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Letter to Limited Partners Third Quarter 2026

The cover image shows two hot air balloons participating in the Albuquerque International Balloon Fiesta, the world's largest ballooning event. During the fiesta, days begin with the launch of the dawn patrol balloons, as pictured on the cover, which take flight before sunrise. Participants in the other ballooning events observe the flight patterns of the dawn patrol in order to gauge the speed and direction of the wind at different altitudes. Once the sun has risen and the dawn patrol has safely landed, the days proceed with the launch of hundreds of other balloons of various shapes, colors, and sizes.

So why is the cover adorned with images of these glowing aircraft? Sadly, it is not because we have invested in a balloon envelope or gondola manufacturer, the vast majority of which all are privately held, but rather because the flight path of these balloons carries them directly overhead of the Albuquerque branch of Century Bank, a 139-year-old bank which is being acquired by Alluvial Fund investment Bank7 Corp. Continue reading the letter for more information about Bank7.

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Dear Partners,

Alluvial Fund had a good third quarter, rising even as benchmarks fell 7%. As I write, the deflating AI trade and a cloudy economic outlook are causing more than a little anxiety among investors. Investors have plenty of reasons for worry. US bond yields are at levels not seen in decades. For the first time in history, the price of diesel fuel begins with a $6. Conflict and instability dominate the headlines.

When investors get nervous, they retreat to sectors, industries, and companies with steady, predictable cash flow. Alluvial Fund has those in spades, which likely explains some of this quarter's outperformance. But not all of it! During the quarter, multiple portfolio companies took steps to increase their value, announcing capital return initiatives, undertaking balance sheet strengthening rights offerings, or establishing new partnerships that will result in meaningful revenue and earnings growth.

TABLE I: Alluvial Fund LP Returns (%) as of September 30, 2026

	YTD	2025	2024	2023	2022	Cumul.	Annual.
Alluvial Fund LP NET	12.0	41.2	16.4	15.1	-14.9	323.6	16.0
Russell MicroCap TR	18.3	23.0	13.7	9.3	-22.0	145.4	9.6
Russell 2000 TR	13.7	12.8	11.5	16.9	-20.4	134.3	9.1
MSCI World Sm+MicroCap NR	12.1	20.7	8.0	15.1	-19.1	143.8	9.6

Partnership began operations 01/01/2017

If the market backdrop continues to darken, our portfolio will not be immune. Despite having little direct exposure to the AI/datacenter/semiconductor complex, we remain subject to the market's ever-changing moods. But no matter what conditions come our way, Alluvial Fund will continue to seek out and own companies with healthy balance sheets, capable management, and robust and recurring cash flow, with a special focus on companies misunderstood or unappreciated by the market. This is the approach that has driven our strong performance over the last decade, and I expect it will deliver the same in the decades ahead.

Our largest holding remains **Zegona Communications Plc.** Despite a tremendous multi-year run in its share price, Zegona still trades at a discount to intrinsic value of 30%+. In my last letter, I noted

recent weakness in the company's share price and attributed it to the expiration of the company's share repurchase program. True to its word, in September Zegona announced a capital return program of €400 million, divided equally between dividends and share repurchases. At current prices, this capital return program equals 8.5% of Zegona's market capitalization. This generous remuneration should support Zegona's share price, accommodating selling from early investors looking to lock in gains and benefitting ongoing shareholders as undervalued shares are retired. To be clear, Zegona is not simply a capital return or financial engineering story. The company's operational turnaround continues. I expect higher free cash flow in 2027 and 2028 as efficiency initiatives bear fruit. For example, Zegona is tipped to be changing tower providers in late 2028, realizing savings by abandoning Vantage for Cellnex and American Tower.

Acquisition rumors continue to swirl around Zegona's operating subsidiary, Vodafone Spain. Telefónica is reported to have reached out again to discuss a potential deal. I continue to view a tie-up with Telefónica as unlikely given the regulatory concessions that would be required, but a transaction at a fair price would be a nice closing chapter to the Zegona story.

