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Letter to Limited Partners Second Quarter 2026

The cover image shows the Derrick Barge 50, a heavy-lift vessel owned by Alluvial Fund investment McDermott International Ltd. Built in 1986, the DB50 was for years the flagship of McDermott's construction fleet in the Gulf of Mexico. The massive crane on board allowed for a jacket, the underwater structure atop which offshore platforms are built, to be lifted into the correct orientation and position. This improvement provided substantial time savings to clients and reduced project exposure to weather-related uncertainty, as compared with the standard method of "launching", where the jacket was skidded off the back of a barge and floated into place using buoyancy devices attached to the jacket structure.

More recently, the DB50 has been plying its trade in the Persian Gulf, where McDermott has several projects under way with national oil companies and other major energy customers. Continue reading the letter for more information about McDermott International.



Dear Partners,

Alluvial Fund had another quiet quarter, rising 4.9%. Year-to-date, the fund is up 8.0%. I would consider this an acceptable outcome but for the bothersome fact that small-cap and micro-cap indexes are having an absolute barnburner of a year. At least for the moment, investor appetite for AI beneficiaries, semiconductor companies, and other hyper-growth stories is near limitless. I find the valuations afforded many of these companies incomprehensible, justifiable only under the most heroic of projections. But nobody asked my opinion, and the party goes on. By comparison, our portfolio is extremely boring, as it always has been. I view this as a feature, not a flaw, but our portfolio often gets stuck in neutral when investors and their capital flock to momentum-driven shares.

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

	YTD	2025	2024	2023	2022	Cumul.	Annual.
Alluvial Fund LP NET	8.3	41.2	16.4	15.1	-14.9	309.4	16.0
Russell MicroCap TR	25.6	23.0	13.7	9.3	-22.0	164.5	10.8
Russell 2000 TR	22.6	12.8	11.5	16.9	-20.4	152.6	10.2
MSCI World Sm+MicroCap NR	16.1	20.7	8.0	15.1	-19.1	152.4	10.2

Partnership began operations 01/01/2017

I don't know when this trend will weaken or reverse. July has been better, with Alluvial Fund gaining some ground as benchmarks decline. I am confident that our portfolio of dependable cash flow producers with capable management teams and robust outlooks trades at a large discount to intrinsic value, and that that this discount will diminish with time.

Portfolio Updates

Zegona Communications was the largest contributor to Alluvial Fund's 2025 returns, but the company's shares have had a rough go of late. Since peaking in May, shares are down 27%. The decline comes as the company continues to report strong financial results, growing revenue and cash flow as the turnaround gains momentum. In late June, the company refinanced its debt for the second time since buying Vodafone Spain, reducing annual interest expense by a whopping €60 million. So why, if things are so rosy, are Zegona shares in the doldrums? A few reasons, all either transitory or in my view, overblown.

- Profit-taking and a shareholder base transition. For the twelve months ended March 31, Zegona shares produced a total return of nearly 180%. Following such a run, it is only reasonable that some holders would choose to lock in profits and reduce exposure. Alluvial did. Throughout the quarter, we sold shares in the 1700s and 1800s. We did this not out of concern about valuation or business trajectory, but simply to prevent over-concentration in a single stock. There is also a shareholder base transition under way. Some “event-based” holders who owned Zegona for the potential asset sale (now accomplished) are moving on and selling to more traditional value investors. These new investors are happy to buy an improving telecom with a tremendous free cash flow yield at a large valuation discount to comparable companies. It takes time for the shareholder base to turn over, but the process will eventually complete.
- A capital return “air pocket.” Following the sale of most of its fiber optic network, Zegona instituted an aggressive £200 million share buyback. This buyback is now all but exhausted, though fortunately, the pause is temporary. On July 30, shareholders will vote to authorize Zegona to repurchase up to 14.99% of its shares outstanding. Shortly after, the company will reveal its medium-term capital allocation framework. I expect Zegona to commit to returning a sizable portion of its free cash flow via dividends and buybacks, resulting in a compelling shareholder yield at current prices.
- The Digi threat. The Spanish mobile market, like most in Europe, is fiercely competitive. Zegona’s Vodafone Spain is the number 3 operator. The 4th, and smallest, is Digi, a Romanian telecom that entered the Spanish market 18 years ago. Last week, Digi’s Spanish segment raised capital in an IPO, stoking fears that the Spanish market is about become even more competitive. I think these fears are exaggerated. Digi is not a new entrant; Vodafone Spain has been competing with Digi for years and, since new management took over, holding its own. Digi is a fast grower, but it does not make money. At some point, Digi will have to raise prices, which will blunt its competitive advantage.

