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Letter to Limited Partners Fourth Quarter 2020

The cover photo depicts the Laurel Hill Furnace in Westmoreland County, Pennsylvania, close to the manager's childhood home.

At its construction in 1845, the Laurel Hill Furnace was a state-of-the-art facility. With its unique four-sided design, the furnace could produce 750 tons of pig iron annually. In the 1850s, Pennsylvania supplied nearly 50% of the nation's iron. But the furnace went cold just 10 or 15 years later (records differ) when dwindling local resources and advances in smelting processes rendered it and many like it uneconomic and obsolete.

A lesson for investors—the only constant is change!

Photo Credit

Alluvial
CAPITAL MANAGEMENT, LLC

Dear Partners,

It was a good ending to a good year. The fund returned 18.1% in the fourth quarter, bringing our full-year return to 28.4%. Since inception, Alluvial Fund has delivered annualized returns of 15.7%. As a fellow investor, I am pleased with these results, but I believe the best times for Alluvial Fund are still ahead.

TABLE I: Alluvial Fund LP Returns (%) as of December 31, 2020

	2020	2019	2018	2017	Cumulative	Annualized
Alluvial Fund LP NET	28.4	18.4	-9.0	29.6	79.3	15.7
Russell MicroCap TR	21.0	22.4	-13.1	13.2	45.7	9.9
Russell 2000 TR	20.0	25.7	-11.2	14.7	53.3	11.3
MSCI World Sm+MicroCap NR	16.5	25.7	-14.3	23.2	54.7	11.5

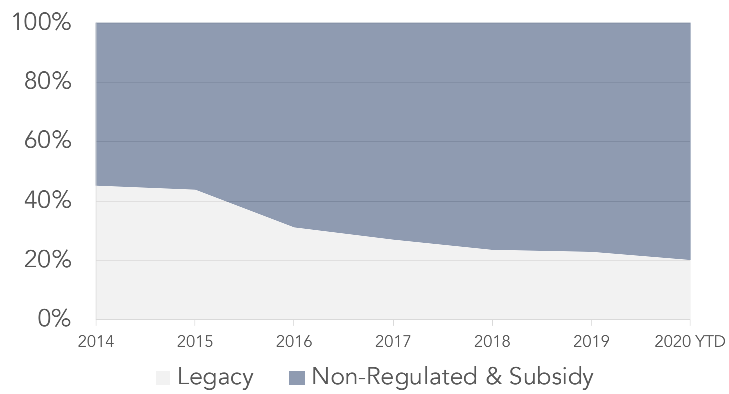
Partnership began operations 01/01/2017

US markets have enjoyed a meteoric rise since late October, when positive COVID-19 vaccine results were announced. As in past periods of market ebullience, the fund has not kept up. Our small, obscure, often thinly-traded securities are rarely of interest to the large funds, passive indexes, and neophyte retail traders funneling billions into liquid equities. It doesn't particularly bother me. I appreciate the opportunity to increase our investments in capably-led, well-capitalized companies at single-digit multiples of near-term earnings or cash flow. Sooner or later, the value these companies create accrues to shareholders.

The biggest contributor to our returns this year was, of course, **P10 Holdings**. P10 remains our top holding and likely will for some time given the company's reasonable valuation and ability to direct its substantial cash flow toward acquiring additional alternative investment managers. European internet and broadband providers were also a bright spot for the fund, with the market rewarding the successes of **Intred SpA** and **Bredband2 i Skandinavien AB**. Software reseller **Rand Worldwide** also contributed. I will discuss all of these, but first I want to shed some light on a few of our companies that did not participate in this year's broad market rally despite strong operating results.

