

PRAETORIAN CAPITAL

Q3 2026 Investor Letter

October 21, 2026

During the third quarter of 2026, the Praetorian Capital Fund LLC (the “Fund”) depreciated by 0.29% 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 third quarter, our core portfolio positions appreciated slightly, while the Event-Driven book experienced a small decline.

Praetorian Capital Fund LLC		
	Gross Return	Net Return*
Q1 2026	20.91%	16.44%
Q2 2026	-4.99%	-4.39%
Q3 2026	-0.05%	-0.29%
YTD 2026	14.82%	11.01%
2025	13.94%	12.39%
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)	1527.43%	912.35%

*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.

Quarterly Overview

Despite a lot of movement under the hood, our net results were rather inconsequential during Q3. To the upside, we experienced really strong performance from our two core positions in refiners (MPC – Marathon Petroleum and VLO – Valero Energy) as crack spreads broke out to all-time highs. I initially purchased these refiners at substantial discounts to replacement cost with the view that there would be a supply and demand imbalance in the near future as I anticipated that demand would grow more rapidly than refiner supply. Instead, Ukrainian attacks on Russian refiners, along with the Hormuz blockade of Middle Eastern refined products, served to dramatically tighten the market due to supply destruction.

As these refiners traded up near to replacement cost, I chose to exit both positions as demand destruction is seemingly accelerating, and I have zero visibility into how long the supply side will remain subdued for. Additionally, the refiners are now pricing in roughly two consecutive years of crack spreads staying at currently elevated levels, which seems like a bold prediction, especially as two years is a long time in such a volatile world. Identifying a tight supply and demand situation clearly set the stage for this trade, though we then profited from something completely unforeseen that served to further tighten the market. Sometimes in inflection investing, luck carries the day.

Offsetting some rather material gains in our refining names, we saw prior unrealized gains in our two trade schools (Lincoln Education – LINC and Universal Technical Institute – UTI) turn into rather sizable unrealized losses. The proximate cause for this reversal was weak guidance on calendar Q3 student enrollments as LLMs have disintermediated the Google Search funnel that both companies have traditionally relied on. Given that this is the most significant change to digital marketing over the past two decades, the magnitude of the guide-down is rather immaterial, showing just how strong the underlying macro trend of individuals enrolling at trade schools is.

Further buttressing my view on the strength of demand, both companies are rapidly expanding by opening new campuses. Unfortunately, new campuses take a year or two to reach profitability, and those near-term losses are depressing earnings. In the past, investors would focus on the pro-forma earnings of the core business and ignore the costs of growth. Instead, in the current environment, quant models often overwhelm the handful of remaining active investors, and analyst earnings estimates that show year-over-year declines are driving the share prices instead of the value creation from these new campuses. This too shall pass if the tailwind remains strong.

As I noted in last quarter's letter to you, I believe that trade schools have become one of the primary bottlenecks to regrowing the US industrial economy. As AI continues to eliminate office jobs, millions of existing workers will need to be re-skilled, as will millions of future workers who would have previously attended a 4-year college. Every datapoint says that demand for trade schools is rapidly accelerating, and I believe that LINC and UTI will adjust to the changes in their student acquisition channel before long.

While the overhang from weaker near-term earnings will persist for a few quarters as new campuses ramp up, I also think that this pullback creates an incredible opportunity to buy one of the best macro tailwinds in the US markets for a low single-digit cash earnings multiple on our 2030 estimate (net of growth spending), and around a ten times multiple on our 2027 cash earnings estimate (net of growth spending). As you can imagine, I used the decline during the third quarter to very aggressively buy shares in both companies. At quarter end, these two positions represented approximately 20% of our capital—which is the first material investment that we've taken up in quite some time.

