PRAETORIAN CAPITAL

Q1 2025 Investor Letter April 24, 2025

During the first quarter of 2025, the Praetorian Capital Fund LLC (the "Fund") appreciated by 2.44% 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 declined slightly in aggregate, while the Event-Driven book produced a decent return that more than offset the decline in the core book.

Praetorian Capital Fund LLC		
	Gross Return	Net Return*
Q1 2025	2.76%	2.44%
YTD 2025	2.76%	2.44%
2024	-9.41%	-10.55%
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)	1178.27%	731.22%

*Net return varies from gross return as it accounts for management fees and incentive allocations. Please see the additional disclaimers on the final page of this document.

Given what has transpired since Liberation Day, it feels somewhat trivial to dwell on the first quarter, except to note that in a down-trending market with elevated volatility, the Event-Driven book once again produced gains that allowed us to offset losses on our core portfolio. While every market environment is different, a special snowflake if you will, my expectation is that volatility is frequently going to be our friend, and during periods of heightened volatility, the Fund should often be a net beneficiary on the Event-Driven side.

Liberation Day

It's easy to look back at a discrete event with hindsight and wonder how I could have better prepared the Fund. On the positive side, throughout 2024, we culled many of our smaller and less liquid positions. We even took selective bets against the market using puts, put spreads and even equities themselves on broad based ETFs and a handful of individual companies. Finally, we exited most of our Chinese positions (with gains) in anticipation of the fireworks on April 2nd. On the negative side, the portfolio's exposure was still far too elevated—though almost any exposure into a wild drawdown in markets, is too much exposure. In summary, Liberation Day was not kind to us, though it could have always been far worse. As of my writing to you on April 24, 2025, the Fund is down low single digits, net for 2025.

As a veteran investor, I've suffered through plenty of situations where the rules changed suddenly, and markets declined rapidly. When you invest with me, you're effectively buying into my very expensive tuition. I've suffered through the 2000 tech crash, 9/11, the 2002 recession, the GFC, the Eurozone crisis, the Flash Crash, Volmageddon, 2018's 'long way from neutral' crisis, COVID, 2022's Tech Wreck, 2024's JPY blow-out, and now Liberation Day. These waterfall events tend to happen every year, or three, and I'm sure I am forgetting quite a few of them. I've found that they always follow a familiar pattern. Early on, I'm surprised by the event, and my portfolio moves rapidly against me. Having learned from experience, I know that the first leg down is scary and unpredictable, as it's often unexpected. Sometimes, it ends after a few days. Other times, there is a re-test, or a continuation lower. Three of these situations (9/11, GFC, COVID) led to severe market crashes. At the onset of one of these events, no one knows what will happen next. No matter how many hot takes you hear from supposed gurus, correlations usually go to one, and contagion/cross-asset spillover is difficult to predict.

At the core of my investing belief system, is a simple phrase, "making money is really quite easy, but holding onto it is really quite hard." As soon as a strong sell-off starts, I've learned to take evasive action and de-gross the portfolio. I intuitively know that my sales will be sloppy, and I may regret them almost immediately, but I also know that the guy who is out the door first, is the guy who can then play the best offense on the way back up. To start with, I liquidate the Event-Driven book, even if it means realizing losses. I often then cut everything else, either by cutting individual names, cutting exposure across the board, or some combination of the two. The goal is to take exposure down dramatically. If this is going to be a deep market crash, I'm going to want capital at the end of the process, and if it isn't a crash, losing a few hundred basis points to prepare myself, is money well spent, as no one knows what will happen next. I'll admit, I was a bit sloppier than I wished in this de-grossing, but it's never going to be graceful. The goal is simply to get less exposure, so I can play offense on the way back up—whenever that is.

As I contemplate the nature of Liberation Day, I grow increasingly worried that this is a 'Big One' as opposed to a 'few day wonder' in the context of markets. The Flash Crash was over and done with quickly, but Liberation Day will fester for years to come. As I was already bearish on the US economy going into this event, I believe it will simply serve to compound and accelerate many existing trends in motion. In particular, I think this will speed the almost inevitable credit event in the US Treasury market that will spill into private credit, corporate refinancings, and private equity. Fortunately, we came into Liberation Day with some downside protection, that we booked for a nice gain, offsetting some of the slippage from our de-grossing.

