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Letter to Limited Partners Second Quarter 2025

The cover image shows a magazine ad from 1948 for Farrow's, a British manufacturer of canned fruits and vegetables and other food products. Farrow's was founded in the mid-1840s and initially focused on production of mushroom ketchup and mustard, briefly becoming the largest mustard producer in Britain at the turn of the 20th century. They pivoted into canning fruits and vegetables, principally giant marrowfat peas, in the 1930s and enjoyed a decades-long period of expansion and prosperity. Shortly after the original print of this ad, however, the star of canned foods began to wane, and the Farrow's canned vegetable business subsequently changed hands a number of times in the ensuing years.

Today, the Farrow's brand is owned by Alluvial Fund investment NewPrinces Group. Continue reading the letter to learn more about NewPrinces.

Photo Credit
The Visual Telling of Stories

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Dear Partners,

Alluvial Fund rose 8.5% in the second quarter, building on its robust start to bring year-to-date returns to 15.6%. At June 30, comparable US benchmarks remained in negative territory for the year. I am pleased with our returns thus far this year, but of course, never satisfied. There are always improvements to our research processes that can be made; our task at Alluvial is to make them.

TABLE I: Alluvial Fund LP Returns (%) as of June 30, 2025

	YTD	2024	2023	2022	2021	Cumul.	Annual.
Alluvial Fund LP NET	15.6	16.4	15.1	-14.9	31.0	209.6	14.2
Russell MicroCap TR	-1.1	13.7	9.3	-22.0	19.3	66.8	6.2
Russell 2000 TR	-1.8	11.5	16.9	-20.4	14.8	79.4	7.1
MSCI World Sm+MicroCap NR	7.9	8.0	15.1	-19.1	15.8	94.3	8.1

Partnership began operations 01/01/2017

First there were tariffs. Then there mostly weren't. Now there are tariffs again, probably? It's dizzying. Markets are no longer taking tariff announcements at face value, which explains the muted reaction to recent proclamations. Our direct exposure to these tariffs remains very limited. Exports to the United States make up only a small fraction of our portfolio companies' revenue. The indirect effects of this unstable tariff regime will have a greater impact. Changes in consumer and business confidence, currency levels, and the outlook for continued economic growth present a fraught business environment for our holdings to navigate. Alluvial has always had a strong preference for "basic" businesses that deal in essential goods and services, produce predictable cash flows, and maintain strong balance sheets. These are the businesses that are ready for a rainy day, whenever it may arrive. And it always does, eventually. I live in Pittsburgh, so I know a bit about rain.

Portfolio Contributors

Talen Energy was the biggest contributor to this quarter's returns. In June, the company announced an agreement with Amazon to provide 1,920 megawatts of nuclear power to Amazon datacenters through 2042. The agreement provides a highly valuable long-term earnings stream for Talen. When power delivery reaches scale in 2032, Talen expects the agreement to provide incremental annual free cash flow per share of at least $7. I think this guidance will prove far too conservative based on continued share repurchases. Talen continues to shift its activities away from merchant power production and toward providing clean energy to datacenters on long-term, highly predictable contracts. As a result, investors are starting to value Talen shares less like those of an electricity wildcatter and more like a quasi-regulated utility with a blue-chip end customer. Every business would love to find a way to make more money and take less risk doing it, and that's exactly what Talen is achieving.

A portion of Talen's rise is due to the market's exuberance over anything relating to AI and data centers. But unlike the AI darlings trading at 50 or 100 times their 2030 wildest fantasy earnings, Talen's valuation remains grounded in reality at just a mid-teens multiple of 2026 free cash flow.

Just hours after I finished the first draft of this missive, Talen announced an agreement to purchase two modern high-efficiency combined-cycle gas generation facilities in Pennsylvania and Ohio. These plants will help Talen satisfy the burgeoning demand for power from the data center industry. The purchase is hugely beneficial to Talen's free cash flow. Shares reacted well to the news, but we don't think the market fully appreciates the impact the purchase will have on Talen's long-term results. We gladly purchased additional Talen shares when the news broke.

