



Dear Partners & Friends,

For the third quarter 2024, Ace River Capital Partners, L.P. (the “Fund”) returned +2.01%. Over the same period, the S&P 500 (SPX) and Russel 2000 (RTY) Indexes returned -3.3% and -5.1%, respectively. With full year for the fund -21.44% vs 23.25% for S&P 500 and 18.75% for Russel 2000.

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. I will be focused on companies that have tangible assets with a preference for unique real estate such as special purpose licensed locations (RICK), waterfront property and marinas (HZO), equity participation interest in mineral deposits and mining operations (VOXR). This strategy will usually avoid companies that are involved in software, finance or insurance. 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.

10/23/2024

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. There are roughly 2200 clubs across the country and RICK estimates that 500 of which would meet their criteria for acquisition. These clubs have limited potential buyers with RICK establishing themselves as the buyer of choice for any club owners looking to sell. This provides a long runway for growth.

Share price has taken a hit and with the stock currently trading at a double-digit free cash flow yield. The company has responded with aggressive share buybacks. Management has retired 401,093 shares for the year as of 8/5/24, amounting to roughly 4.5% of shares outstanding. In addition, the company announced a 16.7% dividend increase to \$.07/share on 9/3/24. I am happy to hold and allow dividend reinvestment and management share repurchases to compress the spring for future returns. During this time, I look forward to the launch of OnlyFans competitor site



AdmireMe. I believe RICKs clubs and a platform like OnlyFans will create value for both assets and prove to be the company's main asset in a decade's time if successful. No change in thesis.

Position Updates

Vox Royalty (VOXR) has experienced a strong rise in share price (+63%) year to date. With a strong cash position, no debt and a portfolio of mining royalties coming into production over the next few years I am excited about this position. I Will look to add to position as capital becomes available.

Marine Max (HZO) had buyout interest and rumors earlier this year. I believe these levels are a good entry point and hope they prove to be the bottom of the next cycle. I do not expect much from this position in the near term but believe the moves by management towards higher margin segments of maintenance and storage of boats is the correct strategy vs the high reliance on retail sales. I would like to see a clear capital allocation strategy from management regarding acquisition targets and share buyback priorities. Until I can get better insight into how management views capital allocation, I will be forced to keep this position small.

Drive Shack (DSHK) management has been unresponsive to investor inquiries and has only recently put out a delayed first and second quarter report. There has been very little put out from the new CEO or management since the company moved to trade OTC. Considering the recent reports with losses of a few cents per share it seems there is a chance the company can reduce expenses and turn itself around. I like the business model if debt can be managed there is a chance that this company can rise from the ashes. Believe the risk/reward dynamics are favorable for an investment but will not be adding to this position near term.

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Fund Positions – In Order of Portfolio Weight

RICK, VOXR, HZO, DSHK

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

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