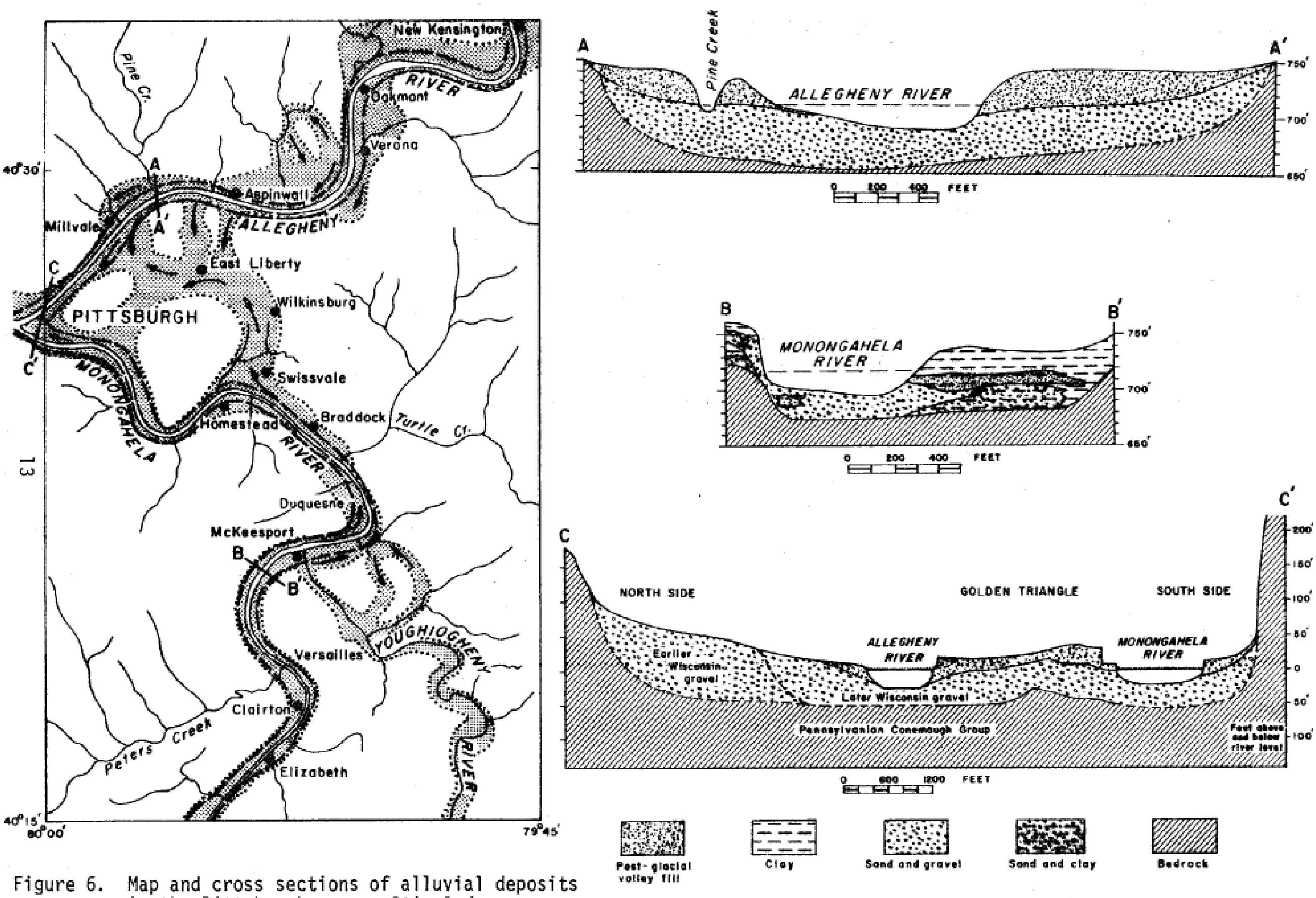

Figure 6. Map and cross sections of alluvial deposits in the Pittsburgh area. Stippled zone on map defines high-level terraces, and areas within dashed lines are low-level alluvial deposits. Arrows show flow direction of streams that formed high-level terraces (adapted from Wagner, and others, 1970 and Noecker, and others, 1954.)

