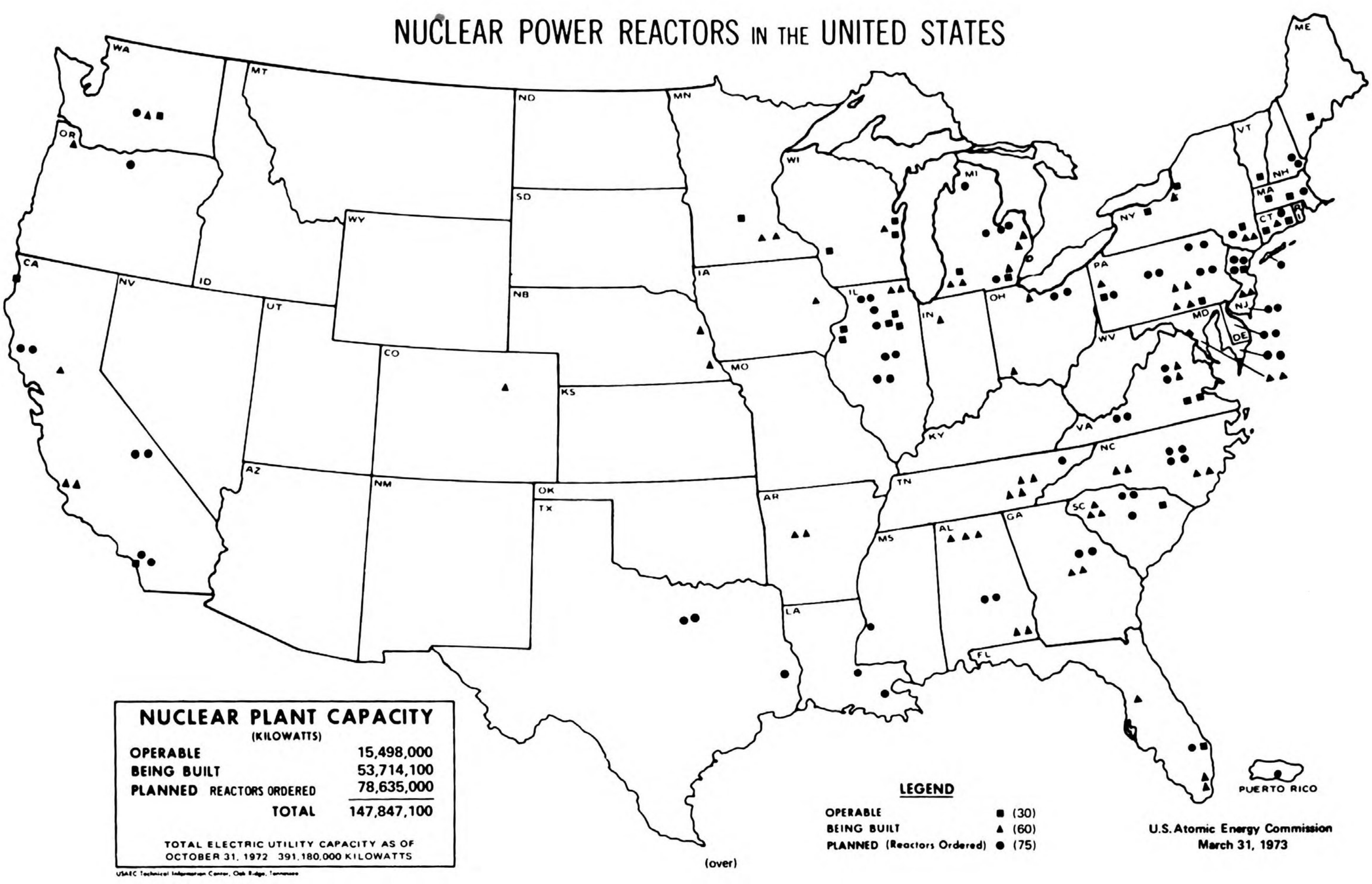

Alluvial

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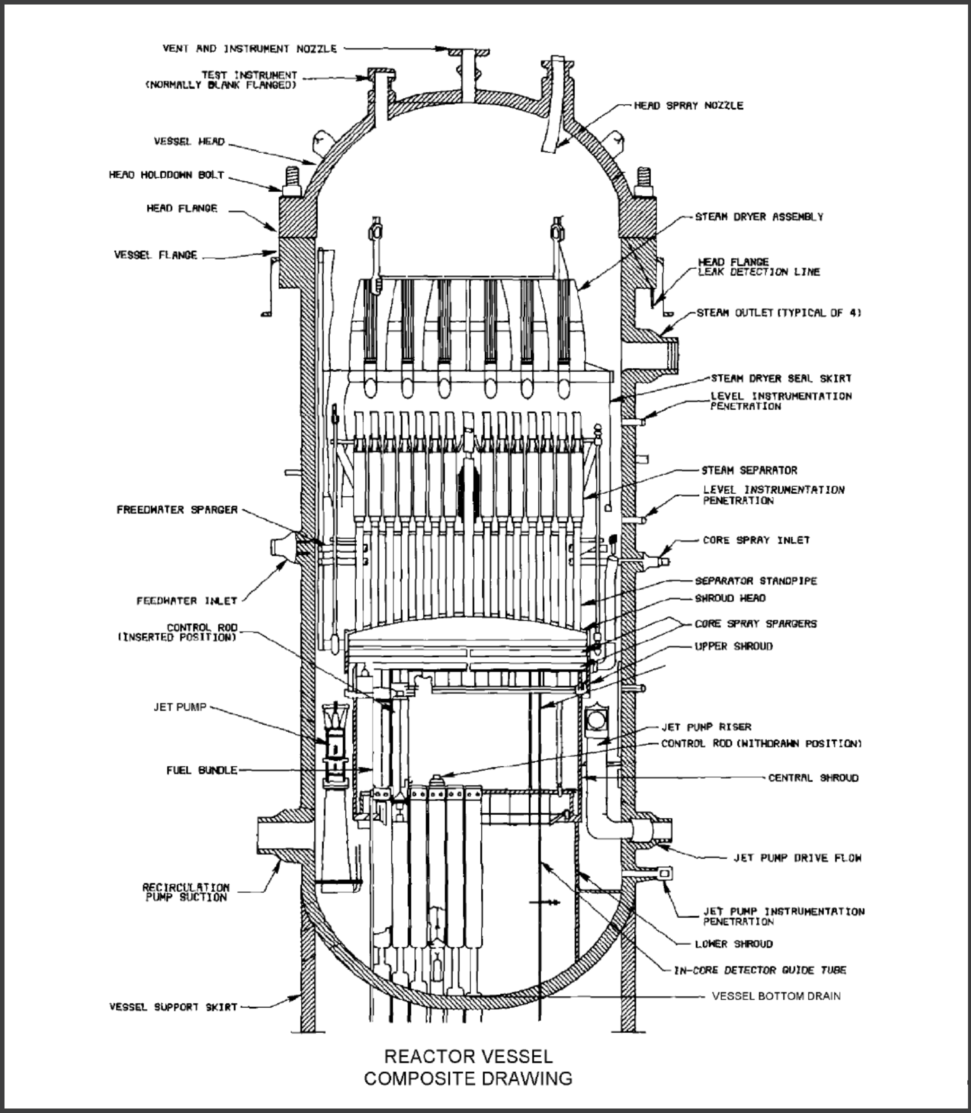
Letter to Limited Partners Third Quarter 2023



The cover image shows a map of existing and planned nuclear power reactors in the US in March, 1973. On the date of this map's publication, the future mix of power certainly appeared to include a substantial contribution from nuclear reactors. However, construction costs and operating reliability issues combined with changing public attitudes towards nuclear power would see over half of the planned capacity abandoned or shuttered in the coming decades.

One of the planned plants shown on this map that was ultimately constructed was the Susquehanna Steam Electric Station. This plant, its reactor is diagrammed above, is owned by Alluvial Fund holding Talen Energy. Read the letter to learn more about Talen.

Photo Credit
Front Cover: US Atomic Energy Commission -- Nuclear Power Reactors in the United States , p. 3
Reverse Cover: US Nuclear Regulatory Commission -- Final Safety Analysis Report for Susquehanna Steam Electric Station, p. 123

Alluvial

CAPITAL MANAGEMENT, LLC

Dear Partners,

Alluvial Fund fell 1.1% in the third quarter. This compares favorably to our benchmarks. The small-cap Russell 2000 Index produced a total return of -5.2% in the quarter, while the Russell Micro-Cap Index returned a lamentable -7.9%. Year-to-date, Alluvial fund is up 11.6%, strongly outpacing comparable indexes. Consistent with the historical pattern, the fund outperformed in this quarter's dreary environment thanks to a focus on little-known securities with strong balance sheets and predictable cash flows. Multiple portfolio holdings reported positive business developments and healthy earnings, which buoyed shares.