In previous letters to you, I've noted that one of our largest competitive advantages at this Fund is our ability to ignore near-term datapoints and instead look out a few years. With investor timelines continuing to contract in the equity markets, and pod-shops proliferating, I think we'll see far more situations where a company is expected to have weak near-term results, but incredible results looking out a year or two. I'm always amazed at how few investors today can willingly step into the breach and buy shares knowing that the coming quarter's results will likely miss expectations—while many other investors with even shorter-term timelines are even shorting these same shares. I'm sure that in the aggregate, you can make

money betting on quarters, but I believe that far more money is made by accepting that multi-year trends are not linear, and that weak quarters are an opportunity to add to a position at a distressed price. At some point, if everyone knows that calendar Q3 will be pressured by the costs of new campus growth, it starts getting priced in. If others refuse to buy into this discount, we can. If the shares drop further on short-term results, and the tailwind remains strong, we can buy more.

When combined, our other positions were mostly unchanged, though I did choose to sell our Brazilian positions right before the election, as polling data showed a tight race, and we had decent gains during our year-and-change of ownership. When in doubt, I usually get out. I never want to bet on a binary event that I have no great edge in predicting. While I'm upset that we missed out on further upside given that the first-round voting favored Bolsonaro, it could easily have gone the other way. Furthermore, as the year has progressed, I've increasingly struggled to understand how Brazil, as a commodity exporter that needs a weaker US Dollar, prospers under Economic Feudalism. We had a good run, and I'm happy to close this chapter with a win.

A Roadmap From Here

I like to say that most things in finance are rather obvious; it's the timing that's difficult. In that vein, it's always been rather obvious that the economics of AI are absolutely abysmal. I think it's highly unlikely for the industry to ever reach profitability as currently configured, as it would need a few percent of US GDP annually in revenue to break even on the capital already invested, and may need as much as ten percent of GDP to break even on the capital that many analysts expected to be invested by 2030. The numbers just cannot work—especially as tech tends to be deflationary. How would anyone ever expect the US to be spending a few trillion dollars annually on AI, when software, which is already ubiquitous, and maturing, is currently around half a trillion of US spending??

Think back to the railroads; they became dominant modes of transport, but they periodically destabilized the US economy as they went bankrupt in repeated waves during the 1800s. Then, someone picked up the pieces, and railroad construction continued. I think we're at a similar point in the AI journey. I definitely don't think that AI is over, or that the buildout won't continue. I just think a phase of rationalization is upon us.

It's said that you go broke slowly, then all at once. I think this is a good mindset for how the AI sector will also fail. Slowly, then all at once. The first signpost will be that the funding gets cut off, and I think we're finally witnessing that. As funding grows more scarce and expensive, the AI sector will struggle to support unprofitable operations, and I expect to see many bankruptcies of neoclouds, followed by the large frontier AI labs. While they may have interesting assets, they also have hundreds of billions of contingent liabilities along with purchase commitments that I cannot imagine anyone wants to fund, especially if chip costs come crashing down with reduced demand. Following bankruptcy and the rejection of these liabilities, I then assume that they get folded into the hyper-scalers. However, these will be incredibly messy and complex bankruptcies. Just think back to how messy Enron was, with hundreds of SPVs and all sorts of future commitments over pipelines, utilities and whatnot. This will be worse, as many of the SPVs have guarantees from partners that will want to escape those guarantees.

I assume that all of this will cascade through the economy and the stock market, especially given how material semiconductors and AI have become as a percentage of US equity indexes. If you take away the

performance from AI driven sectors, most stocks have done quite poorly over the past few years, and the stock market would be a good deal lower. I think stocks will revert there as AI spending slows.

AI capital expenditures are responsible for roughly three percent of US GDP currently and are predicted to grow further in 2027. While it's harder to quantify the size of the Wealth Effect on consumer spending, it wouldn't surprise me if it were over ten percent of US GDP. Being conservative, I feel pretty confident in saying that the AI mania is responsible for well over ten percent of US GDP, and should anything happen to AI, even if it's only a slow-down in spending, it would materially slow US GDP, and possibly even send it into decline, especially if the stock market collapsed at the same time.

I have gone through two US economic down-cycles during my investing career, along with a COVID panic. In all three cases, owning almost any part of the yield curve was the winning strategy—even if guys doing more exotic trades got all of the accolades. Having lost money shorting financials too early during the GFC, and then buying volatility too early during the COVID panic, I've decided that I'm going to focus on what's worked in all three prior equity smashes, I'm going to buy US government paper. As of writing this to you, we already own some SOFR futures along with call spreads. I plan to add should the trade start working.

