



Dear Partners & Friends,

For the fourth quarter 2023, Ace River Capital Partners, L.P. (the “Fund”) returned -10.40%. Over the same period, the S&P 500 (SPX) and Russel 2000 (RTY) Indexes returned 10.8% and 5.2%, respectively.

Strategy

My goal is to maintain a concentrated portfolio of small and micro-cap companies with unique advantages and growth potential within their respective industries. The aim is to hold them for the long term. Finding such companies requires significant time and effort. Due to the scarcity of suitable opportunities, constraints on time and resources, and opportunity costs, I will take substantial positions in the companies that meet my criteria and pass my risk/reward assessment. I do not subscribe to wide diversification and only research and follow a limited number of companies deeply. I will not spend much time on a company if I am unwilling to take a substantial position and have the conviction to add to that position on weakness. This approach requires a lot of research and patience. There will be long periods of inactivity with few trades, and I will rarely hold more than 5 companies at a time. This strategy accepts short-term volatility in pursuit of higher, long-term, tax-efficient returns.

Top Position

The fund’s top position is RCI Hospitality (RICK). RICK is the only publicly traded owner of adult nightclubs in the US. Currently they own 56 clubs across 13 states and an additional 13 sports-bar restaurants with the “Bombshells” concept. With few municipalities issuing new adult entertainment licenses these businesses function as local monopolies with excellent unit economics. With the construction of two Colorado casinos underway, the long runway of adult night club acquisition targets, the growth potential and spin off value of the Bombshells concept and finally the potential upside of the “admireMe” OnlyFans type website, I expect this to remain my top position for the foreseeable future.

The recent quarter has shown some store sales weakness in the bombshells segment. M&A activity looks to be stalled by inflated 2022 revenues result on valuation expectations for club owners vs what RCI is willing to pay on a more normalized revenue valuation. The CEO has initiated a cost reduction effort for bombshells to get it back to profitability and has been in the talks for a club acquisition, stated on the recent conference call. In this high interest rate environment, upcoming elections and war activity abroad, we can expect investor money to remain on the sidelines near term I believe. RCI should make substantial buybacks over this period and any positive momentum with the gaming licenses, bombshells or the admireme.com website should create a nice tailwind at some point in the future. My thesis has not changed fundamentally but the value of bombshells may be insignificant if it continues to perform poorly. I still feel the company is well positioned and can drive shareholder returns without a strong contribution from the bombshells segment.

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Added To Position - VOXR

Vox Royalty looks to be undervalued by comparison with most other mining royalty companies. I believe this to be a good entry point. The recent run up of gold prices this year should result in increased royalty revenue for Vox. I have increased this position and will likely continue to increase at these levels until it becomes the second largest position in the fund. Vox looks to be a great value with little downside. It has a capital light business model, a large backlog of projects in varying stages of development to ensure revenue growth over time and will benefit from any rise in metals prices from inflation, demand, or uncertainty.

Watching - DSHK

Driveshack could be at an inflection point with the completion of all expensive construction projects. I am looking for a positive earnings report with its next filing and I expect the stock may respond sharply.

Thank you for reading. Please reach out for any reason.

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Fund Positions – In Order of Portfolio Weight

RICK, DSHK, VOXR, HZO



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