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Form ADV

Part 2A Brochure

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This brochure provides information about the qualifications and business practices of Millrace Asset Group, Inc. If you have any questions about the contents of this brochure, please contact us at 610-251-2821 or [jdalkin@millraceasset.com](mailto:jdalkin@millraceasset.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

Additional information about Millrace Asset Group, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Millrace Asset Group, Inc. is registered with the SEC as an investment adviser. That registration does not imply a certain level of skill or training.

**Item 2: Material Changes**

There have been no material changes in the investment strategy employed or the business operations of Millrace Asset Group, Inc. since March 30, 2023, the date the previous Form ADV Part 2 was completed.

This brochure is updated for various non-material changes to provide clarification and additional information.

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#### **Item 4: Advisory Business**

Millrace Asset Group, Inc. (“Millrace”) was established in 2001 and commenced operations in January 2002 with the inception of Millrace Fund, LP (the “Millrace Fund”) and in December 2019, the launch of Millrace Capital, LP (“Millrace Capital”), collectively, the “Funds.” Millrace was founded and is owned by William L. Kitchel and Whitney M. Maroney. The Millrace Fund’s investment strategy employs long and short equity investments focused in small and mid capitalization companies, whereas Millrace Capital employs a long only strategy.

Millrace provides investment advisory services for Millrace Fund and Millrace Capital, (collectively “the Funds”). In addition, Millrace provides investment advisory services as a sub-advisor to an investment company. Regulatory assets under management for Millrace as of December 31, 2023 totaled \$194.1 million, all on a discretionary basis. Millrace does not participate in any wrap fee programs.

Investors in the Funds are accredited investors or institutional investors meeting specific requirements. Each investor is provided a private placement memorandum and executes a limited partnership agreement prior to investing in either Fund. These materials describe the investment strategy and related investment risks for each of the Funds. The Millrace strategies are not tailored for the needs of individual clients or subject to client restrictions on investing in specific securities or types of securities.

#### **Item 5: Fees and Compensation**

The Funds pay Millrace a quarterly management fee based upon the value of the equity each partner has invested. The rate of the management fee ranges between 1% and 1.5% per annum based upon the date the partner invested in either Fund and the amount of the initial investment. The management fee is calculated by the Funds’ third-party administrator and paid from the Fund’s net assets, in advance, at the beginning of each calendar quarter after giving effect to partner withdrawals, if any. Under certain circumstances, a partner and Millrace may agree to a lower management fee rate in either of the Funds.

Operational expenses for the Funds include the third-party administrator as well as audit, tax and legal fees. There are also interest and dividend expenses incurred when borrowing securities for positions that the Millrace Fund has sold short. All of the operational expenses are allocated to the Fund’s partners monthly pro-rata based upon their capital invested. Commissions to brokers incurred to purchase or sell securities are a component of the gain or loss calculation on each transaction. See items 8 and 12 that further discuss brokerage.

Millrace, the general partners of the Funds and the owners and employees of Millrace are not compensated for the sale of securities or investment products of any type.

## **Item 6: Performance-Based Fees and Side-by-Side Management**

Millrace Capital GP, LP is the general partner of the Millrace Fund. Through a corporate structure, Mr. Kitchel and Mr. Maroney control Millrace Capital GP, LP. The provisions of the Millrace Fund partnership agreement provide that Millrace Capital GP, LP is entitled to a 20% incentive allocation of the net capital appreciation, after all fund expenses, of each limited partner's interest in Millrace Fund. Each incentive allocation calculation is subject to a loss recovery provision which is commonly referred to as a high-water mark. The performance allocation is calculated by the Fund's third-party administrator and is allocated to the Millrace Capital GP, LP annually as of year-end. The Millrace Fund partnership agreement allows Millrace Capital GP, LP to reduce or waive the incentive allocation at its discretion.

Mr. Kitchel and Mr. Maroney are the managing members of Millrace Partners, LLC, the general partner of Millrace Capital. The provisions of the Millrace Capital partnership agreement provide investors may elect Series A or B limited partner participation. Series A limited partners pay a management fee only. Series B limited partners pay a management fee and a 17.5% incentive allocation of the net capital appreciation of their partnership interest after all fund expenses in excess of the return of the Russell 2000 Growth index. Each incentive allocation calculation is subject to a loss recovery provision which is commonly referred to as a high-water mark. The performance allocation is calculated by the Fund's third-party administrator and is allocated to the Millrace Partners, LLC annually as of year-end. The Millrace Capital partnership agreement allows Millrace Partners, LLC to reduce or waive the incentive allocation at its discretion. Currently, there are no Series B limited partners.