Macro Views

The US has been trapped in unfair trading arrangements for decades, and change was long overdue. However, I have to think that there could have been a better approach to the issue, giving everyone time to adjust to a finalized structure, with a preference for both sides removing trade barriers and equalizing things. Instead, everything is in flux, and the rules seem to change with each tweet. No one seems aware of the plan, how we're getting there, or even where we're going. Businesses rely on stability to undertake long-term planning. Strong businesses are amazingly resilient, and have the ability to react to change, but no business can operate when the rules change every few hours. Uncertainty is paralyzing.

As I survey the landscape, I worry that business conditions are freezing up, and barring a very near-term conclusion to the trade war, we're going to pass a point of no return, where we enter a recession. Of course, the depth and severity of any recession is hard to discern, as we do not know the plan, or even if there is one.

The US bond market is the core of the global financial system, and it has long relied on foreign flows to sustain itself. Ever since we told foreigners to go home, bonds have been under pressure. With rising interest rates, there are many follow-on effects—none of which are positive for businesses, consumers or our government's fiscal health—where higher interest rates are leading to higher deficits in a doom-loop. As foreigners sell our bonds, it spins the cycle faster, at a time when the economy itself appears to rapidly be slowing.

In the short-term, I see a potential recession caused by tariffs, along with the inability of many businesses to plan with any level of confidence as Trump keeps changing his mind on multiple economic fronts. This potential recession, along with the withdrawal of foreign capital, is exposing a US fiscal solvency crisis, an interest rate crisis, a wealth-effect crisis, a brewing commercial real estate (CRE) crisis, a PE crisis, and many other intertwined crises. In fact, I don't think our financial system has been this perilous since 2008. Back then, the financial system was designed for a world where housing prices appreciated at a faster rate than the carrying cost. Today, our financial system is designed for interest rates that only decline. Now, five years since the low-point in rates, many of the loans taken out during the COVID crisis are coming due. I think that the currently quoted interest rates will impair many borrowers, while rates are likely to continue increasing from here, especially after we told our lenders to go home. Then, there is our own government, where the current deficit levels are clearly unsustainable.

Of course, we all know that no crisis can persist before the Fed shows up with liquidity—unlimited liquidity. However, in a crisis driven by escalating interest rates, additional liquidity is only going to make it all worse. In an Emerging Market, the Central Banker is forced to raise interest rates to subdue longer-dated yields. In our quasi-Emerging Market financial system, they're eventually going to realize that's the solution as well. I fear the repercussions as they try both outcomes, possibly simultaneously, on the path to institutional enlightenment.

Concomitant with all of this, I recognize that there will be an extreme level of institutional bias against the Fed stepping in and seeming to support Trump's trade war. If a crisis gets going, I worry that the Fed will stand to the side, until it burns hot—so hot that the public begs them to do something. In many ways, the Fed doesn't have your back right now, as they do not want to be seen to surrender their independence or support an *ad hoc* trade war. Unfortunately, I could see scenarios where it goes bad, then really bad, before the Fed does anything—much like in 2008 where the Fed felt that the subprime crisis was contained, until it clearly wasn't.

In 2006 and 2007 I told everyone I knew that a bunch of storied banks and financial institutions would fail. It was simply a question of math. I did the math, and the institutions themselves didn't. I got the thesis correct, but thought a step too far ahead. I suspected that the Fed would take rates to zero and spew liquidity into the abyss of the crisis. As a result, I bought a lot of gold miners. Unfortunately, on gold's path from $600 to $1,900, many of my gold miners declined precipitously during the second half of 2008. After the selling ended, many of my favorite names appreciated dramatically. Unfortunately, I had to first suffer

through terrible declines. It was a highly educational experience that I hope to never relive. The lesson is simple—in a global margin call, every asset gets sold, even the ones with the strongest tailwinds.

To conclude this macro section, I took exposure down right after Liberation Day. Then, I thought it all through, and took exposure down a good deal more. While I still believe we're more likely to see a reallocation out of overvalued US equities into undervalued global equities, I fear that we may get a global margin call instead.

