PRAETORIAN CAPITAL

Q2 2024 Investor Letter July 21, 2024

During the second quarter of 2024, Praetorian Capital Fund LLC (the "Fund") depreciated by 1.69% 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, our core portfolio positions were something of a mixed bag, with advances and declines, while the Event-Driven book produced a decent return, though we gave some of those gains back in June.

Praetorian Capital Fund LLC

	Gross Return	Net Return*
Q1 2024	11.90%	9.25%
Q2 2024	-1.76%	-1.69%
YTD 2024	9.94%	7.41%
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)	1409.66%	874.33%

* 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).

During the first half of the year, effectively all of our net performance has come from the Event-Driven book, with only minor returns from our core book. This shows the power of the Fund's integrated strategy where the two books are meant to offset each other. That said, I'm somewhat surprised that the Event-Driven book has done as well as it has, given that we've been in an environment with unusually low realized volatility, and a reduced number of corporate events to play.

In my experience, the Event-Driven book does poorly in an environment where the market slowly drifts higher, especially an environment led by a handful of tech names. The current market regime reminds me of periods during the last decade, before the launch of this Fund—it wasn't fun. As a result, following a number of losing trades in June, I've chosen to reduce our Event-Driven exposure dramatically. I plan to

*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.

do very little until October, unless the market experiences a bout of volatility. There are times when Event-Driven is surprisingly lucrative, and periods where it just doesn't work. We are experiencing the latter, and it seems foolish to try and press ahead when it's an environment that isn't conducive to profits. Having traded for over two decades now, I know when it's better to simply step away from the Event-Driven book. This feels like one of those times.

Fund Positioning

We don't currently own any Nvidia (NVDA – USA). For a few brief moments this year, we were even betting against NVDA (shame on me!!). With the exception of a handful of mega-cap tech companies, most equities have been rather rangebound, as evidenced by the 4.96% return for the S&P 500 equal-weighted index during the first half of 2024. As an investor, it's easy to bemoan the bubble in all things AI (really just one stock), but I won't do that on these pages. My job is to find inflecting trends, and AI certainly is inflecting—to what, I don't know—but it's inflecting. Hence why the market got excited about it.

At the same time, many of our positions are rangebound, because their results haven't been extraordinary. Put simply, there hasn't been much of an inflection in their results—yet. Sure, it's easy to complain that the market is distracted by AI and ignoring how cheap our names are, but the market is rarely wrong. Individual investors can be wrong, but the market isn't often wrong. The market doesn't care if something is cheap—the market cares if reported numbers are improving rapidly. With a few exceptions, that hasn't been the case with our names. However, in the instances where the reported numbers have been improving, the market has taken notice and paid us kindly—even if the stocks are of the curmudgeon deep value genre, far from the glamor of AI. The market is working as it should be—it's our core investment positions that aren't.

Let's look briefly at Tidewater (TDW – USA), a position that we started buying in January of 2022 at a price of around $12. The shares ended June at approximately $95. What led to such dramatic price appreciation?? Well, in the first quarter of 2022, the company reported $105.7 million in revenue and an adjusted net loss of $11.7 million. Fast forward to the first quarter of 2024, and the company reported revenue of $321.2 million and net income of $47 million. More importantly, the company guided to 2024 revenue in a range of $1.40 to $1.45 billion and gross margins of 52%, which is quite the improvement over $361.6 million in revenue, and a gross margin of 28% reported in 2021, the most recently available numbers when we were purchasing shares.

Sure, Tidewater is an old economy, highly cyclical, oil services business. It's the sort of business that the market currently has extreme disdain for. I like to joke that the cool kids in finance wouldn't even think to look at it. However, none of this matters—when a company produces results, the shares respond. Inflection investing works in most market environments—even ones where most market participants are chasing an AI bubble—assuming there actually is an inflection in underlying financial performance. Unfortunately, for every Tidewater in our portfolio, we own a number of positions that did not produce outstanding financial results thus far in 2024. Without an inflection in performance, there has been no inflection in their share prices. While I remain optimistic that these companies will have results that inflect positively in the future, until the results actually inflect, the market simply doesn't care—hence the rather meager returns thus far during the year.

Now, don't get the idea that we own a bunch of loser companies. Rather, I believe that we own positions that are simply consolidating within strong, already-inflecting trends, with many of our positions having already appreciated strongly for us. However, until current results show another period of uplift, the share prices likely won't either. We aren't investing in AI, where the next century of supposed profits gets capitalized today—we're investing in 'boring' businesses, where the shares do not care, until after the results have been announced. In some ways, this is my edge; I hope to estimate the future results before they're crystallized and profit from that knowledge—while it is also a curse: we have to wait for that crystallization before our shares appreciate.

