alluvial fund

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

Letter to Limited Partners Fourth Quarter 2024

The cover image shows an aerial view of the Roanoke Cement Company in Virginia. This facility, owned by parent company and Alluvial Fund investment Titan Cement International SA, supplies customers in the Mid-Atlantic region via an extensive rail and truck distribution network. Titan Cement recently announced its intent to list its American operations, which span the Eastern seaboard of the US, on the NYSE later in 2025. Continue reading the letter to learn more about Titan Cement.

Photo Credit
USGBC

Dear Partners,

Alluvial Fund completed the year in quiet fashion, rising 0.7%, ahead of the Russell 2000. For the full year, Alluvial Fund finished up 16.4%, outpacing benchmarks. While the small gain might suggest that calm prevailed in the quarter, small-cap indexes flailed wildly, rising 11% in November before plunging 8% in December. Alluvial Fund was positively plodding in comparison, up 3.3% in November and down 0.3% in December. This steady performance in the face of high volatility is consistent with Alluvial's 8-year history, during which we have watched the market swing from exuberance to dejection and back over and over again. Our holdings, mostly far from the spotlight, tend to spend most of their time going sideways, only moving on fundamental data contained in press releases and earnings reports. I am more than happy to manage a boring fund in a frenetic world. I sleep well.

TABLE I: Alluvial Fund LP Returns (%) as of December 31, 2024

	YTD	2023	2022	2021	2020	Cumul.	Annual.
Alluvial Fund LP NET	16.4	15.1	-14.9	31.0	28.4	167.8	13.1
Russell MicroCap TR	13.7	9.3	-22.0	19.3	21.0	68.7	6.8
Russell 2000 TR	11.5	16.9	-20.4	14.8	20.0	82.7	7.8
MSCI World Sm+MicroCap NR	8.0	15.1	-19.1	15.8	16.5	80.1	7.6

Partnership began operations 01/01/2017

Alluvial Fund's largest holding remains **Net Lease Office Properties**, an ongoing liquidation story. The speed with which Net Lease has sold off properties and paid down its debt is impressive. Just six months ago, the company owned 47 properties and carried recourse debt of $215 million. Today, Net Lease is down to 39 properties and $61 million in recourse debt. I expect the company's remaining recourse debt to be extinguished this quarter or next, allowing the company to begin distributing the proceeds of its property sales to shareholders. Net Lease shares have performed very well since we first started buying them one year ago, but their price remains deeply discounted against any reasonable estimate of asset value. The headwinds facing the office market have scarcely abated, and interest rates are being stubbornly slow to decline, but if Net Lease can continue selling its properties at 8-12% cash flow yields, eventually there will be nothing left to sell and shareholders will have received far more than the current trading price in distributions.

Lest anyone think I am being too sanguine about Net Lease's prospects, I do make allowance for the fact that some lower quality or "quirkier" properties may prove difficult to sell or fetch disappointing prices. The company's largest remaining property, a 1 million square foot Houston building leased to KBR, might be one such property. It's an older building in an office market with high vacancy. Hard to imagine the list of interested buyers is currently very long or feeling very spendy. On the plus side, KBR's lease runs for another 5.4 years, and Net Lease will receive another $115 million in rents. Discounted at 10%, that's a present value of $86 million. It's very possible that the Houston office market will improve by 2030 and that the building will have significant terminal value. But even if the property is totally worthless in five years (unlikely), the present value of remaining contractual rent payments alone is $80 per square foot. If I repeat this process with Net Lease's other "difficult" properties, applying punitive outcomes, I still get to a value per Net Lease Office Properties share in the high $30s. My "realistic scenario" valuation remains $45 per share.

In my last letter, I expressed my conviction that international investing still makes sense, and that this long stretch of underperformance by non-US markets cannot and will not continue forever. I was promptly rewarded by yet another quarter in which US equity markets trounced global stocks. When will I learn not to tempt fate? At this point in the market cycle, it seems American equities are viewed as a "sure thing," with everything else not worth the risk.

TABLE II: Top Ten Holdings, 12/31/24 (%)

Net Lease Office Properties	10.2
Zegona Communications plc.	6.9
Fitlife Brands Inc.	6.2
McBride plc.	6.1
ECIP Bank Basket	4.2
Titan Cement International SA	4.1
Talen Energy Inc.	4.0
Crawford United Corp.	3.7
MRC Global Inc.	3.7
Seneca Foods Corp.	3.6
Total, Top Ten	***52.8%***