As a veteran investor, I've learned that when you're unsure, your first mandate is to de-gross and protect your downside. Having suffered through a global margin call once, I've decided that I'd rather take the more prudent path of lower exposure. Especially as I remember how easy it was to make money after the crisis abated. In fact, 2003 to 2006, 2009 to 2012, and 2020 to 2023 were the most lucrative 4-year windows in my investing career. All three of those windows were after severe market crashes, crashes where I had to first suffer on the way down. My goal today is to muddle through, and be ready to play offense no matter how this all plays out, even if it means crystallizing some sales at prices that seem rather unfair to us.

Offsetting what may be one of the more pessimistic macro views for this Fund since inception, I genuinely believe in our Event-Driven book. For the past five quarters, it has powered our performance, while our core book has declined over that time, this is despite only a small percentage of our capital dedicated to the Event-Driven book. With more of our capital freed up from the core book, I'm hopeful that the Event-Driven book can prosper even further. Ideally, in a volatile market, our Event-Driven book can more than compensate for a much toned-down long book, especially as I suspect that most equities likely leak lower from here anyway.

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

Energy Services Basket (Valaris (VAL – USA), Tidewater (TDW – USA), and Noble (NE – USA))

We own a collection of offshore services companies (drillships, jack-ups and OSVs), in the belief that offshore spending will increase in the future as a percentage of overall oilfield spending. This is due to the fact that many offshore fields have lower breakevens when compared to onshore shale fields, and better economics. These positions were all purchased at substantial discounts to the replacement cost of the assets, at a time when they have strong balance sheets and substantial backlogs. The shares have declined recently due to a fear of reduced spending in the near-term. I believe this represents an opportunity within a larger multi-year trend of increased spending.

Emerging Markets Basket

For the past decade and change, Emerging markets have been in a relative bear market, as investor capital has migrated to US markets. In the process, many emerging markets have gotten quite cheap when looking at them from a valuation perspective. This Fund has a sweet spot for cheap assets, but Emerging

Markets have been cheap for quite some time now. You could have said the same thing years ago and likely be sitting on paper losses today, while having tied up capital. What you need is a catalyst that unlocks this value. I believe that catalyst is a potential decline in the US Dollar, tied to policy changes emanating from the Trump Administration. For MAGA policies to work, the US needs to follow a weak Dollar policy. At the same time, Emerging Markets, which frequently borrow in US Dollars, are hamstrung by a strong dollar, but a weakening dollar is a boon to their economies. As a result, I've built up positions in various Emerging Markets that are highly impacted by the US Dollar, with the view that a weakening Dollar should be a catalyst for asset values.

St. Joe (JOE – USA)

JOE owns approximately 167,000 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. More importantly, I believe we are witnessing 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.

Precious Metals Basket

In an inflationary world with loss of faith in Central Banks, precious metals tend to do well. We own three companies that should be beneficiaries of precious metals either appreciating or at least staying at elevated prices. None of these companies is directly in the mining business, which is risky and capital intensive—though one is a service provider to miners.

In summary, I have materially reduced our exposure following Liberation Day. I worry that the trade war has set in motion a bear market in US bonds, which may lead to a rather nasty crisis. While the Fed will ultimately intervene with QE or some other program, they will need the crisis to burn extra-hot, before intervening in what will be seen as a self-inflicted crisis. While I don't wish for negative outcomes, I plan

to profit should they arrive. However, until there is better visibility, it seems silly to be fully invested. If it turns out that this was all benign, I can always re-gross our exposure at some point in the future. In the interim, I feel like we're well positioned, and am hopeful that our Event-Driven book picks up the slack from a reduced core portfolio.

Sincerely,

Harris Kupperman

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Appendix

Praetorian Capital Fund LLC Quarterly Returns		
	Gross Return	Net Return*
Q1 2025	2.76%	2.44%
YTD 2025	2.76%	2.44%
	Gross Return	Net Return*
Q1 2024	11.90%	9.25%
Q2 2024	-1.76%	-1.69%
Q3 2024	-2.51%	-2.29%
Q4 2024	-15.48%	-14.76%
YTD 2024	-9.41%	-10.55%
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%

*Net return varies from gross return as it accounts for management fees and incentive allocations. Please see the additional disclaimers on the final page of this document.

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