The Funds will generally invest in the same long positions. Millrace Fund will also maintain short positions while Millrace Capital generally will not. While executing trades which will impact positions in both Funds, the orders are aggregated and allocated to the Funds at the average price.

## **Item 7: Types of Clients**

Millrace provides advisory services to the Funds, which are pooled investment vehicles. Please see the discussions under Item 4: Advisory Business, Item 5: Fees and Compensation and Item 6: Performance-Based Fees and Side-by-Side Management for further information about our clients. Millrace also accepts separate accounts subject to negotiated fee and account size requirements, although no such clients are presently served.

In addition, Millrace provides advisory services as a sub-advisor to an investment company employing the same investment strategy used for the Millrace Fund.

## **Item 8: Methods of Analysis, Investment Strategies and Risk of Loss**

The Millrace investment process uses intensive fundamental, bottom-up, research-driven analysis to identify what it believes to be compelling long and short investment opportunities. Millrace may employ both long and short equity positions to optimize potential returns and to preserve capital in difficult markets. The two Millrace strategies are focused on the belief that greater inefficiencies, greater innovation, and greater disruption occur in smaller market capitalization companies compared to larger market capitalization companies. The Millrace investment team's experience indicates that these inefficiencies can be exploited by applying a disciplined research methodology and effective risk management disciplines to achieve each strategy's specific objective.

The Millrace investment team of four has collectively over 100 years of experience investing in smaller market capitalization companies. This experience allows the team to leverage their prior interactions with company managements, suppliers and competitors. In addition, the team regularly speaks with and/or meets with industry analysts and company managements by phone, in our office, at conferences, and on their premises. Industry conferences, channel checks and competitors are other sources of ideas. Millrace supplements its research by utilizing quantitative screening.

The objective of the Millrace long/short strategy, which is used to manage the Millrace Fund, is to compound investors' capital over the course of a market cycle at better than long-term equity returns with far less return volatility than a comparable long equity market benchmark. The portfolio contains both long and short equity positions of, primarily, small market capitalization companies. Mid-capitalization companies may also be bought or shorted, or some companies purchased when they were small may grow their market capitalization into the mid-cap range during Millrace's ownership.

In the long portfolio, the investment team looks for companies with proprietary characteristics, improving fundamentals, a reasonable valuation and identifiable catalysts. After we identify our investment thesis, we assess downside risk and set a price target. These could be described as objective criteria, however, each investment stands on its own merit and the investment thesis and/or proprietary characteristics will of course be different in each case.

The short investment ideas are companies with excessive valuations relative to fundamentals, deteriorating balance sheets, decelerating revenue/margins and weakening competitive positions. The investment team then identifies a catalyst such as questionable business practices, accounting, legal or regulatory problems or weakening market share. We develop an investment thesis and set a price target.

Prior to initiating any new position, the originator will review the company and thesis with another member of the investment team. Because Millrace Fund uses a hedged approach it has not captured the full upside of rising markets or declined as much in market drawdowns. The long and short exposure in the Millrace Fund works in concert to reduce the Fund's return volatility with the objective of growing investors' capital productivity over the course of a market cycle.

The investment team constantly keeps the risk of loss in mind and attempts to moderate these risks. However, there can be no assurance that its investment and trading activities will be successful or the investors will not suffer losses. As we invest primarily in securities traded on the major stock exchanges, Millrace believes the primary risk of loss is associated with security selection. Risk is managed through the portfolio parameters such as net sector limits, position limits, liquidity constraints, net and gross market exposures. As bottom-up stock pickers, the investment team assesses risk on a position-by-position basis. Much time is spent sizing each position to arrive at a weighting to reflect risk/reward and near-term catalysts. Positions are monitored daily through the use of our Daily Report, which includes our price targets and loss alerts.

The Millrace Fund investment strategy includes short selling, in effect borrowing a security that must be returned possibly at prices significantly in excess of the proceeds received from the short sale. Millrace is exposed to the risk of loss in an amount greater than the initial investment. Losses are potentially unlimited in a short sale.

The price of publicly traded securities can be impacted by many factors including, but not limited to: political or economic conditions, the health of a specific sector or issuing company, natural disasters, terrorism and the overall health of the economy. The Millrace investment strategies focus on small and mid-capitalization companies. The equity securities of these companies generally have more volatility and have less market liquidity than equity securities of larger capitalization companies. Increased volatility may cause higher levels of turnover, thereby increasing commission and transaction costs that negatively impact the performance of the Millrace strategies.