Alluvial

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Letter to Limited Partners Fourth Quarter 2022

The views from atop Mt. Washington and Troy Hill today offer sweeping vistas of the wide valley containing the city of Pittsburgh. However, they also offer a glimpse at the handiwork of nearly a million years worth of geologic development.

As shown on the cover image, the Allegheny and Monongahela rivers have, over millennia, carved into the landscape and distributed an assortment of sand, gravel, and other sediments. Though these rivers, their flows no longer impacted by glaciers advancing into the region, meander along fewer paths than they once did, their work has been done. At the confluence of the Allegheny and the Monongahela, and upon the alluvial deposits they once carried, sits the Golden Triangle of downtown Pittsburgh.

Photo Credit
45th Annual Field Conference of Pennsylvania Geologists, p. 18

Alluvial

CAPITAL MANAGEMENT, LLC

Dear Partners,

Alluvial Fund returned 4.2% in the fourth quarter, slightly behind benchmarks. For the full year, Alluvial Fund declined by 14.9% while small-cap and micro-cap indexes lost 19-22%. After six full years of operations, Alluvial Fund has returned 12.2% annually net of all fees and expenses compared to 5-6% annually for comparable small-cap and micro-cap benchmarks.

Investing can be likened to feeding dollars into a mysterious machine. Most of the time, the machine rattles and smokes and then spits out a dollar, plus a few cents. Usually 5 cents or 15, now and then more. What a miraculous device! But sometimes, something goes awry and the machine returns only 80 or 90 cents. Or once in a great while, just 50 or 60! Despite these malfunctions, it's easy to understand why this metaphorical machine is so popular. Those who are willing to shoulder the occasional losses are highly likely to walk away much richer given enough repetitions. This machine, like the stock market, is an amazing wealth creator.

TABLE I: Alluvial Fund LP Returns (%) as of December 31, 2022

	2022	2021	2020	2019	2018	Cumul.	Annual.
Alluvial Fund LP NET	-14.9	31.0	28.4	18.4	-9.0	99.9	12.2
Russell MicroCap TR	-22.0	19.3	21.0	22.4	-13.1	35.7	5.2
Russell 2000 TR	-20.4	14.8	20.0	25.7	-11.2	40.1	5.8
MSCI World Sm+MicroCap NR	-19.1	15.8	16.5	25.7	-14.3	45.0	6.4

Partnership began operations 01/01/2017

The purpose of Alluvial Fund is to be a better machine that creates wealth faster. (Otherwise, why pay me a dime?) Thus far, it has been. A big part of our outperformance is owed to our ability to avoid the worst of the market's losses during downturns, a pattern that repeated this year. Since inception, we have always had a strong preference for boring companies with strong balance sheets and predictable cash flows. Businesses like these can be frustrating to own when the market is soaring, but they prove their worth when the bubble bursts.

2023 is off to a reasonably good start. I don't know if this trend will continue or if it will be another frustrating year. I do know that at current prices, our holdings offer excellent value. I continue to seek out additional opportunities, a few of which are featured for the first time in this letter.

Portfolio Updates

Last time I wrote, I introduced a new investing theme: **ECIP banks**. These banks were the lucky recipients of huge slugs of nearly zero-cost equity capital courtesy of the US Treasury. Our basket of ECIP banks has performed well, each up at least 20% from our average purchase price. As I write this letter, these banks collectively represent Alluvial Fund's largest position. Each bank remains distinctly undervalued, a situation that will continue to resolve as awareness of their new economics grows. Many of the banks that received ECIP funding have mediocre credit quality and a spotty earnings history; not ours. In my view, investing in banks that were delivering for shareholders before being supercharged by ECIP funds is the lowest-risk approach to participating in this theme.

On the topic of superchargers, our investment in **Garrett Motion** preferred shares is performing well. Garrett Motion shares have been rising as the semiconductor supply chain normalizes, unsnarling automotive production. Additionally, rumors of a possible sale began swirling in November. The company has not commented on the rumors, but an eventual sale has always been the most likely outcome for Garrett Motion. Should a sale come to pass, I think holders of Garrett's convertible preferreds can expect at least $12.