TABLE II: Top Ten Holdings, 6/30/25 (%)

Zegona Communications plc.	10.6
Net Lease Office Properties	8.7
McBride plc.	8.3
Talen Energy Inc.	4.7
Fitlife Brands Inc.	4.0
Seneca Foods Corp.	3.9
NewPrinces S.p.A.	3.6
Crawford United Corp.	3.5
Garrett Motion Inc.	3.0
The Monarch Cement Company	2.8
Total, Top Ten	***53.0%***

Zegona Communications continued its winning ways, rising 6.4% in the quarter. Rumors of a possible buyout continue to swirl, as does speculation about the outcome of the sales process for Zegona's fiber optic assets. I will be over the moon if a sale to Telefónica materializes, but that is not my base case nor is it necessary for a great outcome. In my view, the most likely scenario continues to be a sale of the fiber assets, followed by a return of capital and continued operational improvements at Vodafone Spain. Zegona's June 30 reporting showed customer growth, improving margins and robust cash flow.

Shares of Zegona have more than doubled from our average purchase price. While I continue to believe in the company's prospects, there is no question that the risk/reward on offer is not quite what it was when shares traded at GBp 250. With that in mind, we have been trimming our Zegona position, preferring to keep some cash in reserve for other opportunities or to re-buy Zegona shares if they head lower.

Our other UK-traded holding, **McBride Plc**, also enjoyed a strong quarter. A university endowment had been a consistent seller of McBride shares, but ran out of shares to sell near quarter-end. Unfortunately, investors took a dim view of McBride's July trading update and sent shares tumbling. The update didn't contain anything surprising, just a recognition that the trend of European consumers trading down to private label soaps and detergents is plateauing and that margins would retreat from record highs. This was always the case. McBride operates in a competitive industry where bumper profits simply don't last. However, I expect McBride to enjoy some permanent margin uplift thanks to its increased scale and investments in automation. Even if operating margins retreated all the way to pre-COVID averages, McBride would still be trading at mid-single-digit earnings multiple. McBride has succeeded in normalizing its balance sheet and will resume paying dividends later this year. Despite the dip, McBride remains one of this year's best performers, up 25%.

TABLE III: World Allocation, 6/30/25 (%)

United States	58.2
United Kingdom	21.4
Eurozone	11.7
Poland	4.1
Sweden	2.1
Denmark	1.4
Other	1.1
Total	***100%***

Rounding out this quarter's winners is **Seneca Foods**. Seneca is emblematic of Alluvial's efforts to buy boring and little-known, yet highly profitable and undervalued companies. When we first began buying Seneca Foods, the company was coming off a bumper vegetable harvest. This meant a lot of corn and green beans to pack, resulting in high inventory and big borrowings on Seneca's working capital line of credit. This scared off a lot of investors, but an occasional big pack year is just how it goes for Seneca. When the beans grow, can them. They know that for every bumper crop, there will be a year with more meager yields. Sure enough, this past year saw a modest harvest, and Seneca reduced its borrowings by $259 million, or a whopping $37 per share. Seneca's balance sheet has normalized, to the benefit of shareholders. Intriguingly, a Seneca competitor, Del Monte, has entered bankruptcy after years of financial struggles. The bankruptcy may present Seneca with the opportunity to pick up some attractive assets at good prices.

Adding…

We added a significant new holding to the Alluvial Fund portfolio this quarter, **NewPrinces SpA**. While nominally an Italian company with shares traded in Milan, NewPrinces is rapidly becoming a pan-European leader in branded foods. Formerly known as Newlat Foods, NewPrinces got its start in the pasta industry. From there, the company expanded into dairy, baking products, instant noodles, baby foods, canned tomatoes, oils, beverages, and canned seafoods. The strategy is simple. NewPrinces buys small food divisions from larger companies, often multi-nationals like Kraft Heinz or Mitsubishi. The brands NewPrinces buys are typically mature and often somewhat neglected. Their owners are happy to sell in order to reinvest in faster-growing, trendier product lines. Once acquired, NewPrinces gets to work wringing out production efficiencies and striving to reduce net working capital, effectively reducing their purchase price.