Our portfolio has a new number two holding in **McDermott International Inc.**, an energy industry engineering, procurement, and construction business. During the quarter, we participated in the company's $500 million rights offering. Prior to the rights offering, McDermott was not financially distressed, but it was financially constrained. While the company has been extremely successful in improving its contracting strategy and margins, the company's working capital position had prevented it from bidding on more and larger contracts. This new capital will help the company to continue toward its 2028 goal of $700 million in EBITDA, up from $500 million today. If the company is successful in achieving this ambitious goal, then its shares are currently trading at only 3x 2028 EBITDA, ignoring any excess balance sheet cash.

I will note that the unusual listing status of McDermott's shares could contribute to portfolio volatility going forward. At present, McDermott shares trade on the "expert market" segment of the OTC market. (The *new* shares we acquired in the rights offering are restricted for one year and do not trade publicly at all, but do change hands privately.) The expert market is accessible only through a limited number of specialist brokers, with retail investors excluded entirely. You might remember that our ability to invest in expert market shares is a key differentiator for Alluvial Fund. There are some wonderful bargains to be found! While McDermott International is not a small company by Alluvial standards, with an enterprise value exceeding $2 billion, the very limited liquidity in the company's shares could allow limited trading volume to push the share price in either direction. We will gladly accept this potential volatility to own shares in this rapidly improving company at a rock bottom valuation.

Our investment in UK cleaning products manufacturer **McBride Plc** has been very rewarding, albeit not without some angst along the way. The company has successfully repaired its balance sheet and resumed paying dividends. The Iran war is again putting pressure on the cost of many of the company's inputs, but the company's restructured contracts allow it to pass these costs along to customers with a slight lag. Most excitingly, the company has announced a partnership with major European home care products producer Vestacy. Vestacy, spun off from Reckitt Benckiser this year, offers products many Americans have likely heard of, like Air Wick and Woolite, as well as products

this particular American previously had not, like Cillit Bang and Mortein. Under the agreement, McBride will serve as contract manufacturer for many Vestacy products. McBride will produce these products at its own facilities in Europe, as well as two idled Vestacy factories in Spain and Portugal. Vestacy will transfer these facilities to McBride for nominal consideration and will dedicate millions to fund necessary capital expenditures to bring these facilities to production. Ultimately, McBride expects the agreement to increase annual revenues by £170 million at margins consistent with McBride's existing revenue base.

For an investment of roughly £25 million in fixed assets and working capital, McBride expects to generate an incremental £10 million in operating income. This is a compelling use of capital. The market agreed, sending McBride shares up to multi-year highs on the news. The move was welcome, but it was not enough. Since the announcement, McBride shares have fallen back to the GBp 180 range, valuing the business at less than 7x normalized earnings. I am realistic about what McBride is: a boring, low-growth manufacturer of white label laundry soaps and dish detergents. While profitable, there is nothing all that special about the enterprise. The company will never be an investor darling, and it does not deserve to trade at 20x earnings. However, McBride is a case study in how simply buying very, very cheap can work out well with time. McBride remains very, very cheap.

TABLE II: Top Ten Holdings, 9/30/26 (%)

Zegona Communications plc.	15.1
McDermott International Ltd.	8.8
McBride plc.	6.3
Green Dot Corp.	5.1
ContextLogic Holdings Inc.	4.6
Garrett Motion Inc.	4.2
EACO Corp.	3.9
Digital Network SA	3.8
Talen Energy Inc.	3.8
Gulf Marine Services PLC	3.7
Total, Top Ten	***59.3%***

ContextLogic is also opting for a rights offering. In August, ContextLogic announced the second in a series of planned acquisitions, agreeing to buy gChem, a niche chemical producer. To fund the acquisition, ContextLogic will conduct a rights offering at a price of $9.00 per share. The transaction will further accelerate ContextLogic's use of its net operating loss tax assets. The faster the company uses these tax assets, the more they are worth. The market likes the acquisition, and the company's plans to uplist its shares to a major exchange later this year. Since the announcement, shares have rallied from the high $9s to around $15. Alluvial Fund originally bought ContextLogic shares to take advantage of a temporary dislocation caused by the company's delisting from the NASDAQ. However, I have since been very impressed by management's acquisition strategy. Monetizing net operating loss tax assets is harder than it looks. I have seen more than one management team try and fail. In my view, ContextLogic has successfully made the jump from special situation to long-term compounder. I look forward to seeing them close the gChem acquisition and start looking for the next.