It has been a quiet stretch for **P10 Inc.**, our second-largest holding as of the date of this letter. Third quarter earnings were healthy. The fundraising environment for alternative investments is tougher now than it was a year ago, but P10 continues to add assets under management and has maintained its 2023 targets. Fortunately for P10, it does not have significant exposure to the most challenged of asset classes, real estate. On the third quarter earnings conference call, Co-CEO Clark Webb remarked "….I will tell you, it's much harder today to allocate capital externally when our stock trades where it does. So you can see that we have instituted a buyback and have begun buying back shares. But we are certainly hard-pressed to find businesses like ours trading at valuations like us. And so we do have a new competitor in the room, if you will, which is our own stock." No argument from me! At higher valuations, I would rather see P10 use its resources to acquire new alternative assets managers than repurchase shares. But at these prices, the case for repurchasing shares is compelling. The company took advantage of the dip below $10 to repurchase quite a few shares and announced a $20 million increase to the buyback authorization at year-end. Shares have rebounded from the lows but remain extremely cheap.

Unidata SpA announced yet another ambitious development: the acquisition of TWT Group. Acquiring TWT will nearly double Unidata's revenues and will add an asset-light services business with a national presence to complement Unidata's existing Rome-centered infrastructure-heavy business. Unidata will fund the purchase with a combination of cash and debt, plus TWT's largest shareholder will roll a portion of the purchase price into Unidata shares. Unidata also announced its financial partner for the Tyrrhenian Sea undersea cable, an Italian infrastructure fund. Two or three years out, we are looking at a much larger and more profitable Unidata. I expect the market to reward Unidata's increased scale and more liquid shares with an appropriately higher multiple and share price.

Our Polish holdings had a tough year. Despite declining share prices, the underlying economic performance of these businesses, **Auto Partner SA** in particular, has been excellent. The macro environment in Poland has been seriously challenging, leading many Polish investors to abandon local equities for the safety of government debt or foreign stocks. However, there are signs that inflation is easing and that investor trepidation is on the wane. Bottom line: our Polish holdings are high quality, growing businesses trading at mid-single digit multiples of earnings. Businesses like these do not remain cheap forever.

I wish I could say that all our holdings graced us with excellent earnings reports this quarter. Unfortunately, there was one significant disappointment in **GEE Group**, our employment agency turnaround in progress. Shares ran up to start the fourth quarter as investors grew excited about the company's recent successes and dirt-cheap valuation. But hopes were dashed as the company reported essentially zero profit in the fourth quarter after several consecutive quarters of healthy earnings. Revenue and gross profits were both fine, still riding high as the tight labor market rolls on. But operating costs ballooned, mostly the result of the company accruing large bonuses and incentive payments at the end of the fiscal year. I don't have a problem with the bonuses. In a year of record revenue and profits, the staff deserve their reward. I do have an issue with the company dealing shareholders a nasty shock by cramming these bonuses into a single quarter rather than accruing them throughout the year. The news wasn't all bad. The company still produced $1 million in free cash flow in the quarter. They indicated they expect another strongly profitable year in fiscal 2023. But the damage is done, and what was formerly a nicely performing investment now sits just below breakeven.

TABLE II: Top Ten Holdings, 12/31/22 (%)

P10 Inc.	10.6
ECIP Bank Basket	9.8
Unidata S.p.A.	8.2
Rand Worldwide Inc.	5.8
Fitlife Brands Inc.	5.0
Garrett Motion Inc.	4.9
EACO Corp.	3.9
GEE Group Inc.	3.8
LICT Corporation	3.8
Butler National Corp.	3.6
Total, Top Ten	***59.6%***

I can excuse a disappointing earnings report, even if it was avoidable. We are investing for what our companies will do in the years ahead, not the next quarter. What concerns me much more is GEE Group's failure to commit publicly to a capital allocation framework. The company has been accumulating cash far in excess of its operating needs for several quarters now, yet it has not chosen to reward shareholders with a return of capital or increase its earnings power with acquisitions or internal initiatives. Back in December, the CEO promised the board would meet to consider implementing a share buyback once earnings were "digested" by the market. He also promised "good things" ahead. We're still waiting. GEE Group will report to shareholders again in just a few weeks. I expect a much-improved report and some answers on the capital allocation question. These answers will determine whether GEE Group maintains its place in our portfolio. With so many other great opportunities out there, there's no room for a company that repeatedly fails to deliver on its promises, no matter how optically cheap its shares may be.

