PRAETORIAN CAPITAL

Q2 2023 Investor Letter July 30, 2023

During the second quarter of 2023, the Praetorian Capital Fund LLC (the "Fund") appreciated by 8.00% net of fees*. Given the Fund's concentrated portfolio structure and focus on asymmetric opportunities, I anticipate that the Fund will be rather volatile from quarter to quarter. During the second quarter, many of our core portfolio positions advanced slightly, and the Event-Driven book produced a small positive return that offsets the small loss in the Event-Driven book during the first quarter.

Praetorian Capital Fund LLC

	Gross Return	Net Return*
Q1 2023	-1.78%	-2.09%
Q2 2023	9.79%	8.00%
YTD 2023	7.84%	5.74%
2022	16.38%	11.95%
2021	181.80%	142.87%
2020	161.87%	129.49%
2019	18.71%	14.97%
Since Inception (1/1/19)	999.41%	658.57%

*Unaudited net return data is estimated, net of all fees and expenses and 20% incentive allocation (using the expense structure in place at the time, which was: a maximum of 2% expenses from inception on January 1, 2019 through December 2020, and 1.25% management fee since January 2021).

While I remain frustrated with the net performance over the past five quarters, I am also cognizant that trends frequently consolidate after periods of strong price appreciation, before resuming their ascent. As a result, I remain of the view that we've been experiencing an elongated consolidation in our top themes, and when they once again accelerate, we'll begin to show performance that is more in keeping with our goal of producing elevated absolute returns over rolling three-year periods.

This wait has been longer than I would have expected, partly because this Fund is positioned to be structurally long inflation. During the past 12 months (June 2022 to June 2023), inflation (as defined by the CPI) declined from 9.1% to a current reading of 3%. Fortunately, we still produced positive returns—despite the decline in inflation and the fact that Central Bankers around the world are indirectly targeting our positions through rate increases. In retrospect, it should not be a surprise that our performance suffered as Central Bankers turned out to be far more aggressive than I had anticipated. However, I believe that is now changing.

When Central Bankers are eventually forced to pause, or even cut, as I expect them to, I believe that inflation will reaccelerate and lead our positions to resume their prior trends. As you know, I'm strongly of the belief that the forces of inflation are structural and secular, as opposed to cyclical. The Fed can fight these trends, but only at the

*Past performance is no guarantee of future results. Returns shown are calculated net of management and/or performance fees, and net of all other fund expenses. All returns reflect the reinvestment of dividends. Present year returns are unaudited and subject to change. Please see important disclosures at the end of this letter.

cost of economic growth. At some point, the Fed will realize that stimulus is far more popular with almost all constituents, and then they'll resume their prior course.

Market Views

As far as markets go, sometimes it feels like I can read the script, and have a clairvoyant view of what is about to transpire. Other times, it's rather murky. The past few quarters have been murkier than normal. To me, the end-point appears clear; an energy crisis, an inflationary crisis, a fiscal crisis, and many other crises all intertwined and feeding upon each other. However, we are a wealthy country and have plenty of resources to forestall the inevitable. This is why in my opinion market doomers have been incorrect, sometimes for decades, when calling for an inflationary collapse. While the outcome is clear, the path to get there isn't always clear.

When in doubt, I cut exposure and await an obvious signal. Especially when risks seem elevated, and opportunities seem reduced, as they are today.

The great thing about investing is that you are never forced to do much of anything. Instead, you can wait for a layup and only deploy capital when the outlook is clear. Given the many crosscurrents currently, it does seem that now is a time to have less exposure.

I remain convinced that my "Project Zimbabwe" scenario is inevitable, but I also know that there will be sharp and brief panics along the way. I genuinely worry that we're nearing the precipice of one such panic, potentially caused by a detonation of the government bond market. As a result, I have a strong preference for excess liquidity to purchase distressed securities should there be a maelstrom.

I refuse to believe that the world's Central Bankers can raise rates like they have, without breaking something. More likely, they'll succeed in breaking many things, including potentially themselves. Markets tend to move in waves. While I believe that oil and uranium, our two largest sector weightings, have likely bottomed from their recent down-cycle and are now back on the ascent, other equities that we track are far closer to the peaks of their cycle ranges. I hope to purchase the bottom of these ranges at some point in the future. Until then, I'm content to sit with less exposure and simply wait for a big fat pitch.