Pullbacks aren’t any fun, but they are to be expected. At current prices, Zegona shares trade for 7-8x free cash flow, a large portion of which will be returned to shareholders. This is far too cheap for a successful turnaround story with additional margin enhancement and potential asset sales ahead. After selling shares just a few months ago, we have done an about face and are adding to our Zegona position on weakness.

The most fascinating development in the portfolio this quarter came from **McDermott International**. McDermott is an energy EPC (engineering, procurement, construction) company with a troubled past and a bright future. After several difficult years, the company has all but completed its legacy zero-profit and loss-making contracts. Sustained profitability is on the horizon. However, the company has one remaining issue: a weak balance sheet. Poor balance sheet liquidity and a negative equity position hinder McDermott from bidding on desirable contracts and suppress its valuation.

Earlier this month, McDermott announced it would address this weakness via a \$500 million rights offering. Concurrent with the rights offering, the company will refinance its term loan. Though the rights offering is typical in that every shareholder can participate, it is quite *atypical* in that it

is priced at a gigantic discount to pre-offering trading levels. In this transaction, two things are abundantly clear:

- The rights offering is tremendously beneficial for McDermott and for its shares. The additional capital substantially deleverages the company, greatly reducing the possibility of financial distress and enabling McDermott to bid on more and larger contracts. It also sets the company up well for a sale or IPO in the medium term.
- The rights offering is punitive for holders who cannot or will not exercise their rights. Because the rights offering is priced at a large discount, holders who do not exercise their rights will be diluted to oblivion. Most rights offering include over-subscription rights for those interested in buying additional shares. This rights offering does not. Rather, unexercised rights will be exercisable by the four large McDermott shareholders backstopping the rights offering.

Obviously, Alluvial Fund will be participating in the rights offering to the fullest. To decline would be to leave substantial value on the table. Post-offering, McDermott will be substantially de-risked. At its current valuation, McDermott trades at just 3.2x 2027 EBITDA guidance.

McDermott has been a strong performer for Alluvial Fund. When we first invested, I saw upside potential of 150% or more. Shares have moved upward since we invested, but I continue to see potential for shares to double in the next few years. Despite this attractive return profile, I always limited our position size out of caution over the company's elevated financial risks. This rights offering greatly reduces the company's financial risk, so I am now willing to hold McDermott at a higher weighting going into 2027. In many ways, this set-up parallels the Garrett Motion rights offering in 2021. (Right down to the near-identical large holder backstop feature.) In both cases, fundamentally decent companies were being held back by stressed balance sheets. Garrett Motion has been a tremendous performer since, even if we had to endure a few years of sideways price movement first. I am confident that McDermott will be the same, hopefully over a shorter timeframe.

I expect McDermott shares to be volatile as things shake out post-rights offering. We will keep our eyes on the longer-term trajectory. If the company is able to achieve its revenue and earnings goals, shares currently trade at less than 4x 2028 earnings.

TABLE II: Top Ten Holdings, 6/30/26 (%)

Zegona Communications plc.	13.8
Garrett Motion Inc.	6.1
McBride plc.	5.8
Green Dot Corp.	5.5
Talen Energy Inc.	4.8
McDermott International Ltd.	4.6
Vistance Networks Inc.	3.8
Gulf Marine Services PLC	3.7
EACO Corp.	3.5
Digital Network SA	3.0
Total, Top Ten	54.7%

In some letters I outline our thesis for owning just a few of our portfolio holdings. In others, I attempt to update partners on the bulk of our portfolio, spending at least a few sentences on each meaningful holding. This letter is one of the latter type.