Special Situations

Alluvial Fund's special situations holdings contributed well to close out the year. **Pegroco Invest AB** inches closer and closer to repaying the accrued dividends on its preferred shares. The firm announced it would merge with another investment company with an eye toward an exchange listing for its common shares in 2023. To pull this off, Pegroco will need to take the final step toward cleaning up its capital structure by going fully current on its dividends.

We identified an attractive liquidation scenario in the fourth quarter: **Retail Value Inc.** "RVI" was once the owner of numerous shopping centers across the USA. Now all these properties are sold and RVI is just a cash shell that will pay off all remaining liabilities and distribute the remaining proceeds over the next few years. I expect the distributions to be heavily weighted toward 2023 and 2024. As far as liquidations go, Retail Value is an especially clean situation. There are no "squishy" assets of uncertain value. The company's liabilities are well-defined and highly unlikely to be re-estimated upwards. In fact, I believe the company is being quite conservative in its estimate of the remaining liquidation expenses. When all is said and done, I expect to receive around 31 cents per share in liquidation proceeds, well above our average cost of around 20 cents per share. Alluvial Fund is the owner of nearly 1.7 million RVIC shares, equal to 7.9% of the total outstanding. Our 13G filing (the fund's first!) can be viewed here. A special thanks goes to Odeon Capital Group for locating blocks of Retail Value shares for sale, as Interactive Brokers, in its unfathomable decision-making, prohibits clients from acquiring RVI shares.

TABLE III: World Allocation, 12/31/22 (%)

United States	74.9
Eurozone	13.2
Poland	5.9
Sweden	4.0
Canada	1.3
Other	0.7
Total	***100%***

Currently, I am looking at another Swedish preferred stock that I believe will resume paying dividends in 2023. And in a few months, we will receive the final payment on a bankruptcy-related royalty security I haven't mentioned before due to my continued efforts to acquire more of the exceptionally illiquid units. I continue to expect special situations investments to play a greater role in the Alluvial Fund portfolio in the coming years.

New Holdings: Introducing Fitlife and Supremex

Alluvial Fund has a meaningful new holding in **Fitlife Brands**, a retailer of health and fitness supplements. While the economics are good and the value is compelling, our investment is also a "jockey" bet on Fitlife's CEO and controlling shareholder, Dayton Judd. In past letters, I have mentioned that within the ecosystem of micro-cap companies, there are a few individuals whose every move is worthy of attention. Mr. Judd is one of those people. I first crossed paths with Mr. Judd years ago when we were both invested in Otelco, an underperforming telecom provider. We discussed various ways of achieving better outcomes for shareholders. Ultimately, I choose to move on. Mr. Judd got himself appointed to the Otelco board of directors and, eventually, won a reasonable outcome for shareholders despite Otelco being, in retrospect, a weakly-positioned and capital-starved company. Following that, Mr. Judd moved on to new projects including Fitlife.

Over time, Mr. Judd has built Fitlife by adding new brands and building new distribution channels, including a healthy e-commerce presence. The returns have been phenomenal. So good, I kick myself for not casting our lot in with Fitlife earlier.

Presently, Fitlife operates through 9 different brands. The various products are meant to aid bodybuilders and fitness enthusiasts in building muscle and burning fat—think whey protein, creatine, amino acids, pre and post workout shakes, etc. Not my thing, but people swear by this stuff and Fitlife's customers give it rave reviews. The biggest distribution channel for Fitlife's products is GNC stores, but the company has been working hard to increase sales through Amazon and direct through its website.

