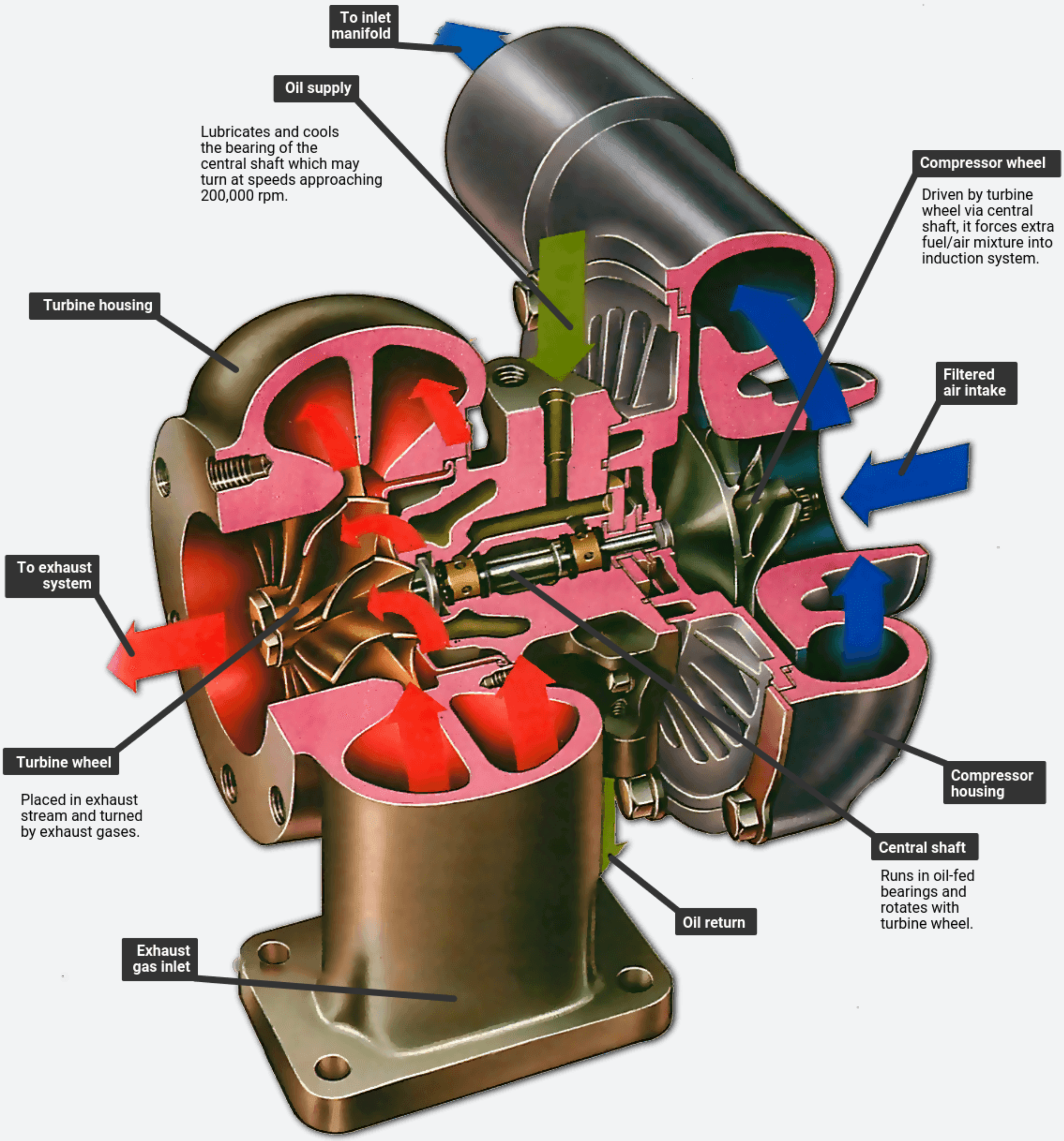

Alluvial

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Letter to Limited Partners Second Quarter 2024

The diagram on the cover shows the components of a turbocharger unit for an internal combustion engine. Ambient air is drawn into the unit, compressed, and discharged into the engine cylinders. This denser air allows the engine to draw an increased mass flow of air, increasing the fuel flow rate, which leads to greater power production and performance. The exhaust from the engine is then directed through the turbine and used to power the compressor.

Alluvial Fund portfolio company Garrett Motion produces turbochargers for light and commercial vehicles, motorsports, and other industrial applications. Garrett Motion's dominant market position allows it to earn strong returns on capital and return excess cash flow to shareholders. The company is investing heavily in both enhanced turbocharger technologies and new technologies for the growing hybrid and electric vehicle markets.

Photo Credit
www.howacarworks.com

Dear Partners,

Alluvial Fund had a good quarter, rising 3.9% and bringing our year-to-date gains to 10.4%. Meanwhile, comparable benchmarks sputtered. The Russell Micro-Cap Index declined 5.3%, falling into negative territory for 2024, while the Russell 2000 Index fell 3.3%, dragging down year-to-date returns to just 1.7%.