NewPrinces' most significant acquisition to date was the July 2024 purchase of Princes Limited, a venerable producer of classic British foods with £1.7 billion in revenue. With the purchase, NewPrinces more than tripled its revenue base and set itself up to IPO in London, aiming to float 25% of its now majority-UK business later this year. Following the purchase and successful integration of Princes, NewPrinces has stayed busy on the acquisition front, buying a Diageo factory in Northern Italy and agreeing to buy Kraft Heinz's European baby foods business for €120 million.

The market has rewarded NewPrinces shares for its series of successful acquisitions, but the shares remain attractively priced. The company is rumored to be working on another sizable acquisition, which could result in shares reaching new heights.

We have also bought shares of **SigmaRoc Plc**, a leading European producer of lime and minerals. SigmaRoc is another serial acquirer with an impressive record of buying the cast-offs of larger producers. SigmaRoc is the top lime producer in Scandinavia, the UK and Ireland, and much of Western Europe, and the number 2 producer in Germany, Poland, and Czechia. Lime is a critical input for numerous industrial processes, ranging from steelmaking to construction to food and beverage and cosmetics. Limestone producers have attractive economic characteristics reminiscent of cement and aggregates. Namely, they enjoy strong regional moats thanks to transportation costs and the challenges of bringing new quarries into production. I like SigmaRoc's valuation based on its current asset base and profitability, but there is real potential for a wave of European infrastructure and defense spending to kick demand for SigmaRoc's products into overdrive. European construction and infrastructure spending has been moribund at best for nearly two decades now, but Germany appears ready to unleash €500 billion in infrastructure spending. This wave of investment is very likely to be a positive for lime and minerals pricing, and Germany is SigmaRoc's largest end market.

TABLE IV: Sector Breakdown, 6/30/25 (%)

Consumer Staples	21.6
Communications	17.3
Real Estate	14.9
Financials	14.5
Information Technology	8.4
Consumer Discretionary	7.9
Materials	6.2
Utilities	4.7
Industrials	2.7
Energy	1.2
Health Care	0.6
Total	***100%***

...And, Subtracting

We sold our shares of Titan SA for a small gain. The IPO of Titan's US operations went off as planned, but the new listing's shares traded weakly, quickly fall through the IPO price. Following the partial sale of the US business, the parent company's shares continued to trade at levels that valued their European operations at half the multiple of comparable businesses. Credit to Titan's management for trying to address the discount, but we opted to move on to better ideas.

The Real Estate Update

Out-of-favor commercial real estate continues to be a theme in our portfolio. Our biggest real estate holding, **Net Lease Office Properties**, has eliminated all corporate-level debt and is poised to begin returning capital soon. **PeakStone Realty** continues its transition into an industrial outdoor storage-focused REIT. And lastly, **CBL Properties** continues to reduce leverage and divest its marginal mall properties.

Net Lease Office Properties recently succeeded in selling a vacant Texas office property at an attractive valuation of $80 per square foot. The company is actively marketing several of its remaining higher-value properties. The company currently has distributable cash on hand of around $3, with more coming in each month. Excluding mortgaged properties, Net Lease is currently trading at a capitalization rate of around 18%. I continue to believe shares are worth $45-50.

PeakStone Realty has now sold all its non-core properties, and is currently marketing another office building that is expected to bring in $100 million. Once sold, PeakStone will have reached its leverage target and can then focus entirely on growing its industrial outdoor storage platform. Valuing only currently leased industrial properties using a 6% cap rate and valuing the remaining offices using a 9% cap rate yields net asset value of $30 per share. This should be discounted for ongoing corporate costs, but the company's robust free cash flow yield supports a fair value much higher than current trading around $14.