Now, a few words about risk. It profits little to waste time and energy fretting over all the risks that may possibly impact an investment. Recognize them, incorporate them into the valuation process, then move on. Generally speaking, it is the risks we can't anticipate that wind up hurting us anyway. There's a simple mental exercise I like to undertake, and that is to inventory what I am currently worrying about, portfolio-wise, and ask myself if any of these worries were anywhere on my radar 5 years ago. Persistent inflation? No. A global slide toward authoritarianism? No. Illogical, inflationary, and economically destructive tariffs? OK, maybe just a bit. Point is, the actual risks our investments face are rarely the known risks making us sweat today. Few besides a handful of epidemiologists were worried about a global pandemic in 2015, yet COVID hit like a tidal wave. In 2017, nobody besides a few astute intelligence analysts expected Putin to invade Ukraine, but the war came anyway and profoundly affected the European and world economies. The lesson here is that the events that will have the largest impacts on our portfolio over the next five years are probably not the things we are worrying about now. In my view, the best hedge against these unknown risks is boring but effective: a diversified portfolio of businesses from many different industries and geographies, with a strong preference for robust balance sheets, predictable cash flows, and capable management teams. And yes, not all of them should be American.

Alluvial Fund has large holdings in two UK-listed stocks, **Zegona Communications Plc** and **McBride Plc**. Until this week, I was prepared to use some hackneyed "It was the best of times, it was the worst of times" Charles Dickens reference to contrast the diverging performance of each. Thankfully, a cheery trading update from McBride Plc has McBride shares showing some life this month, putting them back in "best of times" territory with Zegona.

McBride is our British private label soaps and detergents manufacturer that got itself in hot water thanks to surging COVID-era input costs. We invested as it was becoming clear that McBride had turned the corner, getting its margins under control thanks to efficiency initiatives and amended customer contracts, and rapidly reducing debt. Shares rallied after our purchase, but slumped all summer as a procession of downbeat economic news from across the Atlantic and continued disinterest in the UK stock market took their toll. The slide was nothing short of perplexing to me, as McBride is about as defensive as a company can be. A moribund British and Continental European economy is good for McBride as it results in stressed consumers trading down from name brand cleaning products to private labels. We added to our position all summer and fall, building our Alluvial Fund holdings to 3 million McBride shares. McBride's January 17 first half trading update was, as the Brits might say, "cracking." The company revealed strong volume growth and operating income up 8% year-over-year. Net debt fell to a new low of 117.6 million, and the company indicated it would resume paying dividends next fiscal year. Shares promptly rallied from GBp 101 to GBp 117. Even after the move, McBride trades at only 3.6x EBITDA and just 5 times forward earnings. There is plenty of room for McBride shares to climb before reaching fair value. McBride shares are a bargain anywhere below GBp 200.

TABLE III: World Allocation, 12/31/24 (%)

United States	63.2
United Kingdom	13.9
Eurozone	13.0
Poland	3.9
Sweden	2.0
Mexico	1.5
Denmark	1.3
Other	1.2
Total	***100%***

Zegona is a London-listed investment company that undertook a leveraged buyout of under-performing Spanish telecom, Vodafone Spain. In my last letter, I outlined the initiatives that Zegona would pursue to improve profitability and optimize the balance sheet. I am pleased to report that excellent progress is being made, and that Zegona shares have responded accordingly. The company's September 30 report showed stabilizing revenues and greatly improved cash flow. The planned sale of Vodafone Spain's fiber-optic assets is moving ahead nicely, with both deals expected to be completed in the first half of 2025. Following the asset sale, Zegona will pay down a substantial portion of its acquisition debt and will likely declare a large shareholder distribution. Despite the healthy move in Zegona Communications shares, the company trades at less than half my estimate of fair value. The company's operational turnaround is still in the early stages, and the complicated financials makes the ongoing value creation easy to miss. With multiple catalysts on the horizon, I have Great Expectations for Zegona.

We have owned **Garrett Motion** shares since we participated in the company's recapitalization in 2021. The theory behind our investment was that Garrett Motion's core turbocharger business would decline much more slowly than the market expected, and that the company could reinvest in electric vehicle technologies and return tremendous amounts of capital to shareholders. The thesis has largely borne out. The global transition to electric vehicles, while still progressing, will take longer than expected and turbocharger technology will remain relevant for many more years. Garrett is returning nearly all its free cash flow to shareholders, while dedicating more than $100 million annually to research and development for electric vehicle technologies. Garrett Motion's share count has declined by 12% in the last year. Despite all these developments, Garrett Motion shares remain stubbornly rangebound, bouncing between the mid-$8s and $9s. Why these doldrums? Garrett Motion's share structure is the biggest culprit. As of April 2024, just four hedge funds owned 56% of Garrett Motion shares. These funds have since reduced their holdings by almost 16 million shares and are likely to continue selling as they move on to other opportunities in distressed securities. The continued selling by large holders has pressured Garrett Motion shares, but at least the company is aware of the opportunity and plans to dedicate nearly all its free cash flow to repurchases. In December, the company made its capital allocation policy explicit, initiating a dividend and committing to returning at least 75% of annual free cash flow to shareholders. It will take time, but eventually the selling shareholders will run out of shares to sell, and Garrett Motion will have bought back a large portion of the company at free cash flow yields in the high teens or better.