I know that the government is functionally insolvent, and that during "Project Zimbabwe" debt gets debased, but there are moments in time where fixed income can rally further than anyone can ever imagine. While bonds aren't my favorite asset, they're a blunt tool to express a view. As far as I'm concerned, outside of AI, the Wealth Effect driven by the AI mania, and health care for aging boomers, the rest of the economy is already effectively in a deep recession. I expect this recession to accelerate and broaden should AI spending slow, and equities sell off as AI businesses fail. With a Congress that's likely to swing to the left following November's elections, I think that a fiscal response will be off the table until things get really bad. Therefore, early in this crisis, the only tool that the government will have to combat the market's collapse is monetary intervention, and they're likely to give it all they have. My thinking is we own bonds first, and then after the smash, we switch to debasement assets. (Though I am a bit skeptical on how bonds further out on the duration curve will perform, given current debt levels and the potential for inflation to remain elevated).

In preparation for this, I've taken exposure down and built cash. I've dramatically dialed down exposure to any businesses that are sensitive to GDP. What's left on our sheets are businesses like our trade schools that did surprisingly well coming out of the GFC, businesses tied to volatility like Marex (MRX – USA) along with the Hong Kong Stock Exchange (388 – HK), and businesses that do well with lower interest rates like St. Joe (JOE – USA). We've been preparing for a deep and lasting recession for a while now. It's been postponed by the AI mania and the Wealth Effect that has built up around that mania. It's been frustrating to have reduced exposure and a bearish outlook as equity markets rally. It's been irritating to have missed out on an unsustainable mania in AI. Now, I think we're finally at the point where this all tumbles down.

I've never thought that we could go fully into "Project Zimbabwe" without one last crash that gives government officials the mandate to blatantly debase. It's hard to know exactly when this happens, but I have my roadmap, and I'm content to continue with reduced exposure. As of right now, I am far more concerned with the potential for substantial downside from here, the upside can come later.

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

Precious Metals Basket

In an inflationary world with loss of faith in Central Banks, precious metals tend to do well. We own two companies that should be beneficiaries of precious metals either appreciating or at least staying at elevated prices. Neither of these companies is directly in the mining business, which is risky and capital-intensive—though one is a service provider to miners.

Technical Colleges; Lincoln Educational Services (LINC – USA) and Universal Technical Institute (UTI – USA)

These two technical colleges are helping to train the next generation of skilled tradespeople and medical workers. As AI reduces the demand for office workers, many millions of existing workers must be reskilled, while high school graduates will naturally seek out better job opportunities that offer higher wages, with less career risk.

LINC and UTI are the two largest technical colleges in the US. I expect them to continue opening new campuses and growing student counts. Based on management guidance, they're both quite cheap looking out a few years, net of startup costs for new campuses. I think they'll dramatically overshoot guidance in terms of new student starts, utilization and recruitment costs, leading to substantial margin growth on relatively fixed-cost structures.

St. Joe (JOE – USA)

JOE owns approximately 165,000 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.

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 would 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.

In summary, there is a growing realization that the AI buildout was a massive misallocation of capital. Should this buildout slow, I think we will get a steep decline in equity markets that finally sets the stage for “Project Zimbabwe.” My plan remains to keep exposures lower than normal and await such a smash before deploying capital at bargain levels.

Sincerely,



Harris Kupperman

Appendix

Praetorian Capital Fund LLC Quarterly Returns		
	Gross Return	Net Return*
Q1 2026	20.91%	16.44%
Q2 2026	-4.99%	-4.39%
Q3 2026	-0.05%	-0.29%
YTD 2026	14.82%	11.01%
Q1 2025	2.76%	2.44%
Q2 2025	3.91%	3.59%
Q3 2025	6.11%	5.70%
Q4 2025	0.57%	0.21%
YTD 2025	13.94%	12.39%
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%

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