TABLE I: Alluvial Fund LP Returns (%) as of June 30, 2024

	YTD	2023	2022	2021	2020	Cumul.	Annual.
Alluvial Fund LP NET	10.4	15.1	-14.9	31.0	28.4	154.1	13.2
Russell MicroCap TR	-0.8	9.3	-22.0	19.3	21.0	47.1	5.3
Russell 2000 TR	1.7	16.9	-20.4	14.8	20.0	66.6	7.0
MSCI World Sm+MicroCap NR	1.4	15.1	-19.1	15.8	16.5	69.1	7.3

Partnership began operations 01/01/2017

A lot of ink has been spilled discussing the lamentable performance of small-cap stocks versus their large-cap and mega-cap peers in recent years. Even after this month's rally in small-cap stocks, small-caps as an asset class have delivered total returns nearly 50% behind those of the S&P 500 over the last 5 years. Instead of rehashing a tired subject, I would simply point out that this is hardly the first time small-caps have experienced a tough stretch. Between 1995 and 1999, large-cap stocks crushed small-caps, returning a scorching 221% to small-caps' 116%. Then, things changed. From 2000 to 2004, small-caps rose 38% while large-caps fell 18%. I am *not* making a prediction about when small-caps and micro-caps will again produce sustained outperformance. I *am* noting that in 1999, the idea of selling large-cap champions that had tripled their owners' wealth in 5 years and buying small-cap laggards must have sounded like financial malpractice. But those who did saw their wealth grow while large-cap stocks went nowhere for 7 years. When the wonderful returns produced by an asset class or a market sector lead the mass of investors to exclaim with one voice "Why invest in anything else?", the shrewd investor will question this consensus.

Portfolio Updates

Our portfolio is largely unchanged from last quarter with **Net Lease Office Properties** still at the top. "NLOP" has been very active, selling five properties and surrendering two more to lenders in May and June. NLOP used its sales proceeds to reduce its term loan by $138 million and its mezzanine debt by $22 million. Since going public by spin-off last November, Net Lease Office Properties has reduced its term loan and mezzanine debt by 47% to $243 million, leaving it modestly levered and highly cash-generating as it continues to wind down.

Excluding a few properties likely to be surrendered to lenders, Net Lease Office Properties now produces annualized base rents of $105 million. The market is valuing NLOP at $587 million for a cap rate (net property operating income/enterprise value) of 17.9% and $90 per square foot. It's just plain dirt cheap, and the continuing liquidation of the Net Lease Office Properties portfolio will cause this discount to close sooner rather than later. At a still conservative 12% cap rate or $135 per square foot, NLOP would be worth $46 per share.

In my last letter, I introduced **McBride Plc**, a UK-based manufacturer of private label soaps and detergents for supermarkets and discounters. McBride is a turnaround story well into its recovery from losses caused by inflationary pressures and supply chain challenges. McBride shares have performed well for us, up about 30% from the level of our initial purchases. In April, the company increased its guidance for the year ending June 30, saying adjusted operating profit would be 10% ahead of market expectations and that net debt would continue to decline. This week, the company confirmed it had achieved this guidance, producing adjusted operating income of £66.4 million and bringing net debt down to £131.5 million, a reduction of £30 million since last June. Shareholders were modestly disappointed that the company did not again raise its guidance and sent shares down 10%.

TABLE II: Top Ten Holdings, 6/30/24 (%)

Net Lease Office Properties	9.3
McBride plc.	8.0
Fitlife Brands Inc.	7.5
MRC Global Inc.	4.4
ECIP Bank Basket	4.2
Scandic Hotels Group AB	3.6
Crawford United Corp.	3.6
Garrett Motion Inc.	3.5
Rand Worldwide Inc.	3.4
Unidata S.p.A.	3.3
Total, Top Ten	***50.9%***

This is a major buying opportunity. At present, McBride has a market capitalization of £227 million and an enterprise value of £359 million, just 5.4x trailing operating income and 4.4x EBITDA. The company will continue to generate significant cash flow, causing net debt to decline and allowing McBride to resume paying dividends. The benefits of the cost-cutting measures that McBride undertook to restore profitability are not yet fully reflected in the company's earnings, and sales volumes should remain strong as European consumers turn to store brands to economize.

Talen Energy has had quite a year, selling off non-core power generation assets, buying back huge quantities of stock, and now listing on the NASDAQ. Talen is one of those too-rare cases where everything goes according to plan. The company is now enjoying a moment in the sun thanks to its ownership of a top-tier producer of reliable, low-carbon energy, the Susquehanna Steam Electric Station. So, what's next? Talen will continue to sell off its legacy fossil fuel-burning power generation fleet and return excess capital to shareholders through buybacks. I still think the end game for Talen is a sale of the company once its less attractive assets are divested. Susquehanna, the nation's sixth-largest nuclear facility with 2.5 gigawatts of power production capacity, is just too much of a prize to be held by a company of Talen's size.