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

	2023	2022	2021	2020	2019	Cumul.	Annual.
Alluvial Fund LP NET	11.6	-14.9	31.0	28.4	18.4	123.1	12.6
Russell MicroCap TR	-5.8	-22.0	19.3	21.0	22.4	27.8	3.7
Russell 2000 TR	2.5	-20.4	14.8	20.0	25.7	43.6	5.5
MSCI World Sm+MicroCap NR	2.5	-19.1	15.8	16.5	25.7	48.6	6.0

Partnership began operations 01/01/2017

The Backdrop

Much ink has been spilled on the topic of the dismal recent performance of small-cap and micro-cap stocks. Probably a few tears as well. As I write, the Russell 2000 has given up all its year-to-date gains and then some. The Russell Micro-Cap Index is dreadful, down 12% in 2023. But wait, it gets worse! The Russell 2000 is 25% lower than its June 2021 peak and the Russell Micro-Cap Index is off 40%. Investing in small companies has been nothing short of a slog of late. But while the bear market may be painful, it is also healthy. From time to time, excesses must be flushed out of the system. The zero-interest rate era saw numerous companies brought to market with the flimsiest of business models and dubious chances of generating profits. A big part of this downturn is the share prices of these dodgy enterprises converging with their intrinsic values. Investors overpaid for low quality assets and now reality is setting in.

Interest rates are the driving force behind this re-evaluation. Investors may have been happy to roll the dice on a risky small cap when the opportunity cost was nil. Now that cash earns a safe

5%, the casino does not have the same draw. Again, I think this is ultimately a good and healthy development, but the adjustment is painful. The funding environment is radically different than it was a year ago. I expect more pain for shareholders of companies that must access meaningful external capital. The repricing of maturing debt capital will be a headwind for the foreseeable future.

Fortunately, our portfolio is heavily weighted toward companies that employ little or no debt financing and do not need to access additional equity capital. We do not invest in cash flow negative enterprises or companies that offer revenue growth but only the far-off hope of eventual profits. It has been hard to watch some of our high-quality holdings be sold off with the same vigor that investors use to discard marginal investments, but irrational moves create opportunity. I welcome the chance to add to certain of our holdings at valuations I thought I might never see again.

I made a number of changes to our portfolio this quarter, letting go of a couple long-time holdings and adding a few new ones.

TABLE II: Top Ten Holdings, 9/30/23 (%)

P10 Inc.	8.2
ECIP Bank Basket	6.7
Unidata S.p.A.	5.8
Rand Worldwide Inc.	5.1
Fitlife Brands Inc.	5.0
Crawford United Corp.	4.2
Logistec Corp.	4.1
EACO Corp.	3.5
Butler National Corp.	3.4
Supremex Inc.	3.1
Total, Top Ten	***49.1%***

Departing Investments

The fund invested in preferred shares of the Swedish investment company **Navigo Invest AB** (then called Pegroco Invest AB) in early 2021. The onset of the COVID crisis led the company to suspend dividend payments, causing its preferred shares to trade down to well below par. We invested as signs of an economic recovery were growing, paying around SEK 70 per share. Over the next two years, the shares recovered and resumed paying dividends. Navigo merged with another investment company and prepared to list its common shares in Stockholm. With the company back in good financial health and limited remaining upside, it was time to sell and move on. We exited our position in Navigo Invest preferreds at around SEK 120, realizing a 30% IRR.

Late in the quarter, we sold our entire position in **Wheeler REIT Series L convertible notes**. Our multi-year involvement with the various Wheeler REIT securities was more misadventure than anything, but we were able to salvage a gain thanks to these notes. At issuance, the Wheeler REIT notes were potentially convertible into common units at a steep discount to market value, making the notes immediately worth a large premium to par value. We accumulated a good-sized position, paying around $30 per note, and have now disposed of them at prices in the low $50s. Over the last couple of years, I became one of the better-informed market participants on Wheeler REIT, but I still do not understand this company's decision-making or ultimate goals. I am more than happy to wash my hands of the entire situation and find easier and less aggravating ways to earn a good return on our collective capital.

New Holdings

I have a soft spot for family-run businesses in boring industries far from global financial centers. Shocker, right? Problem is, many of these businesses are run for insiders, with the idea that outside investors should be happy with whatever scraps they receive after the "real owners" are satisfied. **Monarch Cement Company** is a happy exception. Founded in 1908 in Humboldt, Kansas, by H.F.G. Wulf, Monarch Cement operates a cement plant with >1 million tons of annual capacity. Walter H. Wulf, Jr., grandson of the founder, is CEO and chairman. Monarch produces and distributes Portland Cement and ready-mix concrete across Kansas, Missouri, and Iowa. The company has a stellar track record of profitability and growth.

