PRAETORIAN
CAPITAL

Q1 2024 Investor Letter   April 23, 2024

During the first quarter of 2024, the Praetorian Capital Fund LLC (the "Fund") appreciated by 9.25% 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 first quarter, our core portfolio positions were something of a mixed bag, with advances and declines, while the Event-Driven book produced a decent return, for the first time in many quarters.

Praetorian Capital Fund LLC

	Gross Return	Net Return*
Q1 2024	11.90%	9.25%
YTD 2024	11.90%	9.25%
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)	1436.70%	891.08%

*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).

Market Views

Ever since I began investing in stocks, over two decades ago, I have been of the view that fiscal deficits cannot simply be papered over with money printing. That is the road to ruin for all nations that have tried it. However, when the deficits are moderate, and economic growth is strong, the deficits matter less. As a result, we've been able to avoid a crisis, despite our nation's level of absolute debt, and the debt-to-GDP being on an ascent. Since COVID, both metrics have expanded at a far more rapid pace. It's the sort of thing you'd see in an Emerging Market economy, right before they would experience a crisis.

As the wealthiest nation on earth, with the world's functional reserve currency, the rules are somewhat different here, but they only stay different for as long as we do not abuse our status. Increasingly, I believe that we've crossed a line, where our fiscal balances begin to look a lot more like those of an Emerging Market. As I see zero inkling of any spending restraint amongst those in Congress, nor the two leading candidates for President, I believe that our deficits will continue to expand. In such a scenario, the rules

*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.

will eventually be reversed, and the Central Bank will be forced to worry about the health of the bond market—at the expense of the economy and the jobs market.

I believe we're nearing a point where the bond market has an aneurism, as it refuses to Fund the Treasury's spending levels. We've seen this play out in many Emerging Markets before. In such a scenario, the natural knee-jerk response is for the Central Bank to intervene in the yield curve, buying longer-dated bonds, usually with printed money. It buys time, but expands the money supply, leading to further distortions to the economy. I also call this "Project Zimbabwe." In such a world, there may be a short-term decline in asset prices as the bond market seizes-up, followed by an explosion in inflation-linked asset prices as investors realize what's underway. Alternatively, we may simply sleep-walk into "Project Zimbabwe" without ever having experienced that dip. The question for me, has always been how to avoid the short-term dip, while being prepared for the longer-term rip. I've increasingly been of the view that it's better to suffer some pain, rather than miss it. Particularly, as precious metals, are already telling me that the timing of this is increasingly imminent.

For the past two years, this Fund has under-performed my expectations, as we've been heavily weighted towards inflationary assets, during a time when inflation rates were in decline. As the Central Bank is forced to pivot, I believe that our portfolio should finally perform more in line with my expectations, albeit with the potential for a nasty dip along the way. Everything in my views is simply a reflection of the coming bond market crisis that I believe to be almost inevitable. Should I be right about that, not much else will matter to capital markets, except the timing and the reaction by policy makers.

Our Fund's Size

The history of fund management has seen many instances where a fund was quite successful at one level of assets, only to struggle at a different asset level. As we've grown up quite rapidly, with March-end Fund net assets of approximately $343 million, I've received numerous questions about how our increased size will impact the Fund's strategy and performance. The answer is: it depends.

There are certain benefits to increased size, along with certain disadvantages. I think it's important to note the disadvantages first.

To begin with, a larger size makes it more difficult to maneuver in the market. Fortunately, our core book tends to evolve rather slowly, somewhat negating this disadvantage. However, we certainly will suffer slippage when we buy or sell core positions. This is simply unavoidable. However, this slippage simply isn't as large of a factor when we tend to buy and hold a position for many quarters or even many years. There's still a cost, but it's a manageable cost, though it is hard to quantify as every situation is a bit different in terms of the slippage entailed.

However, it is important to note that our increased size does factor into reducing our universe of potential investments to only those that have market caps above roughly $350 million (with a few outlier situations). This is simply a function of the fact that I rarely want to take on positions that are less than 5% of our capital, or a position of approximately $17.5 million at cost. Additionally, I try not to own more than 5% of the shares outstanding in a stock. Hence, we're effectively restricted to companies larger than

$350 million—which is a sufficiently large universe for us given our global mandate. Additionally, when you look at our investing activities since inception, while we've made numerous investments in companies that were smaller than $350 million, the vast majority of our performance has come from dramatically larger market cap situations. In summary, I don't think this really restricts us, especially as we can use a basket approach to invest in an industry if needed, where two or more positions add up to $17.5 million.

If anything, our increased size has mostly hamstrung us on the Event-Driven side, where we are sometimes forced to take smaller positions, as a percentage of our assets, out of fear of liquidity should we need to rapidly exit a position. That said, the vast majority of our Event-Driven trading is done in much larger securities and at times when some event is dramatically increasing the overall trading volume. Hence, while we do have some instances where a good trade doesn't move the needle for us quite like it used to, due to the smaller sizing as a percentage of our assets, the number of such instances has remained quite infrequent. Even here, I don't think we've really suffered much slippage on the performance side. However, I'd be disingenuous if I claimed that we were still as nimble as we were in 2019 when we were managing only a few million dollars in our Event-Driven activities.

With these disadvantages now out of the way, I think it is important to talk about the unique advantages that we get with our increased size.

To start with, we get much better access to information. There's a very different level of information exchange when you get to speak with the CEO who lives and breathes the business and dictates strategy, instead of the investor relations guy who is simply reads off a script. We also get invited to many industry conferences, put on by investment firms, eager for our increased trading commissions. For that matter, we also get to speak with analysts at those firms. While I tend to be skeptical of Wall Street analysts, they do serve as a repository of industry knowledge in certain specialized industries, pointing us to data that we would have otherwise missed.