Looking briefly at our four largest positions (in weighted order);

- The price of uranium has more than tripled at one point, since we first started buying it, peaking out at a spot price of roughly $107, per Numerco, before pulling back to around $86 at quarter end. While no one can predict the future price of a commodity, there's a good reason to believe that following the recent consolidation for nearly half a year, it's overdue for the next move higher.

- Valaris (VAL – USA) has been rangebound for over two years now, awaiting the signing of new contracts at current market rates, that will replace expiring contracts that are frequently less than half of current prevailing rates. There have been some questions as to why the company has been slow to sign new contracts. However, I believe that management is trying to trade a slightly reduced price for increased duration of contract tenure, and that's the reason for a lack of commentary on new contracts. Should the company announce new contracts at anywhere near current market rates, I believe that the shares will respond in a rather dramatic way—especially as Valaris is by far the cheapest of the large drilling companies (based on the enterprise value per rig metric), despite having one of the best fleets and strongest balance sheets. Between our common and warrant position, Valaris was our 2nd largest position at the end of June.

- St. Joe (JOE – USA) has also been mired in a 3-year consolidation of the share price. This seems odd to me since by almost any objective measure of Florida property values they've appreciated substantially—particularly in the Florida Panhandle, where St. Joe owns most of their assets. Once again, sometimes, the market waits until the next set of bullish results has been released, and in an environment with elevated interest rates, I can understand why investors would be hesitant to own the shares of a company that is tied to housing and commercial real estate—particularly as data from the various county registries where St. Joe operates, show a recent slow-down, within what appears to be a multi-decade bull market.

- A-Mark (AMRK – USA) has had subdued results over the past few quarters. This was all before gold hit a new all-time high in US Dollar terms, while silver caught a bid during the first half of the year. I believe that investors will eventually experience FOMO and buy physical metals in greater quantities, and at wider spreads. Recent web-scrape data shows an uptick in both data-sets, following a nadir during the first calendar quarter. However, as is often the case in small-cap value investing, investors are hesitant to bid up a stock, until the results have actually been released. Additionally, one quarter doesn't always make for a trend. That said, I believe that should gold keep making new highs, A-Mark's business should do substantially better, with investors also ascribing a premium multiple to it, as there are so few ways to get exposure to a bull market in precious metals, outside of owning mining equities.

Those four positions comprised 65.2% of our equity capital as of the end of June. As you look at their charts, you can see that they've done a lot of nothing during the year. If anything, it's been 'violently sideways.' When you run a highly concentrated book, your results are going to be tied to your top ideas. Fundamentally, our ideas appear to be operating at a higher plateau from where we purchased them, while they are simultaneously falling short of the improved results necessary for the next leg up. I believe that will change in the coming quarters, and we'll be nicely rewarded, though the timing of this is impossible to discern. In the interim, our Event-Driven book has provided solid performance, and my expectation is that over time, it will continue to augment our results, overcoming the sometimes-tepid performance at times from our core book.

Trust me, it's far more enjoyable to bemoan Nvidia and ridicule the market's lack of vision regarding our portfolio, but that wouldn't be intellectually honest. Inflection investing works, but there needs to actually be an inflection at play. Don't let anyone tell you otherwise.

Economic Views and Positioning

I'm increasingly of the view that the US economy is slowing. How much it is allowed to slow, before more fiscal and monetary stimulus are applied, is hard to discern. However, it does appear to be slowing—particularly in sectors tied to the consumer.

We've used this knowledge to reduce exposure across the board. Some of these sales were very easy and obvious ones—if the consumer is slowing, sell consumer-facing positions. Others were tougher sales, primarily businesses that we've owned for a number of years, that have underperformed and become quite small in the portfolio. Large positions move our results, hopefully to the upside. Tiny positions are a distraction, and even when they work, they don't really impact the outcome of things. We've held a number of these for quite some time. They've slowly been diluted by performance and inflows. I felt that the time had come to jettison them—even if I think they're perfectly good investments. I want to focus my energy on my best ideas. Besides, in an environment where the market primarily cares about companies large enough to be absorbed into passive indexes—we might as well own those equities that are large enough to get the escape velocity of passive buying, should their financial returns inflect.