Nuvera Communications gets lonelier and lonelier. In recent years, small rural telecoms have left public ownership one after another. Horizon Telcom and North State are now private. Otelco and Alaska Communications have agreed to be acquired. Once those depart, Nuvera will be the smallest remaining independent rural telecom (excluding Alaska Power and Telephone, which is half electric utility.) Nuvera shares ended the year just slightly ahead of where they began, but the business advanced by leaps and bounds. Nuvera spent the year reducing its already low debt and investing millions to expand and improve its fiber-optic network. Revenue and unlevered pre-tax cash flow (EBITDA) held more or less steady, but the firm's revenue composition continued to shift favorably away from legacy landlines to broadband, video, and subsidy income. As recently as 2015, traditional telecom service still accounted for >40% of Nuvera's revenue. In the most recent quarter, legacy revenues declined to below 20% of total revenues for the first time. As legacy revenues continue to run off slowly and the need for broadband service continues to grow, I expect Nuvera to return to modest top-line growth and increasing earnings.

CHART: Nuvera Revenue Mix 2014-20



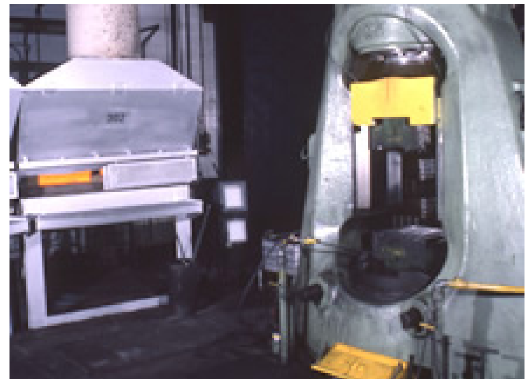
The quality and profitability of Nuvera's operations will continue to increase and its financial leverage will continue to decline. I suspect private equity firms will give the company a close look this year, if they are not already doing so. Private equity scooped up other Minnesota telco assets in 2020, including providers in close proximity to Nuvera's operations. Nuvera would be a perfect target for an acquirer, especially considering the millions in public company expenses an acquirer could eliminate immediately.

My hope remains that **LICT Corporation** sees the light and buys Nuvera before somebody else does, but Mario Gabelli & Company seem content directing LICT to improve its operations and repurchase stock. LICT Corporation shares were also flat on the year, beginning and ending near $18,000. Over the last four quarters, LICT added 255 miles of fiber to its network and grew its broadband customers from 35,339 to 39,157, an increase of 11%. The company reduced its shares outstanding by 3.3% while increasing its net cash by $18.5 million thanks to strong cash flow and the sale of some non-core assets. Recently, the company has maintained unusually high cash balances as it participates in spectrum options. Once these auctions have completed, I expect the company to resume its aggressive share repurchase plan. Acquiring a good quality telecom of reasonable size would accelerate shareholder returns, but LICT's management has earned my patience. I can hardly complain about the returns they have delivered while the fund has owned LICT.

Crawford United also treaded water in 2020 with shares ending the year slightly below where they began it. COVID-19 walloped demand for the company's aerospace components, but the company's air handling and hose divisions picked up much of the slack. The marine industry has been hot with people choosing to social distance on lakes and rivers. Crawford's Marine Products

International has been selling hoses left and right to all those boaters.

Despite the slowdown, Crawford remains well-financed and on the hunt for new investments. In September, Crawford participated in a capital raising by fellow industrial company Ampco-Pittsburgh. While small, the investment has already performed well for Crawford. Just days ago, Crawford announced the acquisition of Komtek Forge, a Massachusetts metal-working shop producing high-specification products. The acquisition adds $7 million in revenue and will increase earnings immediately.



"Rarely found in the United States, our Banning hammers provide superior quality and improved die wear."
– Komtek Forge

Shares of Crawford United are up on news of the acquisition. Despite the increase, shares still trade at less than 8x my estimate of normalized earnings. I expect the company to perform numerous additional acquisitions on attractive terms. As I have written before, there are thousands of unglamorous but profitable niche industrial companies, many lead by founders seeking to sell or retire. Crawford will not soon run out of places to employ its capital.

P10 Holdings enjoyed an extraordinary year, rising nearly 400% to close at $6.60. Shares have given back a portion of those gains this year, but the long-term story of the company is as strong as ever. Since first acquiring RCP Advisors in 2018, P10 has added alternative assets managers in steady fashion. Most recently, the company closed on the acquisition of Enhanced Capital Group, a leader in socially responsible investing. P10's product offering now encompasses traditional private equity, private credit, early-stage/venture capital, and socially responsible investments. A true one-stop shop!

