Alluvial

FUND, LP

email: info@alluvialcapital.com
website: alluvial.capital
phone: (412) 368-2321

Letter to Limited Partners Second Quarter 2023

The cover image shows a container ship docked at the port of Halifax, in Nova Scotia, Canada. Halifax is one of the country's busiest ports thanks to the quality of its harbor and its proximity to Europe. Logistec Corporation, an Alluvial Fund holding, operates at Halifax in both the Richmond and Ocean terminals, handling a variety of break-bulk, ro-ro, heavy lift, and project cargos. It also performs offshore resupply for cruise ships as they increasingly visit Halifax. Read the letter to hear more about recent developments with Logistec.

Alluvial

CAPITAL MANAGEMENT, LLC

Dear Partners,

The second quarter was a strong one for Alluvial Fund. The partnership gained 9.0% compared to 5.3% for the Russell 2000 Index and 4.8% for the Russell Microcap Index. We remain well ahead of benchmarks year-to-date and since inception.

TABLE I: Alluvial Fund LP Returns (%) as of June 30, 2023

	2023	2022	2021	2020	2019	Cumul.	Annual.
Alluvial Fund LP NET	12.8	-14.9	31.0	28.4	18.4	125.6	13.3
Russell MicroCap TR	2.3	-22.0	19.3	21.0	22.4	38.8	5.2
Russell 2000 TR	8.1	-20.4	14.8	20.0	25.7	51.4	6.6
MSCI World Sm+MicroCap NR	7.2	-19.1	15.8	16.5	25.7	55.4	7.0

Partnership began operations 01/01/2017

I admit to a sense of surprise at our good results thus far in 2023. This is not a market that is rewarding the shareholders of cash-producing stalwarts. Instead, investors are once again falling over themselves to buy shares of the same hyper-growth companies that produced such incredible returns in 2020 and 2021 and such misery last year. I don't mean real companies like Microsoft and Alphabet—even at 30 or 40 times cash flows, investors in these dominant and profitable franchises will likely earn an acceptable return on a long enough timeframe—but companies like C3.ai? Symbotic? Joby Aviation? Shares of each are up >150% this year. Investors in C3.ai are happily paying >15x trailing revenue to own the company. Holders of Symbotic are paying >35 times. As for Joby Aviation, owners are valuing the company at $7 billion despite *zero lifetime revenue* and a mere *hope* that someday the company will have a viable product. And here I am hoping the market will value some of our companies at better than 6 or times 7 times their sustainable and growing free cash flow.

While investors seem intent on reliving the experiences of 2020 and 2021, I see no shortage of bargains in the large cohort of companies that remain tethered to reality. Beneath the several dozen companies that dominate the financial media and investor attention, there are thousands of profitable and growing firms that are insufficiently researched. It is in these companies, particularly in the smallest and least known, that Alluvial Fund has always found its best opportunities.

Portfolio Updates

Little has changed at the top of the portfolio. Our largest holding, **P10 Inc.**, delivered a pleasant surprise by qualifying for inclusion in the Russell 2000 Index, something that I had thought was at least another year away. Index inclusion, and the passive investors and fund flows that it brings, is one of the best ways for small public companies to reduce their cost of capital. I attended the company shareholder meeting in June and was pleased with management's strategic vision for the company. Despite a more challenging fund-raising environment, P10's asset managers continue to deliver. P10's flagship RCP Advisors just announced it had raised almost $800 million for its RCP Secondary Opportunity Fund IV, well above the $500 million target.

Unidata SpA continues to integrate its acquisition of TWT Group, a purchase which will boost profitability by at least 50% over the next two years. In my last letter, I mentioned Unidata's efforts to qualify for a higher tier of the Borsa Italiana, the STAR Segment. The application was approved and Unidata shares debuted on the STAR Segment in June. The move is consequential, as companies on the STAR segment receive significantly more investor attention and often, a higher valuation. The company's other business initiatives, including a submarine cable linking Sicily with Genoa and a new data center, continue to progress.

TABLE II: Top Ten Holdings, 6/30/23 (%)

P10 Inc.	8.1
ECIP Bank Basket	7.4
Unidata S.p.A.	5.7
Hammond Power Solutions Inc.	5.5
Rand Worldwide Inc.	5.2
Logistec Corp.	4.4
Supremex Inc.	4.3
Fitlife Brands Inc.	3.9
EACO Corp.	3.6
Crawford United Corp.	3.5
Total, Top Ten	***51.6%***

I rarely write about **Rand Worldwide**, mostly because there's not often much new to say. This is a business that simply performs, and that's why it is a large holding and will remain so. I sometimes describe Rand Worldwide as a revenue royalty on the sale of mission critical industry standard software, and that's typically a good cash flow stream to own. The good performance continued in the quarter ended March 31 with revenue up 19% year-over-year and operating income up 35%. Rand is likely at a short-term revenue and profit peak, as certain of the products it resells are on multi-year renewal cycles. But shares remain a good value on profits just a year or two away, and the company will remain a prodigious payer of special dividends. All the more reason to hang on.

