PRAETORIAN CAPITAL

Q3 2023 Investor Letter — October 25, 2023

During the third quarter of 2023, the Praetorian Capital Fund LLC (the "Fund") appreciated by 11.92% 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 third quarter, many of our core portfolio positions advanced slightly, while the Event-Driven book produced a small positive return.

Praetorian Capital Fund LLC

	Gross Return	Net Return*
Q1 2023	-1.78%	-2.09%
Q2 2023	9.79%	8.00%
Q3 2023	15.04%	11.92%
YTD 2023	24.06%	18.34%
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)	1164.79%	748.98%

*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 we are positive for the year, I remain frustrated with the Fund's net performance over the past six quarters. This Fund is focused on absolute returns and structured to dramatically outperform over rolling three-year periods; half-way into a rolling twelve-quarter period, we have not been outperforming. That is not to say that the results are terrible. Instead, they show moderately positive performance. However, the goal here is outperformance regardless of any benchmark or market environment and currently our positions seem to be lagging.

As a reminder, I primarily seek out investments that are undergoing some sort of dynamic change that has not been recognized by the markets. In theory, this allows us to purchase securities at substantial discounts to fair value, helping to reduce the downside should I get the trend wrong. Sometimes the revaluation is almost immediate, and sometimes it takes a few quarters for the markets to notice. In the case of our portfolio, the vast majority of our positions have appreciated dramatically from where first I purchased them, and are now in a consolidation phase, hopefully before a renewed upward movement.

While these consolidation phases can take many quarters to play out, I am particularly frustrated as many of our core themes themselves appear to be dramatically outperforming my initial expectations… Rather than bemoan the inability of our equity positions to track the performance of the underlying trends, I'll just note that there are periods where equities can lag and then there are periods with rapid catch-up phases. I remain hopeful that we'll experience such a catch-up phase should the economics underlying our positions continue to improve.

This isn't the first period of consolidation and frustrating performance in my investment career, and I'm sure it won't be the last such period. The important thing is to constantly re-evaluate our positions and make sure that I am not missing anything that would account for the subdued performance.

Recent Operational Changes

You have likely received a list of changes to the Fund's Private Placement Memorandum. The primary changes are designed to give me additional flexibility when seeking out investment opportunities. In particular;

-Our registration as a Commodity Pool Operator (CPO) will allow me to be able to better hedge the portfolio while enabling us to better target situations in the futures markets. While I am generally against using futures to increase the Fund's leverage, I'm very much in favor of using options positions to increase notional exposure, and without the CPO registration, we've been restricted in terms the total notional exposure we could employ. Given my views on elevated levels of inflation, I believe that this flexibility will serve us well.

-Our decision to use a second prime broker will give us access to a number of smaller country markets where interesting Event-Driven situations have appeared, yet we were unable to participate using our current broker.

-Our ability to invest in pre-IPO private securities should open up a new window of opportunity as we have previously been presented with a number of attractive investments that we were forced to pass on as we did not have the ability to invest in private securities. With the investment landscape of public securities increasingly becoming competitive, I believe that pre-IPO securities are an interesting opportunity that may grant us a competitive edge, due to my extensive business network. However, given the illiquid nature of such securities, I plan to ensure that private securities remain only a few percent of our overall capital. Additionally, we will only invest in situations that have planned liquidity events through IPOs.

Finally, we've registered our Cayman entity with HMRC, in order to provide tax benefits to current and future UK domiciled clients.

There are a number of other changes to the documents, mostly driven by regulatory changes; however, I wanted to make sure that you were aware of these three changes in particular as they should give us increased flexibility and open up new opportunities to us. As always, I'm trying to think outside the box, especially given how competitive the landscape for investing has become.

Normally, I'd post some market views, but given the rapidly evolving geopolitical situation in the Middle East, anything that I say is likely to be obsolete by the time you read it. Instead, I would like to note that our portfolio is heavily weighted towards securities that should do well if geopolitical volatility increases.

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 will 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 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. 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, the population of the Panhandle seems to have 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. Meanwhile, I believe the shares trade at a single-digit multiple on Adjusted Funds from Operations (AFFO) looking out to 2024, while substantial asset value is tossed in for free.

Besides the 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.

Undisclosed Position

We are currently accumulating shares of a company that has historically produced elevated returns on capital yet has recently seen its share price decline as calendar Q3 was likely quite weak, when compared to the recent spate of very strong quarters. I believe that this weakness is a short-term blip in a longer-term pro-cyclical inflation and volatility story. If the business returns to prior levels of economic activity, or exceeds that activity as I anticipate, then the shares should appreciate dramatically.

I'll likely have more to say about this position in a future letter after we've completed purchasing it.

Argentine Securities Basket (Various Positions)

At quarter end, we were long a basket of Argentine securities in the belief that the coming Presidential election could herald a watershed opportunity for Argentina to escape the doom-loop of socialism. We believed that either of the two leading candidates, Milei and Bullrich, would both set the country off in a very positive direction. As Milei was leading in most polls, it seemed likely that he would become the next President of Argentina. My belief was that a Milei presidency would involve de-regulation and then Dollarization of the Argentine economy, which would ultimately unlock the potential of the country.

Unfortunately, Milei had a weaker than expected showing in the first-round election on October 22. While I still believe that he will win the Presidency, if he does win, it will be with an insufficient margin to effect change. When a country is as screwed up as Argentina, you need a true mandate from voters to fix things and Milei is unlikely to get that mandate.

We had invested in Argentina through a basket of US listed Argentine equities, with a focus on businesses with hard assets. Upon seeing the election results, I fully exited our position. As an inflection investor, I've learned that when the trend loses strength, you have to get out. Especially in a trend that is as volatile and risky as Argentina. Fortunately, we have realized a small gain on this investment, including dividends, despite getting the thesis wrong.

As always, the point of my inflection investing strategy is to identify situations where expectations and valuations are so low that even if I get the thesis wrong, I'm able to exit with a small gain or loss. While it won't always work out this well on an investment that goes wrong, if I repeatedly risk very little and set us up for multi-bagger upside when correct, the Fund should do quite well. In the end, the biggest loss for us has been opportunity cost, and that is unfortunately the price that we pay for being an inflection investor.

Returning to the markets, during the third quarter of 2023, the Fund experienced a positive return. The performance has remained subdued and I remain frustrated. I believe we are invested in some of the strongest macro trends in the markets, given our focus on only owning highly undervalued securities with a reduced chance of downside risks. Unfortunately, those securities remain relatively rangebound for now.

Recent geopolitical events, along with the collapse of bonds in many developed markets, seem likely to lead to an increase in overall market volatility. I believe that I thrive in more volatile markets. After an elongated period of subdued volatility, I am excited that things may finally get interesting again.

Let's hope for fireworks.

Sincerely,

Harris Kupperman

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Appendix

Praetorian Capital Fund LLC Quarterly Returns		
	Gross Return	**Net Return***
Q1 2023	-1.78%	-2.09%
Q2 2023	9.79%	8.00%
Q3 2023	15.04%	11.92%
YTD 2023	24.06%	18.34%
Q1 2022	19.79%	15.55%
Q2 2022	-18.16%	-15.69%
Q3 2022	0.01%	-0.30%
Q4 2022	18.69%	15.26%
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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