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Letter to Limited Partners First Quarter 2025

The cover image shows the Giant Binoculars public artwork in Venice, CA. The office building alongside the sculpture was designed by Frank Gehry in 1991 for Chiat/Day, the advertising agency behind the Apple "1984" commercial, among many others. Today, the building (and the binoculars) is owned by Alluvial Fund investment Net Lease Office Properties, and are currently occupied by another tech company: Google. Continue reading the letter for more information on Net Lease Office Properties.

Dear Partners,

Alluvial Fund enjoyed a strong start to the year, gaining 6.5%. This is particularly notable given the dismal backdrop, especially for small domestic stocks. The Russell 2000 Index returned -9.5%, while the Russell Microcap Index fell -14.4%. All told, Alluvial Fund enjoyed one of the best quarters in our history versus relevant benchmarks. Our performance was driven by upward moves in our two core London-listed holdings, while stock indexes declined on worries about tariffs and declining business and consumer confidence.

TABLE I: Alluvial Fund LP Returns (%) as of March 31, 2025

	YTD	2024	2023	2022	2021	Cumul.	Annual.
Alluvial Fund LP NET	6.5	16.4	15.1	-14.9	31.0	185.3	13.6
Russell MicroCap TR	-14.4	13.7	9.3	-22.0	19.3	44.4	4.6
Russell 2000 TR	-9.5	11.5	16.9	-20.4	14.8	65.4	6.3
MSCI World Sm+MicroCap NR	-3.6	8.0	15.1	-19.1	15.8	73.7	6.9

Partnership began operations 01/01/2017

The wild ride seems set to continue. The market plunges and roars in turn as tariffs are announced, seemingly without thought or strategy, then just as thoughtlessly scaled back or abandoned. I won't comment on the current levels or structure of these tariffs, because my thoughts are sure to be made irrelevant by week's end. I will say with confidence that this chaotic approach is toxic to the business environment. What business can make strategic decisions when the rules of the game change by the week or even by the day? Many will opt to minimize discretionary spending and investment until a more stable environment prevails, with consequences to all aspects of economic activity.

Alluvial Fund's direct exposure to these tariffs is low. In a time of rising US-driven economic isolationism, the sophisticated global supply chains built by large companies are becoming something of a liability. Little of what our companies buy and sell ever crosses a US border. Some companies have no US presence and use little or no US products in their supply chain, like Bahnhof AB and We Connect SA. Our real estate companies are immune, obviously, at least until the executive figures out how to tariff an immovable object. Some of our companies, like Garrett Motion and FitLife Brands, will experience challenges if tariffs on the European Union and China are not reduced and resolved. But each company has the resources to adjust its supply chain and selling strategies to mitigate the effects. Poor Garrett Motion has faced a nearly unending series of economic adversities since exiting bankruptcy in 2021 but has still managed to reduce its share count by one-third since. Tariffs are just another bump in the road.

As I write, US stock indexes have continued their downward trend, with the Russell 2000 Index now sitting at a total return of -15% year-to-date. I am happy to report that in typical fashion, Alluvial Fund is holding up well, down less than 1% this month. After years of frustrating experiences investing outside the United States, international equities have delivered so far this year, much to our benefit. Whether or not this trend will continue, I cannot say. But I do believe that if US stocks continue to face risks from constantly shifting trade policy, many investors will give serious consideration to other markets.

TABLE II: Top Ten Holdings, 3/31/25 (%)

Zegona Communications plc.	12.0
Net Lease Office Properties	9.4
McBride plc.	7.9
Fitlife Brands Inc.	4.2
Titan Cement International SA	4.1
Crawford United Corp.	4.1
Seneca Foods Corp.	3.7
Talen Energy Inc.	3.6
CBL & Associates Properties, Inc.	3.0
The Monarch Cement Company	2.9
Total, Top Ten	***54.9%***

UK Companies Delivering

This year's best performer has been Zegona Communications. Zegona acquired Vodafone Spain last year in a leveraged buyout transaction. Following the purchase, management's mission was two-fold. First, to improve revenue, earnings, and cash flow by cutting costs and attracting new customers. And second, to de-lever the balance sheet by selling Vodafone Spain's prime fiber-optic network assets. Management has made great strides toward each objective, and the market has noticed. I expect the sale of Vodafone Spain's fiber assets to close in the next few months, which will transform the company's balance sheet and allow for a return of capital to investors. Despite the strong move in Zegona's share price, shares are still attractively priced.

Our other UK-listed company, McBride Plc, has also been a strong contributor this year. The company reported excellent 2024 results, with continued strong earnings and a bright outlook. Even so, shares trade at only 6x operating income and less than 6x normalized earnings, far too cheap for a defensive company selling soaps and detergents. A large US university's endowment is McBride's third-largest shareholder, and the endowment has been steadily selling down its position. I believe this selling activity is keeping a lid on McBride's share price, and that shares will respond once the endowment's selling activity abates. McBride intends to reinitiate its dividend later this year. UK Retail investors ("punters," in the lingo) love a dividend, so the move could raise McBride's profile.

Limestone, Clay, and Some Other Stuff

Take limestone and clay, grind them, toss in a few other chemical ingredients, fire the mix at high temperatures and you have cement. Cement is, after water, the most used material on earth. The cement industry has been a major contributor to Alluvial's recent returns. We own four different cement producers, each operating in different regions. Our largest cement industry holdings are Titan Cement SA and The Monarch Cement Company. Monarch has quietly become a top ten holding for the fund after delivering solid 2024 results. Titan Cement successfully listed its American operations on the NYSE as "Titan America SA" and plans to return most of the proceeds from the listing as a special dividend. While the valuations of both Monarch and Titan have moved up, each still trades at a substantial discount to fair value. I don't expect either company to sell more cement this year than it did last year, but pricing actions, such as the 8% price increase pushed through by Monarch in January, should have a positive impact on revenues.