With this latest acquisition, P10 can now produce annual unlevered cash flow in excess of $75 million. This cash flow is highly predictable due to the long-term nature of the investor capital that P10's managers steward. Based on current cash flow alone, P10 remains attractively priced. At a nearly 7% free cash flow yield and assuming only modest annual increases in assets under management, it is easy to see returns in the low teens from here. But of course, P10 will not be satisfied with the status quo. Rather, the firm will continue to acquire additional alternative asset managers, growing assets under management and cash earnings per share.

Even with all P10's successes, the company remains nearly completely unknown. I believe this will change in 2021. The firm is preparing its return to fully-reporting status and will up-list to a major exchange. At that point, I think a much larger pool of investors will like what they see.

No matter what shares of P10 may do, I intend to limit their weighting in the Alluvial Fund portfolio to 20%. At the time of this writing, P10 has a 17% weighting in the fund. My extraordinary confidence in P10's management, business strategy, outlook, and valuation is tempered by my sober responsibility to maintain a proper appreciation for risk. The world is unpredictable. Bad things can happen to any company or industry completely out of the blue. The role of the portfolio manager is to ensure that an adverse result in any particular investment does not threaten the viability of the fund itself or permanently impair its partners' capital.

Intred SpA shares nearly doubled on the year. In our video call last June, CEO Daniele Peli remarked "You must be a happy shareholder." I was and I am! Intred continues to grow its revenue at mid-teens rates, with operating income rising much more quickly thanks to strong operating leverage. The company is expanding its service territory, partnering with government-owned fiber networks. Italy has long suffered from slow internet speeds and low broadband availability compared to other developed European economies, but the Italian government sees expanding access as a major priority.

Heading north 900 miles or so takes us to the Mälmo, Sweden, home of **Bredband2 i Skandinavien AB**. Bredband2 capped off a successful year by purchasing one of its significant competitors, A3. Bredband2 has been a major Nordic success story, growing its revenues and profits year after year while generating incredible amounts of cash. And yet, the entire time Bredband2 was engaged in a price war with other discount providers like A3. Joining forces with A3 should relieve significant pressure on pricing and benefit Bredband2's margins. The market has responded very positively to the tie-up, but I believe the market is under-estimating the merger's impact on margins.

TABLE II: Top Ten Holdings, 12/31/20 (%)

P10 Holdings Inc.	20.6
Bredband2 i Skandinavien AB	8.1
Intred S.p.A.	7.8
Polaris Infrastructure Inc.	5.9
Rand Worldwide Inc.	5.7
Nuvera Communications	5.5
LICT Corporation	5.4
Crawford United Corp.	4.5
PharmChem Inc.	4.3
Butler National Corp.	3.8
Total, Top Ten	***71.6%***

Rounding out 2020's big winners is **Rand Worldwide**, a reseller of design and engineering software from Autodesk and others that also provides training and support. It's a fine business, earning excellent returns on capital and benefitting from positive long-term trends in software usage. It also happens to be majority owned by one of the sharpest investors in small public entities, Peter Kamin. The man simply knows how to make money. Rand's fiscal 2021 results will show decreased revenue and earnings as some sales promotions fail to repeat, but the long-term trend is thoroughly intact. Mr. Kamin and his team will keep on stewarding shareholder dollars well. Alluvial Fund is also invested in another Kamin-controlled entity, **Calloway's Nurseries**. In the past, I have made the mistake of focusing too much on the short-term results of Kamin's companies, ignoring their significant strategic investments in long-term growth and profitability. I don't intend to repeat the error.

"Special situations" have always been an important part of the Alluvial Fund portfolio. Distressed securities, liquidations, restructurings, etc. can all offer exceptional value when the market's attention is elsewhere. I recently invested in two distressed preferred stocks. Both issues are backed by valuable assets and cash flow. Each has a strong likelihood of exiting distressed status in the next 6-18 months.

