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Letter to Limited Partners First Quarter 2026



Dear Partners,

Alluvial Fund returned 3.0% in the first quarter of this year, a solid start against flattish benchmarks. Looking at the quarter's returns in isolation, one might conclude that markets were sedate, lacking investor excitement or anguish to push them higher or lower. A brief glance at the headlines would quickly dispel that point of view. The outbreak of war shook markets, and our holdings were not unaffected.

TABLE I: Alluvial Fund LP Returns (%) as of March 31, 2026

	YTD	2025	2024	2023	2022	Cumul.	Annual.
Alluvial Fund LP NET	3.0	41.2	16.4	15.1	-14.9	289.2	15.8
Russell MicroCap TR	1.5	23.0	13.7	9.3	-22.0	110.5	8.4
Russell 2000 TR	0.9	12.8	11.5	16.9	-20.4	107.9	8.2
MSCI World Sm+MicroCap NR	1.2	20.7	8.0	15.1	-19.1	120.0	8.9

Partnership began operations 01/01/2017

Before I write *anything* about the Iran War's impact, let me acknowledge that the situation seems to change by the day, if not by the hour, and that anything I write could be out-of-date before I finish this page. I will not speculate on the timing of the Strait of Hormuz fully reopening or when a peace agreement might be achieved. Instead of prognosticating on geopolitics, I believe my time is better spent ensuring our portfolio is robust to a wide range of outcomes and looking for opportunities caused by the disruptions.

Thus far, the war has had only limited effects on the outlooks of our portfolio holdings. We have always preferred boring businesses with predictable cash flows, offering products and services that people and businesses tend to need in good times and in bad. Our investments in industries like staple foods, cleaning products, and communications should be protective if energy prices stay high and the economy suffers.

Since quarter's end, markets have rebounded strongly on signs of de-escalation and increased hopes for peace and normalizing energy flows. The small-cap Russell 2000 Index is up 11% so far in April, hitting new all-time highs. This degree of exuberance strikes me as premature, but time will tell. Most European and Asian markets are taking a more cautious tack and remain off their

February highs. For our part, Alluvial Fund has recovered nearly all of its March decline, but we are not keeping up with the higher octane domestic small-cap and micro-cap indexes.

I do expect that if the worst of this conflict is truly behind us, the market's enthusiasm will eventually extend to the sleeper names in our portfolio. If there is more strife ahead, we have cash to take advantage of opportunities.

Portfolio Updates

In February, Alluvial Fund holding **Peakstone Realty Trust** agreed to be acquired by Brookfield Asset Management for \$21 per share. While we were not counting on an acquisition for our Peakstone thesis to play out, we are very happy to sell our shares at an attractive price! Peakstone is a good example of an idea from a theme that has worked quite well for Alluvial: "unpopular real estate."

When we bought our Peakstone shares, I could have named half a dozen reasons not to: the trust owned an ungainly mix of offices and industrial properties, a combination that appealed to just about nobody; corporate overhead expenses were excessive, a legacy of the trust's past as a much larger operation and as a private REIT; it was small, with a market capitalization of less than \$500 million. Perfectly ignorable and unlikely to attract capital from passive investors or activists. However, Peakstone was changing rapidly. The office portfolio was shrinking quickly, with sale proceeds being deployed into additional industrial assets. It wasn't hard to see that within a year or so, Peakstone would become a pure-play industrial REIT and that overhead, while still too high, was coming down quickly. I expected that as the "New Peakstone" strategy played out, the market would revalue the trust from an 11% cap rate to something more in the realm of 7%. I am pleased that Brookfield accelerated that process for us.

Our other current "unpopular real estate" holdings, **Net Lease Office Properties** and **CBL & Associates Properties**, have also delivered excellent returns. There are

other real estate liquidation stories that we are evaluating, but I think the post-Covid distressed commercial real estate cycle has largely played out. Time to wait for the next time that investors declare some category of real estate "uninvestable."