The objective of the Millrace long only strategy, which is used to manage Millrace Capital, is to compound investors' capital over the course of a market cycle at rates well higher than a comparable long only equity market benchmark at reasonably similar levels of return volatility. The long only strategy contains only long positions, and the portfolio is managed to closely match the long holdings in the Millrace Fund by name and relative position size. Millrace Capital may also sell covered calls in certain circumstances. Millrace Capital will be near-fully invested in stocks and carry only small amounts of cash. Therefore, Millrace Capital is subject to more downside risk during market declines and/or larger unprofitable portfolio positions than the Millrace Fund. As the holdings are managed to closely match the long holdings in the Millrace Fund, the same research techniques described above for long portfolio selections and risk management apply to Millrace Capital. The risks described above with the exception of those related to shorting stocks are also applicable to the Millrace Capital.

Investors in the Millrace Funds are provided with a private placement memorandum which more fully discusses the risks involved. Investing in both Funds involves a risk of loss that investors must be prepared to bear.

Both Millrace strategies involve moderate to high levels of trading. Millrace reduces or closes positions when they reach price targets or the fundamentals have changed. Brokerage

commissions, other transaction costs and transaction taxes increase as the level of trading increases.

### **Item 9: Disciplinary Information**

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of Millrace's advisory business or the integrity of its management.

### **Item 10: Other Financial Industry Activities and Affiliations**

The Millrace Asset Group ("MAG") is comprised of six entities:

Millrace Asset Group, Inc. (Investment Adviser to Millrace Fund, LP and Millrace Capital, LP)

Millrace Fund, LP (a pooled investment vehicle)

Millrace Capital GP, LP (the General Partner of Millrace Fund, LP)

Millrace Capital, Inc. (the General Partner of Millrace Capital GP, LP)

Millrace Capital, LP (a pooled investment vehicle)

Millrace Partners, LLC (the General Partner of Millrace Capital, LP)

None of the MAG entities or their management persons are registered or has an application pending to register:

1. as a broker-dealer or a registered representative of a broker-dealer,
2. as a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of the foregoing entities.

Exclusive of the relationship between the affiliates that comprise MAG, none of the MAG entities or their management persons has a relationship or arrangement that is material to its advisory business or its clients with any related person listed below:

1. broker-dealer, municipal securities dealer, or government securities dealer or broker
2. investment company or other pooled investment vehicle
3. other investment adviser or financial planner
4. futures commission merchant, commodity pool operator, or commodity trading advisor
5. banking or thrift institution
6. accountant or accounting firm
7. lawyer or law firm
8. insurance company or agency
9. pension consultant
10. real estate broker or dealer
11. sponsor or syndicator of limited partnerships

Millrace does not recommend or select other investment advisers. Millrace receives no direct or indirect compensation from other investment advisers.



### **Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

As a SEC registered investment adviser, Millrace has adopted a code of ethics which is available to clients or prospective clients upon written request to:

Jocelyn Dalkin  
Millrace Asset Group, Inc.  
1205 Westlakes Drive, Suite 375  
Berwyn, PA 19312

Or by email at [jdalkin@millraceasset.com](mailto:jdalkin@millraceasset.com)

Millrace has adopted its code of ethics with the intent to prevent improper personal trading, identify conflicts of interest and provide a means to resolve any actual or potential conflicts in favor of Millrace's clients. In summary, the code of ethics limits trading or investing for personal accounts in companies with market capitalizations of less than \$5 billion. All supervised persons have instructed their brokerage firms to provide duplicate statements directly to the Chief Compliance Officer. The code of ethics also addresses initial public offerings and private placements. At the time of hire and annually during the compliance manual review and update process each Millrace employee acknowledges receipt and adherence with the code of ethics.

All of the investment team and the client services and investor relations team have invested a material portion of their personal net worth in one or both of the Funds. These investments and the limitation on personal account investment in companies with a market capitalization of less than \$5 billion aligns the interests of Millrace and its clients and mitigates conflicts with personal account positions. As documented in item 10 above, the MAG is comprised of six entities affiliated by common ownership or control by Mr. Kitchel and Mr. Maroney.

### **Item 12: Brokerage Practices**

Millrace has complete discretionary authority to select the brokers for execution of client transactions. The selection of each broker and the rate of commissions paid in each transaction are influenced by:

1. the price of the security,
2. the financial stability of the broker,
3. research or other services provided,
4. size and type of transaction,
5. the difficulty of execution and the broker's ability to handle illiquid trades, and
6. operational facilities and efficiency thereof.

