PRAETORIAN CAPITAL

Q4 2023 Investor Letter — January 19, 2024

During the fourth quarter of 2023, the Praetorian Capital Fund LLC (the "Fund") appreciated by 6.85% net of fees. For the full year, the Fund appreciated by 26.45% net of fees. During the five years since inception, the Fund has appreciated by 807.13% net of fees, or at a 55.43% CAGR.*

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 fourth quarter, many of our core portfolio positions advanced, while the Event-Driven book produced a moderately 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%
Q4 2023	8.57%	6.85%
YTD 2023	34.70%	26.45%
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)	1273.22%	807.13%

*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).

Five Years at Praetorian

As this Fund has now passed the five-year mark, which is something of a milestone, I felt it would make sense to look briefly at how the Fund has performed, both on the performance side (which is likely your primary focus), but also on the operational side (where the evolution has been just as substantial—if left mostly unmentioned).

As you can imagine, I'm quite content with the overall performance numbers since inception. More importantly, the annual performance numbers conform with my expectations that we'll either have years where our themes play out and we experience outsized net returns (129.49% – 2020, 142.87% - 2021) or years where our trends do not play out well and we have mediocre, yet mostly positive returns (14.97% - 2019, 11.95% - 2022, 26.45% - 2023). Of course, I much prefer the years with triple digit net returns. Unfortunately, we are somewhat at the mercy of the markets in terms of the opportunities offered to us, along with the timing of when we'll be rewarded for identifying such opportunities. Most importantly, I believe that we've achieved these returns over the past five years while taking very low absolute levels of risk—by nature of my deep-value approach to investing.

Returning to the narrative, five years ago, I set out to build a fund that harkened back to the old days when hedge fund managers focused on performance and actually earned their incentive fees. Our only goal at inception was absolute performance over rolling 3-year periods, as a single year is simply too short to judge the success of our inflection strategy. For too long, I perceived a gap in our industry; one that was riddled with funds that were closet indexers, with funds crowded in hedge fund hotels, with funds hyper focused on quarterly performance, and funds with misconceived notions about volatility (hint: volatility isn't risk). I wanted to build a fund that would run contrary to these misguided ideas and fill this gap. I wanted to build a fund that would take big, bold, and concentrated bets. A fund that was completely volatility agnostic and effectively eschewed hedging, as deep fundamental research was more valuable than a hedge anyway. I wanted to build a fund that would outperform—not relative to a benchmark—but true absolute performance.

Five years into this adventure, I feel confident in saying that we are well on our way to achieving our goals. Over the trailing 5-years ended December 31, 2023, the Fund has achieved a net CAGR of 55.43% without significant leverage or hiding out in the Mag7. And while we do not benchmark, you can do the math yourself on how this compares to your favorite index. In my mind, inflection investing with a sidecar of Event-Driven trading continues to be a strategy that produces outperformance. With the world entering "The Great Macro Dreamscape" and ripe with opportunity, I am excited for the next 5-year period, with the hope that I continue to outperform.

Switching to the operational side, the management company[1] overseeing this Fund has grown from a start-up entity, run out of my condo in Miami Beach, Florida, to becoming a SEC Registered Investment Advisor and CFTC registered CPO. We have completed all of our necessary back office hiring, and our four-person research team sits with me in Rincon, Puerto Rico, in our fully fitted-out office, with multiple infrastructure redundancies, far from the distractions of Wall Street. We have an unusually diversified investor base of over 160 clients (with no investor owning more than 10% of the Fund as of 1/1/2024) which allows us to make decisions without the worry that one large redemption could upset the portfolio, and we had just over $300 million in assets under management at the start of 2024. As we've now gotten our capital base to scale, our focus is increasingly on growing the Fund through organic Fund performance, as opposed to seeking out additional investors—particularly as we can only accept a handful of additional US investors before we hit the 100 investor maximum under 3(c)1 regulations.

While the operational side of a hedge fund gets very little publicity, this build-out has already benefited you immensely. Going forward, I believe that the benefits will continue to multiply as the operational infrastructure is now in place, allowing me to focus more of my energies on the investing side, and leaving operations to those who are dedicated to the operational aspects of this Fund. Finally, our over-sized research team allows us to follow dozens of sectors as we seek out future inflection opportunities. While there is still much to do in terms of codifying this research process, we believe that we've made substantial progress at systematizing our inflection and Event-Driven process.