EACO Corp., a distributor of electrical components and fasteners, has been a quiet powerhouse for Alluvial Fund since we first bought shares several years ago. In fiscal 2019, EACO produced revenue of \$221 million and operating income of \$13 million. For the twelve trailing months,

TABLE II: Top Ten Holdings, 3/31/26 (%)

Zegona Communications plc.	16.4
McDermott International Ltd.	5.4
McBride plc.	5.2
NewPrinces S.p.A.	4.3
Talen Energy Inc.	4.2
Garrett Motion Inc.	3.8
EACO Corp.	3.3
Gulf Marine Services PLC	3.2
Fitlife Brands Inc.	3.2
Seneca Foods Corp.	2.9
Total, Top Ten	52.0%

EACO's revenue has grown to \$463 million. On the strength of improved margins and scale, operating income has grown to \$49 million. EACO shares are up sixfold from our earliest purchases, but the company's valuation remains modest at 8.6x trailing operating income. We plan to hold our shares indefinitely, believing the company will eventually seek a higher profile through a share offering and a listing on a major exchange, or sell to a larger industrial distributor.

Despite this success, Alluvial Fund brought a shareholder derivative lawsuit against EACO's board and CEO last year. Why? Simply put, we believed that the company overpaid for a warehouse it purchased from its CEO and majority shareholder. After much negotiation, our hardworking attorneys have achieved a proposed settlement that, if approved, will result in all EACO minority shareholders receiving a payment. Needless to say, we are delighted by this outcome.

Running a business is not easy. Sometimes, directors and managers will make decisions based on information that is not well understood by shareholders. The small companies we like to invest in will undertake related-party transactions more frequently than their larger peers, and many of these transactions will be entirely reasonable. We will extend the benefit of the doubt in most instances. All the same, if we see a transaction that appears to be objectively and grossly unfair to shareholders, we will not sit quietly.

Fourth quarter 2025 earnings reports from our portfolio holdings were very solid, with one notable exception. **FitLife Brands** reported disappointing figures, indicating challenges with legacy brands online sales had continued from the third quarter into the fourth.

Essentially, changes to the Amazon product search algorithm directed fewer potential

buyers to FitLife's legacy products. Also, sales and margins for the company's MusclePharm products were negatively affected by high whey protein prices. It all added up to a rough quarter, with cash contribution (gross profit less advertising expenses) from legacy products down 18% year-over-year. The company is working diligently to address the problem, adjusting its marketing approach and introducing new products for in-store placement, but has not yet succeeded in reversing the decline.

There is a bright spot. The company's August 2025 acquisition of Irwin Naturals is performing quite well, showing growth and generating cash well in excess of acquisition-related debt service costs. Irwin Naturals is having success in building an online sales channel from a zero base. The pace of monthly online sales reached \$500,000 in December and \$800,000 by the end of March.

FitLife's troubles have caused its share price to tumble, reaching the mid-\$9s as I write. Shares have gone from pricing in some level of sustained growth in revenue and earnings to pricing in zero or even negative growth. FitLife shares do belong in the penalty box, but I think the market reaction is excessive. Even assuming a further 15% decrease in legacy brands cash contribution, I have

TABLE III: World Allocation, 3/31/26 (%)

United States	59.5
United Kingdom	26.7
Eurozone	7.9
Poland	3.6
Sweden	1.2
Other	1.1
Total	100%

the company at about 8.5x 2026 cash earnings. The Irwin Naturals acquisitions left FitLife with a levered balance sheet, but the company's cash flow profile remains robust. With effectively zero capital expenditures, virtually all operating cash flow can be dedicated to debt reduction.

If FitLife CEO and major shareholder Dayton Judd can right the ship, I think shares can rebound. This is not the first time FitLife has dealt with a problem in its product distribution channels. When Mr. Judd took the helm, the company was over-reliant on struggling supplements retailer GNC. FitLife successfully pivoted to online sales channels, and it was off to the races. Now that e-commerce is suffering, FitLife may have to find a new way forward. I like the odds, but we will need to see real progress for FitLife to remain in our portfolio. There is no "tenure" in Alluvial Fund; companies succeed on a reasonable timeframe or we move on.