That said, during the quarter we did deploy capital into new themes such as aerospace, aerospace metals, Argentina, and a few select smaller equity situations. We also increased the size of our offshore energy positions. To fund these purchases, we sold down our exposure in the Brent Oil ETF (BNO – USA). While I believe that oil will go much higher in the future, we used the proceeds of the BNO sale to purchase other securities that will hopefully show more torque to the price of oil, while diversifying our exposure.

I'm very much of the view that there's nothing wrong with taking a small loss on a position, to buy something that's declined a lot more. We should always be cycling into the cheapest securities with the strongest tailwinds, even if losses are booked to achieve this. Roughly speaking, this was our experience with BNO, where we lost just over one percent of the Master Fund during BNO's multi-month holding period, but were able to add to our sizable positions in Valaris (VAL – USA) and Tidewater (TDW – USA) during their much more severe pullbacks, and near their nadir. We were also able to initiate a new position in YPF (YPF – USA) which is an Argentine oil producer, that should benefit both from higher oil prices, along with what I believe will be likely changes to the ruling party in Argentina following elections in Q4. While it was frustrating to take a small loss on BNO, the ability to deploy capital laterally into other oil-exposed equities with possibly more upside potential, felt like a way to optimize the portfolio. To date, recent trading performance proves out this view.

Thematic Review (top 5 theme weightings at quarter end from largest to smallest)

Uranium Basket (entities holding physical uranium + uranium trading positions)

It may take some time still, but I believe that society will eventually settle on nuclear power as a compromise solution for baseload power generation. This could come at a time when there is a deficit of uranium production, compared with growing demand. As aboveground stocks are consumed, uranium prices should appreciate towards the marginal cost of production. Additionally, there is currently an entity named Sprott Physical Uranium Trust (U-U – Canada) that is issuing shares through an At-The-Market offering, or ATM, in order to purchase uranium (we are long this entity). I believe that these uranium purchases will accelerate the price realization function by sequestering much of the available above-ground stockpile at a time when utilities have run down their inventories and need substantial purchases to re-stock. The combination of these factors ought to lead to a dramatic increase in the price of uranium as it will likely take multiple years for sufficient incremental supply to come online—even if the re-start decision were made today.

Energy Services Basket (Positions Not Currently Disclosed)

In 2020 when oil traded below zero, drilling activity ground to a halt and many energy service providers declared bankruptcy. Many of these businesses had teetered on the verge of bankruptcy for years due to reduced demand and over-leveraged balance sheets. The bankruptcies led to consolidation and reduced future industry capacity, removing future competition in the recovery.

With oil prices now recovering, I believe that demand for drilling and other services will increase from subdued levels. While producers have been slow to increase spending on exploration despite recoveries in energy prices, I believe that this only extends the timing on the thesis. In the end, the only way to reduce future energy prices is to see a dramatic increase in global oilfield services spending. Any postponement of this spending only leads to higher prices and more wealth transfer from the global economy to the oil producers, which will likely end up resulting in an increase in spending on exploration and production.

We purchased many of these positions at fractions of the equipment’s replacement cost, despite restored balance sheets and positive operating cash flow. As spending in the sector recovers, I believe that the potential for cash flow will become more apparent and this equipment will trade up to valuations closer to replacement cost.

St. Joe (JOE – USA)

JOE owns approximately 170,000 acres in the Florida Panhandle. I believe it has been widely known that JOE traded for a tiny fraction of its liquidation value for years, but without a catalyst, it was always perceived to be “dead money.”

Over the past few years, I believe the population of the Panhandle has hit a critical mass where the Panhandle now has a center of gravity that is attracting people who want to live in one of the prettiest places in the country, with zero state income taxes and few of the problems of large cities.

The oddity of the current disdain for so-called "value investments" is that many of them are growing quite fast. I believe that JOE will grow revenue at 30% to 50% each year for the foreseeable future, with earnings growing at a much faster clip.