Garrett Motion is one of Alluvial Fund's longest-tenured holdings. 2026 has been a watershed year for Garrett, with investors waking up to the fact that the company's turbochargers have applications well beyond the automotive industry. Garrett is increasingly selling to data centers and utilities seeking improved energy efficiency and output. While shares have run up considerably, the valuation remains reasonable and the company continues to return the majority of free cash flow to shareholders. Garrett deserves its new, higher multiple of earnings and cash flows, but we are keeping a close eye. If shareholder exuberance lifts Garrett shares to the point of no longer offering attractive forward returns, we will not hesitate to sell.

McBride Plc., our British manufacturer of private-label soaps and detergents, had a small stumble in early June, when it warned that higher petrochemical costs from the Iran war would temporarily compress margins. Thankfully, shares recovered quickly as investors judged that the adverse conditions would be transitory. On July 1, McBride completed the acquisition of EuroTab, a smart bolt-on deal in continental Europe which will contribute to earnings per share immediately. McBride shares remain extremely cheap at around 7x forward earnings and less than 5x EBITDA. The London market has seen a wave of buyout activity as private equity snaps up UK industrials at depressed valuations. I would not be surprised if McBride were the subject of an offer.

GreenDot Corp. shareholders approved the sale of its technology assets and the merger of its bank operations with CommerceOne Financial. All that remains is government approval, expected imminently. GreenDot shares have acted well, but still trade at a

large discount to pro forma tangible book value. The management and board of directors of the future combined entity are smart operators. If the bank continues to trade below tangible book value after the deal is completed, I expect they will not hesitate to implement share buybacks. I see upside of 50-70% in the next few years, net of the large distribution shareholders will receive when the deal is completed.

Talen Energy is another long-tenured Alluvial holding. We bought Talen out of bankruptcy and have watched Talen's management put on an absolute master class. Since emergence, Talen has bought back a huge quantity of shares at extremely low prices, sold some older, out-of-market assets, and reinvested in modern generation capacity at good prices. Today, the market tends to treat Talen as a proxy for AI and data centers: on "AI will take over the world" days, Talen shares soar; on "AI is in a bubble" days, Talen sinks. This dynamic makes Talen unusually tradable by Alluvial Fund standards. We have had success selling calls against our core position when optimism surges, and buying calls when pessimism seems close to peaking. Meanwhile, we keep our eyes on the underlying story: merchant power production, especially nuclear, is a different business than it was a decade ago. Demand for electricity is growing again after stagnating for a decade. The United States is structurally short of generation capacity. This translates to strong free cash flow for companies like Talen that have dispatchable generation capacity. Talen expects free cash flow per

TABLE III: World Allocation, 6/30/26 (%)

United States	63.3
United Kingdom	25.3
Poland	5.1
Eurozone	4.3
Sweden	1.1
Other	0.9
Total	100%

share to exceed \$40 in 2028, a figure that appears achievable based on planned share buybacks and the ramp-up of the company's supply agreement with Amazon. 9x 2028 free cash flow is simply too low for a company of Talen's quality and rarity.

Vistance Networks, a new holding for Alluvial Fund, is a company in the midst of dismantling itself. Over the past twelve months, Vistance has sold its two largest businesses. Vistance is now down to just one remaining operating asset, Aurora Networks, which manufactures equipment for cable networks like Comcast and Charter. It's not a wonderful business—results are lumpy and customer concentration is high—but it is not going away. Faced with relentless competition from fiber and wireless internet alternatives, cable operators have no choice but to continue to invest in speed and reliability upgrades. On the heels of this radical reduction in scale, I don't think Vistance stays independent. Management has gone from running an enterprise doing almost \$7 billion in annual sales to one doing just \$1 billion. Once it pays out the proceeds from its latest business sale, Vistance will have a market capitalization below \$1 billion. As a newly-minted micro-cap company, it might as well be invisible. Being a listed, SEC-reporting micro-cap comes with all the headaches and annoyances of being public, but without most of the benefits. Given the choice between fading into irrelevance as a micro-cap network equipment maker and achieving a neat resolution (and a nice liquidity event for management, who own 7.8 million shares and equivalents), I think the company will elect to sell. Management has the deal-making experience to do it.