McBride plc., our British producer of soaps, detergents, and laundry powders, is thriving. The company announced it has been little affected by the war, noting that consumers keep right on buying necessities like laundry detergent under nearly any circumstances. McBride indicated it has been successful in passing on price increases, relieving the market's worries over input cost pressures. Earlier this month, McBride announced its intent to acquire Eurotab, a continental manufacturer of tablet format cleaning products like dishwasher tabs. The acquisition will relieve production bottlenecks, open new geographic markets, and increase earnings per share and margins by 2027. Shares responded well to the trading update and proposed acquisition but still trade at an extremely modest multiple of earnings and cash flow.

Our other Mc-investment, **McDermott International**, is making good progress in its turnaround. McDermott is an energy engineering and construction firm with a long and storied history, but plenty of recent struggles. After entering bankruptcy in early 2020, McDermott emerged into the teeth of the Covid era with its deeply depressed oil prices and activity. Things were tough, but the company muddled through by selling assets, finishing up unprofitable contracts, and building toward a profitable future. 2025 was a great year for McDermott. The company reported EBITDA up 38% from 2024, strong cash flow, and good backlog development. And now, Iran. Not a pleasant environment for an oil & gas contractor with extensive operations in the Middle East. Fortunately, McDermott believes that disruptions and delays due to the war will be temporary and still expects a successful 2026.

McDermott expects adjusted EBITDA to rise 21% this year to \$520 million at a 6.5% margin. By year-end, the legacy fixed-price projects that proved so troublesome will be all but a memory,

TABLE IV: Sector Breakdown, 3/31/26 (%)

Communications	23.1
Consumer Staples	16.5
Financials	11.5
Materials	10.3
Real Estate	8.4
Consumer Discretionary	8.4
Industrials	7.1
Information Technology	5.8
Energy	4.4
Utilities	4.3
Health Care	0.2
Total	100%

comprising only 1.4% of backlog. By 2028, McDermott hopes to produce EBITDA of \$701 million at an 8% margin. On today's enterprise value of around \$2 billion, the 2028 business plan would result in an EV/EBITDA multiple of 2.9x. Now, McDermott has some issues to address along the way, the most urgent one being the company's balance sheet, which is still weak despite remarkable improvements in its operating profitability. McDermott is currently seeking to refinance its long-term debt, due in 2027. Though I am cognizant that any new loan will likely carry a high effective rate and may involve some equity dilution, I am confident that the company will be able to refinance this debt and that it will be well worth it. Extending these loan maturities will give McDermott the runway it needs to continue its turnaround.

I expect news on the refinancing soon, which could serve as a catalyst for McDermott shares. While McDermott is on a good trajectory, shares remain deeply discounted due to their illiquidity and the company's financial footing. As milestones are achieved (refinancing, consistent GAAP profitability, positive shareholder equity, a return to SEC filer status, an exchange listing) I expect this risk premium to diminish and for shares to respond appropriately.

This section would not be complete without an update on our largest portfolio holding, **Zegona Communications**, whose shares have performed quite well year-to-date as the company executes a large share buyback. Following the sale of its fiber-optic networks, Zegona's focus is on driving revenue growth and margin improvement, as well as monetizing the remaining non-core assets. Rumors of a potential tie-up with Telefonica continue to circulate, but I do not expect a sale of Vodafone Spain in the short term.

Despite the run-up, Zegona shares continue to trade at a discount to other European telecoms. I still see significant upside as operational improvements implemented in 2024 and 2025 become visible in operating results. Simply for purposes of risk management, we have sold some Zegona shares this month. As much as we love the opportunity, we cannot responsibly allow it to grow to be 20% or more of the portfolio. We will likely remain gradual sellers if the shares keep climbing at such a pace.

New Holdings

We recently took a position in **Gulf Marine Services PLC**, a London-listed owner of 15 self-elevating, self-propelled support vessels. These "SESVs" support all manner of offshore activity in the oil & gas and renewable energy sectors. Gulf Marine's fleet is one of the industry's youngest, and is chartered to a blue-chip roster of national oil companies and energy giants, mostly in the Middle East. To be clear, we did not buy Gulf Marine Services for its fleet. While good quality, there is nothing particularly unique about these vessels. We bought Gulf Marine Services because its shares trade at a giant discount to fair value thanks to the company's small size, strange listing status (London-listed, Abu Dhabi-based, operates in US Dollars), and checkered past.