Pegroco Invest AB is a Swedish holding company with investments in several companies, both public and private. The last couple of years have been difficult ones for Pegroco. A subsidiary making modular data centers wound up in a contract dispute with a major European telecom, causing the subsidiary to collapse and leaving Pegroco on the hook for debt guarantees it had made. Then came COVID, which badly hurt profits for most other Pegroco subsidiaries and caused an aerospace-focused holding to fold. As a result, Pegroco canceled dividends on its listed preferred stock, paying none in 2020.

TABLE III: World Allocation, 12/31/20 (%)

United States	71.4
Eurozone	12.5
Sweden	8.6
Canada	6.4
Other	1.1
Total	***100%***

Despite the challenging environment, all is not lost for Pegroco. The company's largest investment is Nordisk Bergteknik ("Nordic Rock"). Nordisk Bergteknik performs rock handling, providing blasting, drilling, reinforcement, and more. Nordisk Bergteknik has grown steadily and recently raised capital from third-party investors at a valuation of SEK 1.7 billion. Pegroco's 80%+ equity stake in Nordisk Bergteknik is now benchmarked at nearly SEK 1.4 billion after this financing, substantially higher than its value on Pegroco's balance sheet. Pegroco Invest is exploring an IPO of Nordisk Bergteknik to take place in 2021. As Pegroco's other operations recover and it considers monetizing part of its Nordisk Bergteknik investment, I am confident the flow of preferred dividends will resume in within a few quarters. Pegroco Preferreds offer upside return potential of 50%.

A bit closer to home, **Wheeler Real Estate Investment Trust** features a colorful activist engaged in a turnaround effort. Joe Stilwell is best known for his many successful campaigns to bring changes to underperforming community banks. This time, he has gone after a REIT. Woe betide any lazy, incompetent, or self-serving board of directors that catches Stilwell's attention. The man does not mess around! Here, at right, is the billboard Stilwell erected near Wheeler's headquarters during the proxy fight highlighting the -96% return enjoyed by shareholders since Wheeler's IPO.

PHOTO — Not messing around!

Stilwell's group won control of Wheeler and immediately set out cutting costs, selling assets, and restructuring debt. Now, Wheeler's assets are not what anyone would call prestige properties. They are mainly strip mall-style outdoor retail developments, mostly in the Southeast and Mid-Atlantic regions. However, many of Wheeler's properties are anchored by grocery stores, a bright spot during the pandemic. Despite some early 2020 stress, Wheeler's properties have continued producing cash flow and maintained healthy occupancy.

Wheeler has two series of preferred shares outstanding, each of which trades at a large discount to par plus dividends in arrears. I find the Series D preferreds compelling because they come with a put feature that obligates Wheeler to redeem the shares in September 2023, at the holder's option. So the Series D preferreds represent something of a small emergency to Wheeler, a liability that must be dealt with inside of three years. Wheeler is presently conducting a tender offer to repurchase 31% of the outstanding Series D preferreds. I expect additional tender offers or exchange offers as Wheeler's finances improve.

Wheeler is currently producing annualized net operating income of $36.3 million. This cash flow easily covers Wheeler's principal and interest payments on its debt and leaves plenty left over to address the preferred shares however the company sees fit. I think the odds are heavily in favor of Stilwell coming out ahead. Wheeler Series D preferred shares offer upside of 70%.

The Year Ahead

Once again, thank you for entrusting Alluvial with your capital. I am excited to see what the year ahead holds for our portfolio companies and for other investments the fund may make. Never a dull moment in the markets, is there? Whatever may happen and whichever way markets go, I will spend my time searching the world over for Alluvial Fund's next opportunity.

Alluvial Fund is currently undergoing its annual audit. The fund administrator will distribute audited financial statements when they are available. As always, we will work expeditiously to provide tax documents no later than mid-March.

I am hopeful that life may feel close to normal at some point this year, and I look forward to seeing many of you when large gatherings are again possible without undue risk. Until then, please do not hesitate to reach out with questions or just to catch up. All to best to you and your families. I look forward to writing to you again in April.

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, 2020 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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