Cement is nothing new for Alluvial Fund. We have been happily invested in a similar company, **Boston Sand & Gravel**, for several years. In Monarch Cement, I see an opportunity to own another rare asset with a huge economic moat, at a very attractive price.

Monarch is having a record year thanks to high cement prices and strong demand from construction and infrastructure projects. Despite strong performance year-to-date, Monarch Cement shares trade at just 5.5x my estimate of 2023 EBITDA and <10x net income. Monarch employs no debt and holds a substantial cash and securities portfolio. The company pays a healthy dividend and regularly repurchases shares. While the cement business is cyclical and Monarch will have its ups and downs, the current price represents an attractive entry point.

I don't put a lot of trust in relative valuations, but it's worth mentioning that Monarch Cement trades at a 40% discount to most other public cement producers. If the company were sold, shareholders could expect a very healthy premium. I don't expect the Wulf family to sell any time soon. Then again, family-controlled businesses tend to be "Not for sale!" until the minute they are. Whatever happens, I am happy to be invested with the Wulfs in a successful, attractively valued enterprise that will continue creating and sharing wealth for decades to come.

TABLE III: World Allocation, 9/30/23 (%)

United States	66.2
Eurozone	13.1
Canada	11.1
Poland	5.9
United Kingdom	1.6
Denmark	1.4
Other	0.7
Total	***100%***

We invested in a new post-bankruptcy security in the quarter, **Talen Energy Corp.** Talen owns a variety of power generation assets. Its crown jewel is the Susquehanna Steam Electric Station, a two-unit nuclear power plant with 2.5 gigawatts of capacity, enough to power 2 million homes. Talen sought bankruptcy protection after struggling with excess debt and high hedging costs. The company emerged from bankruptcy in May, shedding billions in debt. Talen shares currently trade over-the-counter, but I expect the company to achieve an exchange listing in short order.

Talen has numerous tailwinds that support a much higher share price. The Inflation Reduction Act passed last year contains supports and subsidies for nuclear power production, essentially providing Talen with a price floor and reducing its hedging costs. The result is a de-risked business model and a higher justified multiple of earnings and cash flows. Talen's nuclear plants could be desirable assets for larger regulated utilities looking to expand their renewables fleets. Acquisition rumors have swirled, but nothing has materialized yet. In the absence of a transaction, I would not be surprised to see Talen separate its nuclear assets from its legacy "dirty" natural gas and coal generation assets. Finally, Talen has a 95% stake in a new data center being built adjacent to the Susquehanna plant. There is strong interest in data centers powered by renewable energy sources, and Talen expects to sell the data center or otherwise monetize the asset. I expect Talen will look much different by this time a year from now, if it is still independent at all.

Next is **Hammond Manufacturing Corp.** We also own shares of Hammond Power Solutions, but this is the other Canadian industrial company, run by the other Hammond brother. I hope that clears things up. Hammond Manufacturing is significantly smaller than Hammond Power Solutions, but it is consistently profitable, and its products are experiencing a huge growth in demand. Hammond Manufacturing produces enclosures, cabinets, and racks for electrical applications. It also produces power distribution products like power strips and small transformers. All products that have seen great growth in demand thanks to the boom in data center construction, industrial facilities investment, and electrification.

The strong US Dollar benefits Hammond Manufacturing. About 60% of Hammond's sales are to US customers, while its expenses are all in Canadian Dollars. At the current run rate, Hammond Manufacturing shares trade at less than 5 times earnings. Free cash flow has been low of late as the company rebuilt depleted inventories and finished construction on a new facility in Palmerston, Ontario. Now that these investments are complete, I expect the company will focus on reducing debt and rewarding shareholders.

Finally, we have built a position in **Seneca Foods**. Seneca is a supplier of possibly the least glamorous product around: canned vegetables. I actually prefer the taste of certain canned veggies over fresh or frozen, but that seems to be an unpopular opinion. Still, there is a large market for canned vegetables, which appeal to the budget-conscious consumer. The market values Seneca like a relic in irreversible decline. That's why shares trade at half of tangible book value and below net current asset value. I happen to think Seneca is in substantially better shape than the market believes, thanks to changes in the market structure of the canned vegetables industry. Simply put, there is only so much profit to go around in a mature market. Seneca earned a good share of those profits until Del Monte, in a bid for market share, cut prices and bought a small, struggling producer. This went poorly for Del Monte, which ultimately chose to exit the market, shutting down some packing plants and selling others, including to Seneca Foods. Since Del Monte exited, Seneca's profits have bounced back. With Del Monte humbled and nobody else eager to rush in, I expect Seneca to enjoy a lengthy period of healthy profits and stable market share.