In April, CBL Properties announced it had met the conditions to extend its term loan maturity to late 2026, and that it expects to further extend the loan to November 2027. The company continues to have ample unrestricted cash on hand, and to have success in refinancing its premiere properties at lower costs. Earlier this month, the company announced it had refinanced the loan on its Cross Creek Mall property at a 6.9% rate, down from 8.2%. CBL will continue to dedicate its cash flow to a combination of debt reduction, return of capital, and investment in its best assets.

Special Situations

The stock market is about as ebullient as I have ever seen. Every day it seems some previously obscure company is rocketing to fame and riches by announcing a "Bitcoin Treasury Policy" or some other crypto-related initiative. And whenever I see speculative fervor growing, it makes me want to own more special situations: securities and situations that can provide positive absolute returns regardless of the market environment. Alluvial Fund has always had an allocation to special situations, the size of which changes depending upon the opportunity set. Given prevailing market sentiments, I think the time is right to increase our allocation to special situations that meet our risk/reward parameters.

One such holding is **ContextLogic, Inc**. ContextLogic is what remains of the former Wish.com, a former e-commerce highflyer that crashed and was sold for scraps. Following the sale of its operating subsidiary, ContextLogic has a large pot of cash, minimal liabilities, and enormous net operating loss carryforwards (NOLs), which can be used to offset future taxable income. ContextLogic has partnered with large global alternative investment firm BC Partners to find potential acquisitions. BC has invested $75 million in convertible preferred shares of a ContextLogic subsidiary and has the right to invest another $75 million on the same terms. Assuming BC exercises its rights, ContextLogic has just over $6.50 per share in cash with which to pursue an acquisition. If ContextLogic can find the right acquisition and execute well, its tax assets alone could be worth >100% of its current market capitalization.

This is not our first time investing in an "NOL shell." We have also tracked a good number of NOL shells over the years and we have seen what does and does not result in good outcomes. To succeed with an NOL monetization strategy, the NOL shell must have the following:

1. Long-lived NOLs, and the more the better. If most of a company's NOLs expire in just a few years, the company is incentivized to make any deal it can, not the right deal for shareholders. ContextLogic has $2 billion of federal NOLs that do not expire.
2. Adequate cash and a low burn rate. Under-capitalized NOL shells risk blowing through their cash before identifying an acquisition. ContextLogic currently has $222 million in cash on hand and a very low burn rate. Overhead costs are mostly offset by interest income.
3. Dealflow. Doing a good acquisition is hard, and it is harder without access to opportunities. ContextLogic's partnership with BC Partners ensure that CEO Rishi Bajaj will get a lot of "looks" at potential acquisition targets.

We were able to buy a reasonable number of ContextLogic shares from forced sellers following the company's delisting from the NASDAQ. Even now, with shares rebounding, buyers are paying very little for the tax assets. Our downside is well-protected by the company's balance sheet cash. If ContextLogic is unable to complete an acquisition on reasonable timeline, the company will liquidate.

In addition to ContextLogic, we are actively increasing our holdings in liquidation scenarios and other special situations. These will provide some portfolio "ballast" in the event the market's mood turns sour.

In Summary
We are having a very good year. I do not know if the good times will continue, but I am as excited as ever about our collection of securities. They are both deeply undervalued and well off the radar of most investors. The market may have a difficult time getting excited about SigmaRoc's lime or Seneca Foods' canned Lima beans, but I have found that given enough time, the market does respect cash flows.

As always, I greatly appreciate the opportunity to manage capital on your behalf. All of my and my family's assets are invested alongside yours. If you have any questions about the portfolio or Alluvial's strategy, I am ever at your disposal. Please do not hesitate to e-mail or call. 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, 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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