While the positions that we exited were individually quite small, in aggregate they comprised a moderate percentage of our capital. We are still not done with the sales, but I'm glad to have more of our balance sheet back. I'll be even happier when the sales are completed. I've always believed that if I'm going to sell something, it's best to sell it in a benign environment—I don't sell when the markets are in panic.

My expectation is that the economy continues to slowly deteriorate, until the next round of fiscal or monetary stimulus is unleashed. Given the upcoming elections, it's unlikely that this stimulus will happen until after we learn who's driving the bus, with the potential for extreme volatility along the way. This sounds like an environment that is tailor-made for reduced exposure, and maximum flexibility, as we enter the Great Macro Dreamscape. That's how we're positioned.

Position Review (top 5 position weightings at quarter end from largest to smallest)

Oilfield Services Basket (Valaris (VAL – USA), Tidewater (TDW – USA) other undisclosed positions)

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 continues to recover, I believe that the potential for cash flow will become more apparent and this equipment will trade up to valuations closer to replacement cost.

Uranium Basket (entities holding physical uranium)

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. 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.

St. Joe (JOE – USA)

JOE owns approximately 168,000 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 may grow recurring revenue at a rapid rate 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.

A-Mark (AMRK – USA)

As the world gets increasingly crazy, I believe that people will come to realize that ownership of precious metals, in physical form, as opposed to in a brokerage account, is part of being financially prudent. They will mostly likely buy those coins from a coin dealer, either in person, or online. A-Mark supplies both of those markets as one of the largest players in online coin brokerage through their JM Bullion, LPM, Silver Gold Bull, Goldline, etc. verticals, along with serving as one of the largest wholesalers to local coin shops. A-Mark also has stakes in two mints (Silver Towne and Sunshine).

A-Mark benefits from periods of chaos in two ways. They see transaction volumes increase, and they see the spreads that they can charge widen. During the three years from Fiscal 2021 to 2023, A-Mark earned approximately $7 a share, if you adjust for certain non-recurring items and remove non-cash intangible amortization. We acquired our shares for approximately four times this earnings level, which seems quite cheap for a business with such high returns on capital. That said, the business has seen reduced earnings over the past few quarters, as a result of declining transaction volumes and spreads. I believe that this decline in activity has created a unique opportunity to buy a high-quality business, with substantial insider ownership, at a bargain price. I naturally am enamored of the counter-cyclical nature of the business, which hopefully should help offset the risks to our portfolio in future periods of crisis.

I believe that this business can earn as much as $10 a share in such a period of crisis, and get a healthy multiple applied to it.

For years, I have sought out a way to play an increase in the prices of precious metals, without the risks of owning a mine. I believe that A-Mark is the ideal proxy for this view and as other investors discover it, the valuation will re-rate.

Sprott (SII – USA)

Sprott is an asset manager, that primarily manages exchange traded vehicles in various commodity sectors, with a focus on precious metals and uranium—two sectors that I'm quite bullish on. Sprott earns management fees based on the assets under management and in a virtuous cycle where they experience both inflows and asset appreciation, the fees should grow rapidly on a fixed cost basis, creating dramatic operating leverage.

I should note that on an earnings basis, Sprott is a good deal more expensive than most businesses that we tend to invest in. That said, I believe that this valuation is deserved and likely to increase due to the quality of the business and its scarcity value. With gold having made a new all-time high in US Dollars, investors will continue to seek out ways to gain leverage to precious metals, without the risks of mining. In my universe of companies, only A-Mark and Sprott offer this sort of leverage with any amount of liquidity. As investors also discover this, I believe that they'll bid both of these companies higher. While we could have just bought more A-Mark, I felt that diversification was warranted, especially as this Fund already owns approximately 5.9% of A-Mark (as of June 30, 2024). Besides, Sprott gets us added exposure to uranium, a sector that I'm also bullish on.

Returning to the markets, during the second quarter of 2024, the Fund experienced a slightly negative return, and I remain frustrated by our results. We are positioned for a financial and economic crisis that always seems to be postponed by yet another quarter.

I remain hopeful that as inflation accelerates and the fiscal situation in most developed markets deteriorates, our positions will appreciate.

Sincerely,

Harris Kupperman
Founder & Chief Investment Officer

Appendix

Praetorian Capital Fund LLC Quarterly Returns		
	Gross Return	**Net Return***
Q1 2024	11.90%	9.25%
Q2 2024	-1.76%	-1.69%
YTD 2024	9.94%	7.41%
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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