Besides the potential valuation, growth, and high Return on Invested Capital (ROIC) of the business, why else do I like JOE? For starters, land tends to appreciate rapidly during periods of high inflation—particularly an inflationary period where interest rates are likely to remain suppressed by the Federal Reserve. More importantly, I believe we are about to witness a massive population migration as people with means choose to flee big cities for somewhere peaceful.

I suspect that every convulsion of urban chaos and/or tax-the-rich scheming will launch JOE shares higher, and it will ultimately be seen as the way to "play" the stream of very wealthy refugees fleeing for somewhere better.

Oil Futures, Futures, ETFs, ETF Options and Call Spreads on Futures

I believe that years of reduced capital expenditures, along with ESG restricting capital access, combined with Western governments that are openly hostile to fossil fuels, have created an environment for dramatically higher oil prices. While we could purchase oil producers, and we are long shares of Journey Energy (JOY – Canada), I feel it is far more conservative to simply own the physical commodity itself.

I believe that this leveraged play on oil gives us the most upside to oil and ultimately inflation, while exposing us to reduced risk when compared to producers.

Legacy to Digital Transformation Securities Basket (Various Positions)

Most global print newspapers have seen their readership decline for decades as subscribers seek out alternative digital sources of information. In response to this, newspapers have tried to build up their digital presence. Historically, this digital revenue stream was always rather negligible as it was coming from a small base, especially when compared to steep declines from the print side.

Over the past few years, digital revenue growth has accelerated to the point where I expect that the newspaper companies in our basket are within a few years of their digital revenue overtaking their print revenue—assuming recent trends hold. Digital revenue represents a higher margin and higher return on capital business when compared to the capital and manpower intensity of printing and distributing physical newspapers. My belief is that, as these digital businesses come to dominate the revenue stream, newspaper company valuations will re-rate—particularly as many of them trade as if they are dying businesses, when in reality, the digital side of their businesses is growing quite rapidly.

While many well-known global newspapers have successfully made this digital transition and seen earnings growth for a number of years, many smaller papers have continued to see earnings decline. I believe that these smaller papers are now on the cusp of an inflection to earnings growth as digital growth overtakes print declines. Should this happen, I anticipate it will dramatically change the narratives for these companies, along with their valuations, much like what occurred at more well-known papers. The Fund owns a global basket of these smaller newspaper companies.

Returning to the markets, during the second quarter of 2023, the Fund experienced a positive return. After an extended period of somewhat reduced exposure, we've now taken exposure well below our normally targeted range of 115% to 125% gross exposure. This is in recognition of what I perceive to be an increasing risk of a dramatic sell-off in markets.

I believe that there is a coming energy crisis, wrapped in a banking crisis, engulfed in a fiscal and monetary crisis and anticipate that this will create epic opportunities, surrounded by risk and massive volatility. I thrive in an environment like this. Following multiple consecutive quarters of rather mundane results, I'm excited for some volatility.

Sincerely,

Harris Kupperman

Appendix

Praetorian Capital Fund LLC Quarterly Returns		
	Gross Return	**Net Return***
Q1 2023	-1.78%	-2.09%
Q2 2023	9.79%	8.00%
YTD 2023	7.84%	5.74%
Q1 2022	19.79%	15.55%
Q2 2022	-18.16%	-15.69%
Q3 2022	0.01%	-0.30%
Q4 2022	18.69%	15.26%
YTD 2022	16.38%	11.95%
Q1 2021	57.50%	45.66%
Q2 2021	28.14%	23.96%
Q3 2021	11.42%	9.85%
Q4 2021	25.32%	22.44%
2021	181.80%	142.87%
Q1 2020	-41.22%	-41.22%
Q2 2020	54.32%	54.32%
Q3 2020	34.09%	29.32%
Q4 2020	115.28%	95.63%
2020	161.87%	129.49%
Q1 2019	6.10%	4.88%
Q2 2019	7.96%	6.44%
Q3 2019	-10.23%	-8.40%
Q4 2019	15.44%	12.42%
2019	18.71%	14.97%

*Unaudited net return data is estimated, net of all fees and expenses and 20% incentive allocation (using the expense structure in place at the time, which was: a maximum of 2% expenses from inception on January 1, 2019 through December 2020, and 1.25% management fee since January 2021).

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