First the Iran War was over, then it wasn't. **Gulf Marine Services'** shares remain below pre-war levels. With the benefit of hindsight, we could have timed Alluvial Fund's investment in this offshore support vessel owner better, but lately an interesting phenomenon has emerged. Gulf Marine Services shares no longer plunge on every bad headline from the Middle East. This leads me to believe that those panicked by the region's instability have finished selling, and only those willing to look past the current conflict remain as shareholders. Recently, the company secured a 4-year contract for its new vessel in Brazil, improving earnings visibility. I doubt GMS shares will move until the outcome of the Iran War is clearer, but I am happy to own shares and add to our position here. Shares trade at less than 4x normalized earnings and at a large discount to tangible book value. Short of a pan-regional conflagration, I think it is very hard to lose money on this company over any reasonable timeframe.

EACO Corp., whose subsidiary Bisco Industries distributes all manner of electrical components and fasteners, just keeps rolling. The company has put together one of the most impressive operating performances in public markets, but remains almost entirely unknown thanks to its very illiquid

TABLE IV: Sector Breakdown, 6/30/26 (%)

Communications	21.6
Financials	14.4
Consumer Discretionary	11.6
Materials	11.5
Consumer Staples	10.9
Information Technology	9.8
Industrials	6.7
Utilities	5.6
Energy	4.8
Real Estate	2.9
Health Care	0.2
Total	100%

shares. For the quarter ended May 31, EACO's revenues rose 28% year-over-year while operating income rose 45%. Despite these jaw-dropping results, EACO shares change hands at less than 9x annualized earnings and 6x operating income. Incredible.

A few years back, we spent a good deal of time looking at the Polish stock market. We came away highly impressed by the number of quality companies at low valuations that we saw, a few of which entered our portfolio. TIM SA was acquired at a good premium not long after we invested. Auto Partner SA remains in the portfolio and has been a solid performer. But our biggest Polish success story has been **Digital Network SA**, an operator of digital billboards. The company's revenue growth has been exceptional, as has its capital allocation. Last year, the company snapped up Braughman Group, a scaled out-of-home advertiser with thousands of large-format billboards, screens, and murals across Poland. It was a natural fit, and shares have responded enthusiastically.

I must emphasize that while there are holdings I expect we will own for quite some time, we do not have "permanent holdings" in Alluvial Fund. Each holding must continually earn its place in our portfolio. I do believe in extending patience to companies and management teams that have proven their mettle. Even the best will occasionally experience a rough patch, and sometimes a particular industry or geography simply loses favor with investors. Our average holding period is multi-year, which allows us to reap the benefits of long-term compounding and defer taxes. But if our thesis turns out to be incorrect or the valuation is no longer compelling, it is time to move on. We maintain a lengthy watchlist of companies that *could* have a place in our portfolio when the timing and valuation are right.

In Closing

I am nearly a decade into writing these letters. My goal with each is to describe Alluvial's approach in the clearest possible terms, to communicate a sense of how our portfolio has developed, and to explain the logic behind our decision-making. I know that placing your capital under someone else's care is a consequential decision. I take my responsibility to steward this capital very seriously.

I see numerous opportunities in the current market environment, particularly in companies and industries that investors have shunned in favor of flashier ideas. I am quite happy to dedicate capital to these ideas, no matter how they may perform in this short run. Factors go in and out of favor constantly. "Quality" stocks were all the rage in recent years, but most now trade well off their highs. Now "momentum" is the only game in town. In my experience, when investors grow fixated on making fortunes in the space of just a few months or even weeks, it pays to take the longer view.

Thank you for reading. I hope you and your families are well, and I look forward to reporting to you again later this year.

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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