For the second year running, **Crawford United** made a January acquisition, this time buying Rahn Industries for $13 million. Rahn produces HVAC coils, critically important components for Crawford's growing Air Handling segment. I have come to accept that the market simply will not consistently capitalize Crawford United at more than 9-10 times earnings, no matter how many savvy acquisitions the company makes or how rosy the outlook. Still, it hardly matters, because Crawford reliably churns out a 20% return on equity. A company that can do that 4 years in a row doubles its book value, assuming it reinvests all earnings. There's a lesson here, one that I would love to go back in time and teach myself at the beginning of my investing career. It's this: buying crummy little companies with illiquid shares is a tough, tough way to make money, no matter how cheaply you buy them. You have to hope that management wakes up and decides to sell the company, or that business conditions somehow improve, or that some opportunistic competitor lobs a bid. The waiting is excruciating and the opportunity cost is ruinous. On the other hand, buying very good small companies with illiquid shares is a great way to make money! Sure, shares may stay stubbornly cheap for a while, but they eventually move in tandem with the increases in company value, and the intrinsic value of a good company is always increasing. I honestly cannot think of a case where a company, no matter how small or how illiquid its shares, doubled its earnings power in sustainable fashion over 4-5 years without its shares responding. This has been our experience with Crawford United, where shares are up 4x over our holding period despite rarely trading at a double-digit price-to-earnings multiple. EACO Corp. and Rand Worldwide Inc. also spring to mind as examples of the phenomenon.

Our ECIP banks had a mostly quiet quarter, but **United Bancorporation of Alabama** found a clever way to repurchase a big block of stock. For quite some time management has been open about how its desire to repurchase stock has been stymied by low trading volume and the lack of willing sellers owning substantial quantities of shares. But in November, the company announced it had negotiated the repurchase of the 197,717 company shares held by the company 401(k) Employee Stock Ownership Plan, reducing shares outstanding by 5.6%. Nicely accretive to earnings per share. I commend them. Elsewhere in ECIP-land, multiple banks have negotiated option agreements with the US Treasury that will allow them to repurchase the preferred shares held by the Treasury at a discount to par, provided certain lending thresholds have been met. I expect to see additional option announcements from other ECIP banks soon.

TABLE IV: Sector Breakdown, 12/31/24 (%)

Consumer Staples	19.1
Real Estate	15.8
Communications	14.3
Financials	12.6
Information Technology	10.0
Materials	9.5
Consumer Discretionary	7.2
Industrials	5.9
Utilities	4.1
Energy	1.4
Health Care	0.2
Total	***100%***

Now, the new. The fund's most significant new holding is **Titan Cement International SA**. It's no secret we're cement fans here at Alluvial HQ. Monarch Cement, Boston Sand & Gravel, and Cementos Argos SA are all fund holdings and all have treated us very well. A wave of infrastructure investment, combined with a long period of underinvestment in domestic cement production capacity have resulted in heady times for American cement producers, with most reporting record profits and a healthy outlook. Valuations have risen in tandem with results, and the industry now trades at 9-12x EBITDA or even higher, depending on size, location, and product mix. This optimism has not extended to cement producers in Europe, many of which are valued at 5-7x EBITDA. This includes Titan Cement, a Greek company with operations in Southern and Southeastern Europe, Egypt, Turkey, and a joint venture in Brazil. Oh, and a large US business that contributes more than half of the company's revenue and earnings. Titan Cement got tired of its depressed valuation and decided to do something about it. Seeing that US cement producers are valued at a premium of 50% or more to European cement producers, Titan decided to IPO a portion of its US business. "Titan America SA" will soon list on the NYSE. Titan shares have responded well to the news, but they remain attractively priced. Assuming Titan America SA is valued at 8-9x EBITDA, the market is still ascribing nearly zero value to Titan's profitable non-US operations. Titan has not yet discussed its plan for the cash influx it will receive from the partial divestiture of Titan America, but the company has a history of good financial stewardship. Titan Cement International SA shares trade in Athens and Brussels at around €44, but are worth at least €60.