TABLE III: World Allocation, 3/31/25 (%)

United States	59.8
United Kingdom	20.7
Eurozone	11.5
Poland	4.0
Sweden	1.9
Denmark	1.3
Other	0.8
Total	***100%***

A weakening economy would be a headwind for cement companies, as construction activity is a major driver of demand for cement. However, I believe that cement companies will continue to enjoy good pricing power and utilization for years to come thanks to underinvestment in production in the years following the Financial Crisis.

A Price For Every Asset

Homebuyers are often advised that buying "the worst house in the best neighborhood" is a solid approach. When it comes to investing, I have had much better luck doing the opposite. Through the years, Alluvial Fund has done well in buying deeply discounted real estate in struggling sectors of the real estate market. Buying fundamentally sound property portfolios and waiting for sentiment to improve fits our long-term approach and willingness to own unpopular assets. We bought Scandinavian hotels coming out of the COVID downturn, and US office properties just when "work from home" was at its peak. Each worked quite well.

The real estate companies in our portfolio continue to execute well in the face of continued pessimism and neglect. Net Lease Office Properties is marketing multiple buildings for sale, including the iconic "Binoculars Building" in Los Angeles, which is leased to Google through 2030. Net Lease will soon be able to begin distributing cash to shareholders, having paid down nearly all recourse debt through property sales. Unlike Net Lease, which is pursuing a liquidation strategy, Peakstone Realty is seeking to reduce the stigma of office ownership by diversifying into niche industrial properties. The market has yet to give them credit for selling off lower-quality office buildings and buying industrial outdoor storage assets, but I expect the market to reassess once industrial properties account for more than 50% of rents and net operating income. Malls may be even more out of favor than offices, but mall owner CBL properties is improving its portfolio and reducing risk by selling marginal assets, paying down debt, and reinvesting in its strongest and healthiest mall properties. Net Lease shares change hands at a 38% discount to my estimate of net asset value. Both Peakstone and CBL properties offer cash flow yields north of 20%. In recent weeks, the rising 10-year yield has put pressure on the real estate sector. This is a real issue for the folks who bought apartment buildings at 5% cash flow yields, but merely an annoyance for us. The high cash flow yield offered by our real estate holdings reduces the impact the interest rate changes have on their value.

My willingness to invest in out-of-favor sectors and situations is built on a belief that every asset has its price. Definitionally, the value of an asset has a zero bound. So, even the most distressed company facing the biggest obstacles and uncertainties can be an opportunity at some price (a very, very low one!) And every now and then, the market serves up just such an opportunity.

TABLE IV: Sector Breakdown, 3/31/25 (%)

Communications	18.9
Consumer Staples	17.8
Financials	16.3
Real Estate	15.6
Information Technology	9.4
Materials	8.2
Consumer Discretionary	6.4
Utilities	3.6
Industrials	2.2
Energy	1.4
Health Care	0.2
Total	***100%***

Departures

During the first quarter, Alluvial Fund sold all its shares of Supremex Corp. and BankFirst Capital Corporation. Neither company reported any troubling news or worsening outlook, but we sold to raise cash for better opportunities. Supremex was a disappointing investment for the fund. While the company's underlying cash flow was strong through our holding period, the company was plagued with endless restructuring charges and struggled to grow revenues in its packaging segment. Mea culpa. Our investment in BankFirst was profitable, but in retrospect, not the best choice among bank stocks. I had expected BankFirst to complete at least one additional large acquisition last year, but surging interest rates and deposit costs forced the bank to focus on more pressing issues. Could I go back in time, I would skip owning BankFirst shares and instead buy more United Bancorporation of Alabama, a strong performer that remains part of our portfolio.

Updates and Closing

Alluvial Capital Management, LLC has reached a major milestone, achieving assets under management of $100 million. Not bad for a firm that was launched with little more than a laptop computer and my obsessive interest in obscure securities. When I met my now-wife, Kayleigh, in 2012, I said something to the effect of "I work at a bank, but what I really want to do is read company reports all day and listen to music." And now, I do. Life is good.

Thank you for the opportunity for the opportunity to manage a portion of your hard-earned money. It is a responsibility I take very seriously, not least because the entirety of my family's investments is invested in Alluvial's strategies.

Our newest strategy, Tactile Fund LP, is off to a great start. I won't do a sales pitch here, but please do reach out if the idea of long-term investing in companies with extraordinary physical assets has appeal.

We distributed K-1s on March 21. For the 8th year running, Cohen & Company completed the annual audit process, delivering a clean opinion. We are always impressed with their professionalism and courtesy and would recommend them to anyone. If you did not receive your K-1 or Alluvial Fund audited financial statements, please let us know as soon as possible.

As usual, Alluvial will conduct an online presentation followed by a Q&A session. The session will take place in mid-May. Details will follow.

Thanks once again for reading. This letter is a little shorter than most, but I have no new major holdings to reveal, and I don't wish to bore anyone by prattling on about macroeconomics. Lately I have had the pleasure of meeting up with a few partners as they passed through the Pittsburgh area. If you find yourself doing the same, please let me know and I would be delighted to buy you a meal.

I hope you and your families are well, and I look forward to writing to you again in July. For some interim updates, I highly recommend subscribing to Alluvial's substack publications at alluvial.substack.com and tactilefund.substack.com.

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, 2024 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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