Seneca Foods shares trade at a mid-single digit multiple of 2023 profits. The company's capital allocation is reasonably good, with shares outstanding down 22% over the last 5 years and no major investment missteps. The company's accounting earnings can be volatile thanks to a quirk of inventory accounting. Seneca Foods is one of the few remaining public companies to employ

Image from Logistec's 2022 Financial Report

"LIFO" (last in, first out) inventory valuation, which has the practical effect of understanding the value of its inventory by $300 million. The LIFO convention results in under-stated earnings in periods of rising input costs and over-stated earnings when input costs are falling. Nobody should mistake Seneca Foods for a growth company or a return on capital standout, but neither should shares languish at 5x earnings.

Portfolio Updates

FitLife Brands continues to impress. Fresh off its highly promising acquisition of health food brand Mimi's Rock, FitLife has acquired all the operating assets of MusclePharm, a fitness supplements provider. I could not be more excited about this acquisition. With it, FitLife acquires an extremely well-known brand. MusclePharm was badly managed in recent years, but FitLife has a plan to restore its distribution and improve margins by favoring direct e-commerce sales over wholesale distribution. If FitLife can help MusclePharm recover even a fraction of its former revenues, the deal could double FitLife's profits. MusclePharm fits neatly into FitLife's existing supplements business, even using the same suppliers and manufacturers.

The MusclePharm acquisition is yet another extraordinary deal by CEO Dayton Judd. I expect the deal to increase FitLife's free cash flow to $2.50 per share in short order. Shares rose on the deal news, but still represent great value at $20. FitLife has become a large holding and will likely be one for quite some time.

I only wish the market were as sanguine when it comes to another large holding of ours, **P10 Inc.** After trading to the low $13s in August following a strong earnings report, shares have retreated all the way to below $10, a level we last saw in April. Since then, the company has raised an additional $1 billion of fee-paying assets under management and reduced debt by $18 million. When the company reports earnings in a few weeks, I expect further growth in AUM and additional debt reduction.

TABLE IV: Sector Breakdown, 9/30/23 (%)

Industrials	21.6
Financials	19.4
Information Technology	16.0
Communications	10.3
Consumer Discretionary	9.6
Consumer Staples	9.6
Materials	6.8
Energy	3.6
Real Estate	2.2
Health Care	0.9
Utilities	0.0
Total	***100%***

The additional assets under management increase P10's earnings by around 4.2 cents per share. The debt reduction increases earnings by an additional cent. Together these actions result in a 7% increase in P10's recurring cash flow per share in the last 6 months, but the market has shrugged it off entirely. P10 shares now languish at the lowest ratio of enterprise value to assets under management since the firm's IPO in 2021. Blame interest rates, blame a tougher environment for alternative assets fundraising. I still don't see why P10 shares should change hands at 11x free cash flow. Given P10's highly predictable and recurring revenue and earnings stream, I view the shares as an "equity bond" with a yield nearing 9%, a yield that will grow organically at high single digit rates for years on end. Those aren't easy to find.

Special Situations

In my last letter, I laid out the case for **Logistec Inc.**, predicting it would be sold and could fetch at least $90 per share. Good news first: Logistec has a buyer. Now the bad: the sale price is $67 per share, well below what I thought the company would fetch. What gives? Interest rates are the biggest factor. Since the company announced it would seek a sale last May, Canadian 10-year yields are up 120 basis points and US 10-year yields are up 100 basis points. The large move likely resulted in potential buyers moderating their bids or dropping out in the face of a more challenging funding environment. Faced with accepting the mediocre sale price or continuing with the status quo, the Paquin Sisters went for the cash. They must really be sick of running a public entity. Despite the disappointing sale price, the Logistec investment was a success, earning us 30% in a matter of months. I am sad to see such a unique company exit the public markets, but at least we made money on Logistec's way out. We will seek to redeploy the cash invested in Logistec into other attractive special situations.

Concluding Thoughts

Thank you for reading. I always look forward to the chance to explain my thinking and our portfolio's development. Please reach out if you would like to discuss any particular holding or would appreciate more detail on any aspect of Alluvial Fund. As the fund nears the 7th anniversary of its founding, I look with pride on what we have accomplished, and remain convinced our best days, and returns, are ahead of us. Markets rise and fall. There will be ups and downs along the way. But as long as there is value in the under-explored corners of the market, I'll be there looking for it.

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.

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