Gulf Marine Services got into trouble a few years back, going on a debt-fueled acquisition spree and buying several vessels just in time for energy prices to plunge and vessel day-rates to fall. By the end of 2020, the company was drowning in \$406 million in net debt atop only \$50 million in EBITDA. Out went management! New management's top priority was to reduce debt and did they ever. From 2020 to the end of 2025, net debt declined by \$250 million. Meanwhile, industry conditions stabilized, EBITDA climbed to \$113 million, the company's revenue backlog increased

to record levels, and 2025 day-rates climbed 11% over 2024 levels. With leverage in check and highly visible cash flows, GMS entered 2026 ready to resume capital distributions to shareholders and make modest growth investments. With shares trading at just 4x EBITDA and at a 20% forward free cash flow yield, I believed that shares could double as these catalysts played out.

And then...Iran. Apologies if you sick of the topic; I am. When hostilities broke out, Gulf Marine Services was forced to evacuate four of its SESVs operating in Qatari waters. Fearful that the company's vessels would be idled for months on end, investors sent GMS shares down 35% from their February peak. Shares have since recovered some of their losses, but remain well off the highs.

I see this decline as an opportunity to buy GMS shares while they are discounted due a headwind that while serious, will not be permanent. At under GBp 18 per share, the market is valuing GMS at an enterprise value of \$430 million. The company's current revenue backlog translates to about \$396 million in cash flow before interest and taxation, meaning the market is assigning little value to the company's assets and operations once its current revenue backlog is completed. Per the company, evacuated crews and client personnel are gradually returning to the evacuated vessels. I don't know when conditions in the region will normalize. Things could easily get worse before they get better. But while it trades at such a large discount to the value of its vessels, I am convinced Gulf Marine Services shares are attractively priced for the level of risk.

Concluding Thoughts

Thank you, as always, for entrusting your capital to Alluvial. I could never ask anyone to invest in a strategy I didn't believe in, which is why the entirety of my investable capital is invested in Alluvial Fund (and our newest strategy, Tactile Fund!) Building these funds has been incredibly rewarding, both in terms of investment gains and the satisfaction I get from assembling a community of likeminded investors. Searching the dusty corners of the market for opportunities may not be an approach that appeals to everyone, but it has been rewarding for us.

I think it is prudent to remind partners of a few characteristics of those dusty corners. Alluvial Fund routinely invests in securities that are unpopular, overlooked, misunderstood, or simply difficult to trade. Some years, last year being a prime example, the stars align, the market takes a shine to these holdings, and everything is glorious. But just as often, our holdings *remain* unpopular and ignored. The Alluvial Fund portfolio has meaningful exposure to securities that will gather dust or drift randomly at the whim of small buyers and sellers as we await a catalyzing event. I view this as a feature of the fund and strategy, not a flaw. I am content to be out-of-sync with the market much of the time, provided we ultimately realize strong returns. As long as the underlying businesses perform, our holdings *eventually* respond.

I don't know what kind of year this will be, or next year, or the year after that. All I can do is continue to buy deeply undervalued securities and have faith that whether it takes weeks or years, the market comes around in the end. Our long track record of meaningful outperformance versus benchmarks is evidence of that.

Our fund administrator, NAV, distributed K-1 statements in mid-March. We make every effort to conclude the tax process timely each year, and I am glad we were able to do so once again. I wish

to thank the fund's auditors, Cohen & Company, for their professional and methodical approach in completing Alluvial Fund's ninth annual audit.

We will conduct our traditional Alluvial Fund semi-annual webinar and Q&A in May. Details will follow.

Thank you for reading. I hope you and yours are well. Please feel free to reach out with questions about the portfolio at any time. I am at your disposal. I look forward to writing to you again this summer.

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.

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