For the 12 trailing months, Fitlife recorded revenue of $31.2 million, operating income of $6.5 million, and net income of $5.2 million. The company has $14.9 million in cash and no debt. At the current share price, this works out to 14.3x earnings, or 11.2x earnings backing out the company's cash. This is a reasonable valuation for a fast-growing, highly profitable, well-managed firm, but the story is about to get a lot more compelling. Fitlife has agreed to buy Mimi's Rock, a Canadian health foods retailer. While Mimi's Rock managed to build multiple successful brands, it has long been burdened with excessive overhead and an over-leveraged balance sheet–both problems that Mr. Judd can address. The acquisition will double Fitlife's annual revenue and increase its operating income by at least 50%. Fitlife will fund the acquisition with a combination of cash on hand and a moderate amount of low-cost debt, which it expects to pay down completely within a year. Once the acquisition has been completed and the new brands integrated with Fitlife's platform, I expect the transaction to increase Fitlife's earnings by more than 50%. Beyond the purely financial, this acquisition will also reduce Fitlife's dependence on GNC, cutting GNC sales from two-thirds of revenue to one-third. E-commerce will become a much more substantial portion of Fitlife's distribution.

The Mimi's Rock acquisition is a big step, but I know Mr. Judd has plenty more building to do. I am excited to be along for the ride.

Like Fitlife Brands, we have also been looking northward for opportunities. A second new holding I'd like to mention is **Supremex Inc.**, a manufacturer of envelopes and packaging materials with operations in Canada and the US. Over time, Supremex has built its envelope business, both organically and through acquisitions, to the point where it now occupies a dominant position in the Canadian market. Envelopes are certainly not a growth market—I may have finally found something less exciting than rural telecoms!—but the expected perpetual decline here all but guarantees that nobody will attempt to build a new envelope manufacturing facility. Supremex is essentially the "last man standing" in a declining industry, the result of which is pricing power. Indeed, the selling price of Supremex's envelopes was up 30% year-over-year in the third quarter without any noticeable effect on the volume of sales. Some of the price increase was due to inflationary pressures, but the increase more than compensated for increased raw materials costs, allowing Supremex to earn record margins.

Supremex is aware that the envelope market is in decline and is dedicating its cash flow and acquisition efforts toward the growing packaging market. Packaging has been a hot area due to the steady growth of online retail and the movement away from plastic toward more environmentally friendly, recyclable paper and cardboard packaging. Just days ago, Supremex announced the acquisition of Paragraph, a Quebec packaging producer. But Supremex isn't just an acquirer. Management also likes to reward shareholders with significant share buybacks and regular dividends.

Despite its recent successes, the market still views Supremex as a dinosaur. Shares change hands at just 6.5x trailing earnings, a ratio that is sure to fall once fourth quarter 2022 results are reported. Looking ahead, the recent acquisitions of Paragraph and a small US envelope producer, Royal Envelope, will further bolster results. Harvesting cash flows from a declining business to reinvest in a more promising segment is not the easiest tightrope to walk, but so far, Supremex is managing the transition with excellence.

I continue to enjoy searching for opportunities in the expert market. Any market where many can sell but few can buy will regularly serve up chances to buy securities on incredibly attractive terms. Near year-end, I was able to acquire shares of a deregistered structured product that holds long-term debt issued by a giant investment-grade S&P 500 company. The underlying bonds trade at a small premium to par, but the structured product, solely due to falling to the expert market, trades at a 35% discount and yields >10%. Simply too good to pass up. A 10% rate of return is below our usual return targets, but not when it can be achieved with little risk. There is a chance our ultimate realized return could be higher if the security becomes exchange-traded again or if the issuer tenders for the underlying debt or structured product units.

Concluding Thoughts

I am pleased with Alluvial Fund's track record. Still, my responsibility as investment manager is to improve, improve, improve. I have spent a lot of time this winter thinking about what has and has not worked over our six-year history. More of the former, less of the latter. The next six years will be better because I will be better.

I am thankful for the numerous partners who committed additional capital to the fund last year, and to the many new partners who joined. I am also grateful for my associate, Tom Kapfer, who contributed immensely to Alluvial's research processes. Quarter after quarter, Tom edits these missives into something almost readable.

We will soon begin the annual audit and tax reporting processes. Once again, we will work to finalize each as quickly as possible to avoid causing undue delays in your tax preparation.

In the coming weeks, we will host a webinar to update partners on Alluvial Fund developments and allow for questions and comments. Information will follow. In the meantime and as always, feel free to contact me at any time. I thank you, as always, for the opportunity to manage your hard-earned dollars. I will do all I can to grow your capital alongside mine in 2023.

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, 2022 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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