Our other notable new holding is **CBL & Associates Properties, Inc**. I consider CBL another expression of our "long-term commercial property recovery" theme, where we seek to buy fundamentally sound real estate that will benefit from gradually improving sentiment. CBL is an operator of traditional malls, outlet malls, open air shopping centers, and lifestyle properties. CBL entered bankruptcy during the COVID crisis, shedding debt and reemerging in 2021. There's no question that the mall business is not what it used to be, but CBL has done an admirable job in reducing leverage, investing in its best properties, and returning capital to shareholders. Today, CBL owns a portfolio of 87 properties and manages 4 others for third parties. The portfolio ranges in quality from "Class A-ish" malls doing $500+ of annual sales per square foot, to challenged properties in tertiary markets. CBL's value is concentrated in its best properties, but the lower-quality properties still produce cash and the company is actively marketing some for sale.

I value CBL shares at $40-45. At $28, CBL trades at an attractive discount to fair value, but I am also attracted by the low downside risk. The company has almost $9 per share in excess cash and owns a collection of properties totally unencumbered by debt. These properties produced $66 million in 2023 cash flow. At 7x cash flow, these properties are worth another $15 per CBL share. Together with the cash, that's value of $24 per share before considering any of the debt-encumbered properties. And there is plenty of value there, too. Some of CBL's properties are owned by a holding company that carries a term loan of $730 million. As long as these properties are worth more than 5.5x cash flow, CBL's equity in the holding company has value. CBL also has numerous properties with non-recourse property debt. Some of these properties are not currently cash-flowing for CBL because their cash flow is insufficient to satisfy their debt service ratios. These represent pure optionality for CBL. Either things don't improve and CBL hands the keys to the lenders, the lenders agree to restructure the debt and the properties become cash-flowing again, or property performance improves and the debt service issue is resolved. There's no way these properties can be actual liabilities for CBL, and plenty of ways they can have value again. CBL's best properties are mainly held through joint ventures with other operators. The company is working to consolidate some of these, and just announced the purchase of its JV partners' interests in three malls in Nashville, Kansas City, and St. Louis.

Like our other commercial property holdings, CBL & Associates Properties has its fair share of challenges. But there are plenty of encouraging signs. CBL's net operating income was steady from 2023 to 2024, and occupancy ticked higher in the third quarter. The company's debt burden is very manageable and shrinking monthly from scheduled amortization and property sales. It's unlikely that investors will wake up tomorrow, decide malls are the future of commerce, and bid CBL shares to $80 or $100. But I do think the combination of strong cash flow, continued debt reduction, strategic reinvestment in CBL's best assets, and healthy distributions and share repurchases will drive shares higher this year and next. Looking back over the years, some of our best investments have been in companies that were deeply stigmatized and out-of-favor, but had valuable tangible assets, healthy cash flow, and management capable of maximizing the value of each. CBL certainly qualifies.

Expert Markets Updates

Alluvial Fund holds a collection of securities that trade on the expert market, the home of securities whose issuers have ceased providing public financial information. Most brokers do not offer access to the Expert Market, but the fine folks at Odeon Capital Group LLC execute expert market trades for us. By necessity, our expert market holdings are long-term in nature: equities I am happy to hold for many years, or fixed income instruments that offer attractive yields (due to expert market illiquidity and obscurity, not shaky credit). Our expert market holdings represent 5% of the Alluvial Fund portfolio and include:

- A preferred share issued by a specialty shipping company. This preferred is cumulative and yields >13%, with strong asset and cash flow coverage.
- A baby bond issued by an investment management firm. The bond matures in 3

years and yields 15% to maturity, more than 500 basis points higher than parent company bonds.

- **Cuisine Solutions**, a profitable and growing foodtech company. Cuisine Solutions invented the popular Starbucks Egg Bites and counts Bain Capital among its investors. I look forward to attending the shareholder meeting next month. See anyone there?
- A helicopter owner and operator with medical and oil & gas service segments, with net balance sheet cash and trading at <4x EBITDA. I suspect this company will eventually IPO or be sold.
- **Mechanics Bank of Richmond**, a private equity-held bank that will eventually be sold. As one of California's largest remaining local banks, Mechanics is a real prize.

And more! Expert market stocks will remain a small part of our overarching strategy due to the severe liquidity constraints involved, but these securities are remarkably well-valued and I am happy to hold them for the long run.

Other Updates

Thank you for reading and for the privilege of managing capital on your behalf. Eight years in, I have never been more excited to wake up each day and resume the hunt for our next great investment. I'd like to remind everyone that in addition to these quarterly letters and bi-annual conference calls, I also write about stocks and investing at alluvial.substack.com. If interested, please sign up for updates.

I hope you and your families are well. As always, I am doing just fine here in beautiful Western Pennsylvania. I welcome you to reach out with any comments or questions, or just to catch up. I tend to get lost in my spreadsheets and PDFs, so any reminder that the outside world exists is a good thing!

The annual audit process will begin soon, as will K-1 preparation. We will, as always, ensure that K-1s are delivered by mid-March.

I look forward to writing to you again this spring.

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
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.