In May, I made the short drive up to Cleveland for the **Crawford United** shareholders meeting. Crawford United is our Midwestern conglomerate that is building a niche industrial powerhouse. Since 2017, Crawford's revenue has increased from $24 million to a run rate of $160 million with earnings increasing in tandem. While other companies might decamp for a flashy downtown office, Crawford remains headquartered in a modest brick building in a weedy section of East Cleveland.

Crawford, like many other industrial companies, was pressured in 2021 and 2022 by rising inputs prices, struggles to obtain essential components, and difficulties with staffing. But thanks to pricing adjustments and the unsnarling of supply chains, Crawford is on pace to record a record year. The company earned 97 cents per share in the first quarter, $1.07 adjusting for a non-cash loss on investment and intangibles amortization. Net debt is down to $18 million from $25 million at the end of 2021. Shares are up sharply this year, but remain quite cheap at <6x 2023 cash earnings. I enjoyed discussing Crawford's acquisition strategy with Chairman Crawford at the shareholders meeting and I look forward to seeing what they add to the company's stable of profitable manufacturers next.

PHOTO — Crawford United H.Q.

Our ECIP banks struggled with the rest of the financial sector in the quarter as pressure from rising interest rates and concerns about credit quality lingered. For their part, management at the banks we hold is minimally concerned about deposit flight or loan performance. I very intentionally chose to concentrate in the high quality ECIP recipients when building our bank basket. These banks have a demonstrated history of solid credit performance, healthy capital ratios, and a rational approach to acquisitions and returning capital. As a group, our holdings trade at a weighted average price-to-tangible book ratio of 0.65 using the economic value of their ECIP preferred stock. While all these banks are very cheap on current earnings, we are invested for what they can do and become in the medium term. The Treasury's low-cost permanent investment in each will allow them to nearly double their balance sheets with the increased profit accruing entirely to common shareholders. The current headwinds will eventually subside and the market will recognize the earnings potential of each.

New Holdings

Our most significant new*ish* holding is **Logistec Inc.** The fund has maintained a small investment in the company for a few years now, but I elected to increase our holdings meaningfully in response to a promising development in May.

TABLE III: World Allocation, 6/30/23 (%)

United States	69.8
Eurozone	12.3
Canada	7.9
Poland	6.2
Sweden	2.4
United Kingdom	1.2
Other	0.2
Total	***100%***

Logistec is one of Canada's most successful public companies. It has the extraordinary distinction of being profitable every year for 50+ years, with no indication the streak is about to end. Logistec's main business is operating terminals at dozens of ports in Eastern Canada and the US. Simply put, this is a great business. Logistec enjoys strong pricing power and consistent demand for its services. Logistec's other segment is a profitable environmental services business that remediates polluted industrial sites and aging municipal water systems.

Despite its track record of profitability and growth, Logistec struggled in recent years to attract the market's attention. Despite nearly doubling its earnings since 2018, its shares would not move. The company tried various means of highlighting its successes. It initiated quarterly earnings calls and published an investor presentation for the first time. No luck. The company was simply too small and its shares too illiquid for the market to capitalize the company properly in the short run. So in late May, Logistec's controlling shareholder (a company controlled by the daughters of the founder) contacted the board of directors to inform the company it was seeking a means of disposing of its shares. The company responded by initiating a sales process.

IMAGE — Logistec Facility/Terminal Network*

I believe Logistec shares are worth in excess of $100 and that the company will achieve a sale price of at least $90 per share. This would represent a multiple of 10x 2022 EBITDA and ~9x 2023 EBITDA, accounting for a recent acquisition and improving results at both company segments. There is a strong appetite for port-related assets from infrastructure investors and pension funds. (Indeed, the *Caisse de Depot et Placement du Quebec* is a large existing holder of Logistec shares and is surely kicking the tires.) The presence of the smaller, less attractive environmental services business is a complicating factor, but a separate buyer can no doubt be found if necessary. While the timeline is uncertain, I would expect an announcement of some type before year-end. Even if no deal materializes, downside is limited by Logistec's modest valuation and the knowledge that the company is for sale. The fund was an enthusiastic purchaser of Logistec shares in the $50s. I remain very confident in our investment as shares sit at $65.