Our collection of various banks, mainly ECIP recipients, is quietly having a good year. 2023 was marked by endless handwringing over regional bank balance sheets and worries about fleeing depositors. But community banks really are a different kind of animal, and it was business as usual for our holdings. Our most successful bank investment has been **United Bancorporation of Alabama**, up 19% this year and 70% from our average cost. The Bank has excelled in developing specialty loan offerings and grant-subsidized business lines, resulting in record earnings and return on equity. Despite the upward move, shares trade at only 5.7x trailing earnings and 80% of adjusted tangible book value. We continue to accumulate shares in some even smaller, lesser-known community banks, especially those with significant non-banking revenue streams like merchant payment processing.

TABLE III: World Allocation, 6/30/24 (%)

United States	60.6
United Kingdom	10.2
Eurozone	9.8
Sweden	5.7
Poland	4.8
Canada	4.2
Mexico	2.4
Other	2.3
Total	***100%***

Seneca Foods keeps plodding along in extremely boring fashion, fitting for a canned vegetable company. The company will benefit from some struggling, over-indebted competitors choosing to close production facilities and exit lower-margin business lines. Seneca, with its huge base of wholly owned facilities and can production lines, is less exposed to the inflationary pressures that have hurt competitors. Fiscal 2024 was a very profitable year for Seneca, but not without negatives. Heavy discounting by competitors weighed on pricing and volumes, and inventory levels stayed stubbornly high thanks to the lower volume and a large "pack" due to a very successful growing season. But there are encouraging signs. Competitor discounting has abated, and the company plans to process a lot fewer beans, carrots, corn, and the like in fiscal 2025. Combined with the end of a period of high capital expenditures, Seneca is set to produce a lot of free cash flow soon. I encourage anyone to read Seneca Foods CEO Paul Palmby's letter to shareholders in the 2024 annual report.

Continuing the theme of "boring, profitable, and cheap," **Supremex** continues to perform well. Unfortunately, its shares have yet to respond in kind. First quarter revenues and earnings showed improvement over the fourth quarter, with earnings rising to 14 cents per share. Management expressed optimism that the worst of the inventory cycle slump is over but cautioned investors not to expect a swift return to the record earnings of 2022. As it stands, Supremex is trading at only around 7x trough earnings and at a mid-teens free cash flow yield. Any further improvement in the demand picture could create a large upswing in profits. Management seems to believe the shares are undervalued. Supremex is repurchasing shares to the tune of 0.4%-0.6% of outstanding shares monthly, gobbling up 144,300 shares in May and another 98,100 in June.

Our only substantial sale in the quarter was our entire holding in **Harbor Diversified**. Harbor was a special situation, a somewhat secretive holding company with substantial net cash *and* securities and ownership of airline Air Wisconsin, which flies regional routes for American Airlines. My thesis for owning Harbor Diversified was based on the company trading at a large discount to the value of its net cash and securities, its legal claim against former partner United Airlines, and its fleet of 64 Bombardier CRJ-200 jets. The CRJ-200 is an admittedly aging, uncomfortable, and inefficient aircraft that nevertheless retains some value. In 2022 and 2023, Harbor Diversified bought back a substantial portion of shares outstanding at a discount to net asset value as it awaited the outcome of its claim against United Airlines, which would have amounted to roughly $1 per share. I believed that after a positive legal outcome and once Air Wisconsin's new contract with American Airlines proved to be profitable, Harbor Diversified shares would respond. Unfortunately, it all went wrong. The company's claim against United was denied entirely in arbitration, profits from flying routes for American experienced a delayed takeoff, and what's more, the company announced it would have to re-state prior financial statements due to improperly recording the anticipated legal award as revenue. Ugly. I sold our shares of Harbor Diversified for a small loss and re-allocated the proceeds toward better ideas. While the fund's track record in special situations has been good, this special situation turned out to be a painfully ordinary one.

TABLE IV: Sector Breakdown, 6/30/24 (%)

Consumer Staples	22.4
Financials	13.2
Consumer Discretionary	12.4
Information Technology	10.7
Real Estate	10.6
Industrials	9.6
Communications	9.6
Materials	6.5
Utilities	3.2
Energy	1.5
Health Care	0.4
Total	***100%***

Other Updates

Alluvial Fund's assets are now hovering around $60 million. As I mentioned in the last letter, the fund is now closed to new limited partners, but will continue to accept capital from existing limited partners. I continue to have a lot more investment ideas than the fund has capital, which is exactly the problem I want to have. Far better than the alternative.

In my last letter, I announced a new fund in the works. This fund will be extremely long-term oriented and dedicated entirely to investing in securities deriving their value from unique and irreplaceable tangible assets. I am happy to announce the fund has a name, "Tactile Fund," and that we are putting the finishing touches on the launch. All that remains is to create the legal documents and establish the necessary service provider relationships. I look forward to sharing more details soon. We will host a call for current Alluvial limited partners and clients before rolling the fund out to the public. Please reach out if you are interested in learning more.

Thank you for reading. I remain tremendously grateful to all of you who have allowed me to manage capital on your behalf. As always, all of my personal capital is invested in Alluvial Fund. I will continue doing my utmost to grow our capital responsibly and with a healthy respect for risk. I hope you and your families are enjoying good health and rest this summer. 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, 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
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