Second quarter earnings reports from our portfolio companies were generally very positive. I expect third quarter reports to be similar. Nevertheless, not all our holdings had good news to report, and not all reports were well-received by the market, regardless of my personal opinion.

FitLife Brands has been struggling with high protein costs and Amazon algorithm changes that have pushed some of its best-selling products lower in the rankings. The current craze for protein has pushed whey prices higher, pinching margins in the competitive protein supplement market. While these headwinds continue to blow, I thought FitLife's second quarter earnings were solid. EBITDA rose 12% from the first quarter as the integration of Irwin Naturals progressed and legacy product revenue improved. Cash generation was good. The market initially agreed, but shares have since slumped to the mid-$8s, valuing the company at less than 10x normalized earnings. The market can be vicious to a former high-flyer that stumbles. Some of the downdraft is likely caused by tax loss selling, which could accelerate into year-end. FitLife now trades at an enterprise value only slightly above annual revenue, lower than at any point in the last five years. The company is in the penalty box for good reasons, but it would not take much improvement to cause a significant upward re-rating in the shares.

TABLE III: World Allocation, 9/30/26 (%)

United States	59.8
United Kingdom	27.2
Poland	6.2
Eurozone	4.5
Mexico	1.6
Other	0.7
Total	***100%***

I continue to be excited at the prospect of **Green Dot Corporation** selling its fintech assets and combining its remaining bank operations with CommerceOne. Unfortunately, approval is frustratingly slow in arriving. The company's earnings report had little to say about the delay other than they now expect approval to be achieved in the fourth quarter. Investors are understandably nervous, and shares have slipped from the mid-$13s to the low $12s, only slightly higher than where shares traded before the planned merger was announced. I expect that the company is involved in a complicated negotiation with regulators, the outcome of which is uncertain. We will find out soon if the Federal Reserve will approve the deal and if so, under what conditions. I continue to think the risk/reward balance is very positive.

Lastly, **Talen Energy** had a rough quarter with shares down 19%. More than any other stock in the Alluvial Fund portfolio, Talen Energy trades as a proxy for AI/data center enthusiasm. Talen does benefit from greater investment in either, but I like Talen for its exposure to continually increasing power demand. After stagnating for two decades, US power demand is growing, and growing faster than we can add generation and distribution capacity. Talen management evidently shares my frustration with the company's share price, because they just announced a bold plan to buy back a huge quantity of shares. Talen will borrow against its 2027 and 2028 guaranteed capacity payments, accelerating these payments and repurchasing $1.5 billion in shares by the end of March 2027. We have owned shares of Talen since the company's emergence from bankruptcy in 2023. Company management has put on an absolute master class in how a company should behave post-reorganization, refining and focusing its generation portfolio and buying back a gigantic portion of its shares at dirt cheap prices. If management thinks this is an opportune time to accelerate its buyback, I am strongly inclined to agree.

Portfolio Changes

We sold multiple portfolio holdings in recent months. We let go of NewPrinces SpA due to growing discomfort with the company's complexity and changing business model. In my view, the company's acquisition of Carrefour Italia may well turn out to be successful, but it represents a big shift from the company's historical expertise in acquiring neglected food brands from multinationals. On balance, I do expect the deal to work and for NewPrinces to prosper, but I grew uncomfortable with the degree of operational and integration risk the company was taking on. We are looking for smaller hurdles to step over.

We also sold our shares of Vistance Networks and Sylvamo. Each remains, in my view, distinctly undervalued. However, each was also down meaningfully from our purchase price and presented an opportunity to realize a tax loss. Any time I can trade an idea for one of equal or better quality and reduce our tax bill in the process, that is an exchange I am happy to make.

We added multiple new holdings to the portfolio during the quarter. The most notable of these is **Bank7 Corp.** I like to present Bank7 because it is emblematic of the kind of research we do at Alluvial—largely ad hoc, but with certain recurring workflows and processes. I spend a good amount of time sifting through corporate mergers and acquisitions announcements, looking for deals that will create a dramatic change in economics for the companies involved and assessing the market's reaction. In my experience, the smaller or the farther afield the companies are, the more likely it is that the market errs in its evaluation. It doesn't happen often, but it happens often enough to make the search worthwhile.