Millrace seeks “best execution” for all client transactions using a qualitative approach with consideration of the factors above not just the absolute lowest possible execution cost. To the extent that commissions paid are above the lowest possible execution cost the SEC considers the incremental cost to be “soft dollars”. The Securities and Exchange Act of 1934 provides a safe harbor to investment advisers if their use of “soft dollars” is only for the research related items described in Section 28(e). Millrace uses “soft dollars” for research reports on specific companies, market sectors and general financial market and economic conditions as well as financial newsletters and periodicals and data services (including market data such as time and sales, company financial data and economic data). All of the research acquired by Millrace with “soft dollars” is within the safe harbor of Section 28(e).

The research reports received in exchange for “soft dollars” are sometimes written by the research staff of broker-dealers and at other times by independent research firms not affiliated with a broker-dealer. When client brokerage commissions are used to obtain research or data services Millrace receives a benefit as it does not have to produce or pay for the research or data services. Millrace may have an incentive to select a broker-dealer based upon interest in the research or other products or services rather than selecting another broker-dealer with the most favorable execution. In some situations, Millrace pays higher commissions in exchange for “soft dollar” benefits.

Millrace “soft dollar” transactions are completed in two distinct ways. The first procedure is to pay a commission to a broker dealer that is more than the lowest possible execution cost. The second procedure involves the use of Millrace’s ECN (Electronic Communications Network) where the Millrace trader directly trades on the securities exchanges. A portion of each trade’s commission is accumulated in a “soft dollar” account maintained by the Fund’s introducing broker. Upon presentation by Millrace of vendor invoices for the “soft dollar” products and services described above, the introducing broker pays the vendor directly from the accumulated “soft dollars”.

Millrace does not select broker-dealers based upon client referrals. Directed brokerage, where a client directs its investment adviser to use a specific firm or firms is not part of the relationship that Millrace has with its clients. As more fully documented in Item 6: Performance-Based Fees and Side-by-Side Management above, transactions across all client accounts are allocated at the average price.

### **Item 13: Review of Accounts**

Please see Item 8: Methods of Analysis, Investment Strategies and Risk of Loss above which describes the Millrace investment strategies. Millrace’s portfolio managers/analysts monitor daily all equity positions in the Millrace Fund. Positions in Millrace Capital are monitored daily by the Millrace trader. Millrace has a policy of documented review of similar accounts, however, there are currently no “similar” accounts under management.

Investors in the Funds receive written monthly or quarterly letters updating the Funds’ performance, quarterly statements are prepared and distributed by the Fund’s third-party

administrator and annual audited financial statements are provided with the Fund's year end package.

#### **Item 14: Client Referrals and Other Compensation**

Other than "soft dollar" transactions described in item 12: Brokerage Practices above, Millrace does not receive any economic benefit from someone, who is not a client, for providing services to the Fund.

In January 2022, Millrace entered into a client agreement with a placement agent. There are currently no investors in the Fund who were referred by the placement agent.

#### **Item 15: Custody**

Millrace is deemed to have custody of the assets of the Funds because Millrace and the general partners of the Funds are related parties and the general partners have access to the Funds' assets. All client funds and securities under management of Millrace are held by independent qualified custodians. Millrace relies upon the audited financial statement delivery exception to comply with the SEC's custody rule with respect to the Funds. Please see Item 10: Other Financial Industry Activities and Affiliations above for a discussion of Millrace related parties.

Investors in the Funds are provided monthly statements prepared by the Funds' third-party administrator. The financial records of the Funds are prepared by the Funds' third-party administrator based upon statements and information from the Funds' introducing broker.

#### **Item 16: Investment Discretion**

Millrace has complete discretionary authority to invest all client assets based upon the investment advisory agreement with the Funds. As discussed previously, Millrace and the Funds are affiliated entities.

#### **Item 17: Voting Client Securities**

Millrace has adopted a proxy voting policy and related procedures under which Millrace votes proxies in the best interest of the client. The Funds have granted Millrace authority to vote proxies on their behalf. Generally, Millrace votes as recommended by the company's board of directors except when a proposal is viewed as adverse to a client's investment. By way of example, proposals which make it more difficult to replace members of the issuer's board of directors, stagger the board, introduce cumulative voting, introduce unequal or supermajority voting are considered adverse to a client's investment.

The Chief Compliance Officer will identify and resolve any conflicts of interest between Millrace and the Funds. A limited partner may obtain a copy of Millrace's proxy vote policy and procedures or information about how particular proxies were voted by written request to

the Millrace contact provided in Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading above.

**Item 18: Financial Information**

Millrace does not require or solicit prepayment of more than \$1,200 in fees per client and six months or more in advance. There are no financial conditions that are reasonably likely to impair Millrace's ability to meet contractual commitments to its clients.