Our increased size also gets us access to block trading. While we may impact the price if we're buying shares on the screen, the ability to seek out blocks and see order flow, often more than offsets that. When we were smaller, no one wanted us as a client, now they're all hungry for our commissions, seeking us out. We have opened sales trading relationships with 6 firms and use them regularly—which has proven to be a unique advantage—particularly as we've been able to participate in blocks that we previously would have missed.

Finally, we have a seat at the table when companies raise capital. In early April, we participated in our first capital raise, when a company, whose shares we were purchasing, announced a secondary offering to improve their financial liquidity position. We knew that this was a possibility; what we didn't know, was that we would be offered the opportunity to buy shares at an approximate 10% discount to where we had already bought some. Interestingly, the price that we paid, was a price that has thus far been unavailable to investors on the screen, as the shares have yet to trade at that level. It was effectively a gift of unrealized profits, made directly to us, made extra appealing as insiders were substantial buyers in this secondary offering. Previously, such offerings were unavailable to us. Instead, we'd have to buy shares on the screen, paying the retail price, instead of wholesale. I am hopeful that over time, we can participate in additional equity offerings at a discount to market prices.

I have thought long and hard about these trade-offs. Overall, I think that they're something of a wash. In the shorter-term, what we give up in terms of slippage and reduced Event-Driven returns shows up in our daily statements—while what we gain longer-term in terms of information flow and industry access takes longer to accrue to us as investors. That said, I think that our increased size has not been a major hinderance and it has sometimes been a substantial advantage.

The follow-up question is always about how large I think this Fund can get, before the increased size leads to more negative factors that outweigh the positives. When it comes to this question, I don't have a clear answer, as I think it's almost inevitable that we'll evolve a bit and figure things out along the way. That said, if we ever do get there, I want it to be a gradual process, as opposed to the sudden swelling of assets due net inflows. If you look at our portfolio, the sweet spot for us in terms of market caps tends to be between $1 billion and $5 billion. These are high-quality companies, that are too small to join large-cap equity indexes, and hence somewhat orphaned in terms of the passive flows that push valuations higher. Of course, as these companies grow up, they increasingly get added to indexes, and that deferred increase in passive buying is what leads to the multiple expansions that we have repeatedly enjoyed. However, this $1 billion to $5 billion range is where most of our investing has been done lately.

If we were to avoid going over 5% ownership in a $1 billion market cap company, we could still purchase $50 million worth of it. This implies that we would begin to suffer shrinkage to our universe of opportunities when we got to $1 billion in assets under management—or approximately a tripling of our current size. Even then, I think our universe will be sufficiently wide and deep that we will not be substantially constrained, much like we aren't terribly constrained today—despite the ability to participate in the $350 million market cap range, since we haven't been finding many opportunities clustered there. Additionally, companies with market caps above $1 billion tend to have increased trading liquidity, which reduces the potential for slippage.

Should this Fund get to $1 billion in assets, I want the majority of that growth to come from internal compounding, instead of investor inflows. If you look at our current net assets as of the end of March, approximately $173 million of those net assets are the result of us compounding your capital, while only $170 million is the result of net inflows. If you drill down into 2023's net growth in assets of $94 million, approximately $71 million came from us compounding your capital, while only $23 million came from net inflows. That represents a 25% ratio of net inflows to Fund growth in 2023, or a ratio that feels healthy to me.[1]

I expect that the pace of net fund flows will moderate and then decline over time. In the US, we only have a handful of remaining slots before we hit the 100-limitation imposed upon a 3c1 fund, with a number of those slots already soft-circled by potential investors undertaking due diligence. In a way, this self-limits the growth of our capital base from US investors. On the offshore side, we're still growing, but we've certainly been less focused on the capital raising side lately.

In summary, our current capital base of approximately $343 million feels like a healthy capital base, and my focus now is on compounding the capital that we've been entrusted with. I intend to continue taking

[1] Any information that includes 2024, broken down by inflows and compounding, and the associated ratios between those numbers have not been audited or independently reviewed. Information prior to 2024 have been obtained from the audited financial statements.

in new investors onshore, until we run out of slots, while the offshore side will hopefully evolve similarly as it has in prior years. For the sake of clarity, existing investors are not constrained and can add to their capital accounts at any time.

I'm quite cognizant of our rapid growth in assets since inception, and I want to make sure that we don't outgrow my sandbox of investment opportunities. Thus far, that doesn't appear to be an issue. However, I wanted to make you aware that all of us here at Praetorian think about these issues on a regular basis. There are trade-offs when it comes to the continued growth of this Fund and we were well aware of them.

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

Energy 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 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.

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.

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 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 anticipated 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.

Options on Futures and Oil Producers

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.

Returning to the markets, during the first quarter of 2024, the Fund experienced a positive return. I believe we are invested in some of the strongest macro trends in the markets, and are doing it in a unique way, given our focus on only owning highly undervalued securities with a reduced chance of downside risks.

I remain hopeful that as inflation accelerates and the fiscal situation in most developed markets deteriorates, our positions will appreciate. I feel we are well positioned for the coming crisis. While I don't wish for negative outcomes, I plan to profit should they arrive.

Sincerely,

Harris Kupperman

PRAETORIAN CAPITAL

Appendix

Praetorian Capital Fund LLC Quarterly Returns		
	Gross Return	**Net Return***
Q1 2024	11.90%	9.25%
YTD 2024	11.90%	9.25%
Q1 2023	-1.78%	-2.09%
Q2 2023	9.79%	8.00%
Q3 2023	15.04%	11.92%
Q4 2023	8.57%	6.85%
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%
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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