Hammond Power Solutions has been one of our best performers this year. The company is benefitting from a wave of spending on infrastructure build-out and electrification that will continue for years to come. I added another holding on the same theme this quarter: **Preformed Line Products**, a family-controlled Ohio manufacturer of all sorts of products that protect cables, especially those used in power transmission and communications. With the nation and the world racing to upgrade power grids and expand broadband internet access, it's an auspicious time for the company, and the results show it. This year will be a record one for Preformed Line Products, but shares remain very reasonably valued. Preformed Line Products has always taken a cautious approach to its finances, avoiding debt and making measured acquisitions to increase its capabilities. The company also has extremely substantial owned real estate worth around $300 million in my estimation. Preformed Line Product's market capitalization is approaching $900 million, but its shares continue to fly under the radar thanks to their low liquidity and the company's humble approach.

*Image from Logistec's 2022 Financial Report

Our most interesting and unusual addition this quarter comes from the Expert Market, the opaque and illiquid over-the-counter market to which non-reporting companies were banished following the SEC rule change of September 2021. The fund is now the proud owner of 12 shares of one of the market's highest-priced securities: **Mechanics Bank of Richmond**, a special situation that I believe will earn us twice our investment at some point in the next 2-3 years. Mechanics is the project of legendary bank investor Gerald J. Ford. Mr. Ford began acquiring banks in the 70s and burnished his reputation in the aftermath of the Savings and Loan Crisis, acquiring many troubled institutions and ultimately selling at a gigantic profit. Mr. Ford is still active in banking investments, including through the Ford Financial Funds. In 2015, Ford Financial Fund II acquired a majority stake in Mechanics, paying $26,832 per share. Under Ford's control, Mechanics performed a few smaller acquisitions, then a very large one in 2019, purchasing assets from Rabobank's North American subsidiary for $2.1 billion. Mechanics funded the acquisition in part from a rights offering at $38,000 per share, in which virtually all the rights were exercised by Ford Financial Fund II and Ford Financial Fund III. Following the rights exercise and acquisition, the Ford Financial entities owned 79% of shares outstanding and Rabobank owned 9.9%.

TABLE IV: Sector Breakdown, 6/30/23 (%)

Industrials	22.4
Financials	20.3
Information Technology	14.4
Consumer Discretionary	11.2
Communications	10.2
Consumer Staples	8.8
Materials	6.0
Real Estate	4.3
Energy	1.6
Health Care	0.8
Utilities	0.0
Total	***100%***

At year-end 2015, Mechanics had $3.5 billion in assets and $353 million in tangible equity capital. Here we stand 8 years later and the bank has grown into an $18 billion giant with $1.2 billion in tangible equity capital. The bank is significantly larger and more profitable yet shares trade sporadically in the expert market at just over $23,000. This is a discount to Ford Financial Fund's 2015 purchase price and a *huge* discount to the rights offering done just 3 years ago. Now, it's certainly possible that Mechanics overpaid for the Rabobank assets. It is also possible that Ford was over-valuing Mechanics shares in the 2019 rights offering, but I doubt they were far off. We are talking about a highly sophisticated investor who has seen several banking cycles. I think it's far more likely that Mechanics shares are trading well below intrinsic value due to their expert market status and minimal liquidity.

We are nearing the 10-year mark for Ford Financial Fund II's investment in Mechanics, during which Ford Financial has successfully built the bank's scale and boosted its profitability. At some point, they will want to exit their investment. Now is not a particularly easy time for banks, so I am not looking for an IPO or sale announcement soon, but conditions will change. When they do, I expect Mechanics Bank of Richmond shares to change hands at no less than $40,000 per share and possibly a good deal more. For now, I am very happy to own shares at 7x earnings and a scant premium to tangible book value.

Concluding Thoughts

Despite this year's run-up in global many global markets, I do not think the opportunity set before us has diminished much if at all. I continue to find value in out of the way places. I have begun building positions in a post-bankruptcy equity, an old-line materials company trading cheaper than it has in years, and a liquidating European shipping company, among others. All are too illiquid to mention at present, but I look forward to discussing each in future letters.

As I write, Alluvial Fund has crossed another important threshold by exceeding $40 million in assets. Despite this growth, the fund remains able to invest in the tiniest of opportunities. At some point I will have to close the fund to new capital to preserve this flexibility, but we're not there yet.

I welcome questions about the portfolio and Alluvial Fund's strategy. I will host another webinar for partners in late August. Details will follow.

Thank you for reading and for entrusting your capital to Alluvial Fund. I hope you and your families are well and I look forward to communicating with you again soon.

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, 2023 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.

Contact
Alluvial welcomes inquiries from clients and potential clients. Please visit our website at alluvialcapital.com, or contact Dave Waters at info@alluvialcapital.com or (412) 368-2321.