TABLE IV: Sector Breakdown, 9/30/26 (%)

Communications	26.8
Financials	15.3
Consumer Discretionary	11.5
Industrials	11.2
Consumer Staples	9.2
Materials	8.8
Information Technology	6.1
Energy	4.8
Utilities	3.9
Real Estate	2.4
Health Care	0.2
Total	***100%***

In early July, I noticed an intriguing headline. Bank7 Corp. would buy a 71% stake in New Mexico bank Century Financial Services. Right away, I was interested. While banks buy other banks all the time, they don't often buy portions of other banks. It turned out Bank7 was buying a majority stake in Century through a court-sanctioned sale process. Century's majority owner had enjoyed the high life a little too much, and a creditor won a court order appointing a receiver to auction off his majority ownership in Century. Now, if you are a business looking to sell, a receiver-led auction is about the worst way to do it. The timeline is accelerated giving bidders limited time for diligence, and there is no option to back out if the offers are underwhelming. Subject to court approval, the best bid wins. The fact that a bank was being auctioned only reinforced the inefficiency. As highly-regulated businesses, banks can generally only be acquired by other banks or by sophisticated funds or individuals with experience in banking.

It all pointed to a short list of potential buyers and a mediocre price for the sellers. Sure enough, Bank7's purchase agreement valued Century at less than tangible book value. In later bidding, another bank entered the ring, and Bank7 did have to bump its bid to prevail. But at the end of the day, Bank7 will control a high-quality New Mexico banking franchise for a very reasonable price, well below what Century would have fetched in a normal sale process. Upon being named as the winning bidder, Bank7 subsequently entered into an agreement to acquire 100% of the outstanding shares Century, a deal which will close on November 1.

I expect the combined entity to be significantly more profitable. Bank7 has guided to a 25% uplift in earnings per share, but I think they are being modest. The addition of Century Financial's low-cost deposit base will lower Bank7's cost of funds by a full percentage point. Over time, Bank7 will transition Century's legacy loan book into its own higher-yielding portfolio. Finally, while profitable, Century was not a very efficiently-run bank. Bank7 will realize tremendous cost savings as the integration process rolls along. Even after buying Century Financial, Bank7 will be strongly capitalized. Within 12-18 months post-transaction, I expect Bank7 to produce run-rate earnings of at least $6.75-7.00 per share. Shares will be worth at least $80.

In Closing

I continue to see numerous opportunities in the markets where we like to go searching for value. As always, I can offer no predictions on where the market or the Alluvial portfolio will head in the short run, but I continue to be excited by the prospects of our portfolio companies. In recent months, I have invested additional capital into both the Alluvial and Tactile strategies. I greatly appreciate your partnership, and I will do all I can to steward our capital.

Last month we were delighted to host a gathering of limited partners here in Pittsburgh. A big thanks to everyone who made the trip! We had some great conversations, and I won't soon forget seeing Carrie Furnace up close. For those who could not make it, there will be other events, starting with a dinner in New York this spring. There are many of you whom I have not yet met in person, and it's always great to put a face with a name.

I wanted to make sure you were aware of Alluvial's various online publications. First up we have our longest-running blog at Alluvial.substack.com. Sadly, I rarely find the time to update anymore, but it is a good repository of almost 15 years of research. Then we have TactileFund.substack.com, providing updates on the progress of our newest strategy, Tactile Fund. Then there is VintageAnnualReports.substack.com. This is a new side project of mine. Of late, I have taken to buying old company annual reports on eBay and writing about them when I find a spare hour or two. So far, we have examined annual reports from iconic American corporations like 21st Century Fox, American Airlines, Marvel Comics, and even the New England Patriots. (It wasn't easy for a Steelers fan to maintain an objective point of view on that one, but I tried.) There is a lot to be learned from examining the successes and failures of enterprises from decades ago. Businesses, industries, and economies change quite a bit, but human nature truly does not. Please subscribe to all three for updates!

We will host our traditional update for partners in November. Details will follow. Thank you for reading. If you have any questions, please don't hesitate to reach out. I look forward to speaking with you next month, and to writing to you again in 2027. I hope you and yours have a peaceful Holiday season.

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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