In summary, it's been a very productive five-year stretch, and I have big expectations for the next five years.

[1] Praetorian PR LLC ("PPR"), replaced Praetorian Capital Management LLC ("PCM") as an investment manager of the Fund effective January 1, 2023. PCM remains the Manager of the Fund and both entities are wholly owned by Harris Kupperman.

Let's Talk Oil

A year ago, I gave an impassioned pitch about why the price of oil was likely to head back into the triple digits. A year later, I've clearly been incorrect in this view as oil remains in the $70s.

Given the size of our oil exposure and the fact that oil has been rangebound, you'd think that we'd have suffered dearly. Instead, we actually have a small gain on our overall oil positions during 2023. This is largely driven by an increase in the prices of our energy services positions, offset by declines in our direct oil exposure and one producer.

I bring this up as one of my strongest held views at the start of 2023 turned out to be incorrect, yet our energy services companies still appreciated, showcasing the power of both inflection investing and value investing. In terms of inflection investing, despite a subdued oil price, the demand for oilfield services increased throughout the year, which was the inflection that I had targeted. Had the price of oil appreciated, the strength of the inflection would likely have been stronger. However, the inflection was still sustained all year, particularly in the demand for offshore oil services, a trend that I believe is likely to continue into 2024.

Meanwhile, on the value investing side, a low overall valuation for these services companies, meant that when the price of oil didn't appreciate, our positions didn't suffer. The overlay of inflection investing, and value investing is a powerful combo. I know from experience that I'll make mistakes on investments, but if I can avoid sizable losses when wrong, I set us up for sizable gains when correct.

In the case of oil, I believe that we're still going to be rewarded, though, the waiting has been frustrating as it has tied up capital.

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). Originally, I believed that these uranium purchases would 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. I still believe that to be the case but have concluded that the deficit problem is so severe and immediate that this investment demand is simply the icing on the cake and that the next leg higher will be driven largely by utilities and fuel buyers who are starting to see the writing on the wall. 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.

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Oilfield 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 recovered, demand for drilling and other services has increased 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, something that is still true today despite restored balance sheets, positive operating cash flow, and considerable appreciation. We are now far enough along that spending in the sector is clearly trending upwards in line with our thesis and I believe that the potential for sustainable 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 169,000 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 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. Meanwhile, I believe the shares trade at an attractive multiple on Adjusted Funds from Operations (AFFO), 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 the second half of calendar 2023 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.

Aerospace and Defense (Various Positions)

Aerospace and defense component suppliers have been in a bear market for many years. This was initially caused by weak aircraft demand, followed by delays to the Boeing 737 MAX program, which was further amplified by a dearth of demand during Covid. However, demand has recovered strongly following substantial ordering of new aircraft from Boeing and Airbus. In fact, both have the largest orderbooks in US Dollar terms during their history. Finally, I anticipate that military demand will increase substantially as the US and the rest of Europe restocks depleted stockpiles of military hardware.

All of this augurs well for the three aviation and defense subcomponent suppliers that we are long. While the earnings results are rather pathetic on a trailing twelve-month basis, I believe that the forward results will look quite different as the businesses ramp up and see improvements to margins—a classic inflection story. Should this happen, I believe that the shares will materially re-rate.

Returning to the markets, during the fourth quarter of 2023, the Fund experienced a positive return. 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 have not done much to reward us during 2023.

I appreciate your continued investment with me. The last five years were a period where I focused on the Fund infrastructure needed for the future. As my energy shifts back to the markets, I'm truly optimistic about the next five years. We are uniquely set up to think outside the box, and not simply act like every other Fund that buys CUSIPs, while hoping for the best. We are trying to find inflecting tailwinds and accelerate our returns.

In summary, I'm ready for 2024 and beyond …

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%
Q3 2023	15.04%	11.92%
Q4 2023	8.57%	6.85%
YTD 2023	34.70%	26.45%
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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