Edwin Lugo
EL2 Capital, LLC
1555 Post Road East, Suite 207
Westport, CT
06880

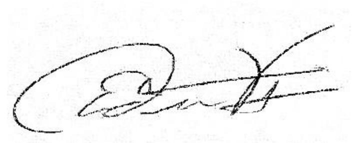
January 24, 2023

Dear Partners, Friends, and Family,

Enclosed you will find my 2022 annual update of the funds and the business.

The annual update is more detailed and includes a description of some our holdings in the limited partnership. Please enjoy and we always welcome any feedback.

Best regards,



Edwin Lugo
Founder and Managing Partner
EL2 Capital LLC
elugo@el2capital.com

International Small Cap Performance *(ending December 31, 2022)*	**Quarter**	**YTD**	**Since Inception***
EL2 Capital International Small Cap Focus Fund LP – Gross of Fees	+7.16%	-1.99%	-1.99%
EL2 Capital International Small Cap Focus Fund LP – Net of Fees	+6.89%	-2.72%	-2.72%
MSCI EAFE Small Cap Index	+15.85%	-13.77%	-13.77%

**Start Date as of April 1, 2022*

Global Opportunities Fund Performance *(ending December 31, 2022)*	**Quarter**	**YTD**	**Since Inception****
EL2 Capital Global Opportunities Fund LP – Gross of Fees	+2.54%	+0.70%	+0.70%
EL2 Capital Global Opportunities Fund LP – Net of Fees	+2.27%	+0.37%	+0.37%
MSCI World Index	+9.89%	-0.27%	-0.27%

***Start Date as of September 1, 2022*

Please note that performance among different partners may vary depending on their time of initial investment. Fees are calculated using our 1% management fee. There was no performance fee for 2022.

Portfolio Update

In this first year for EL2 Capital the markets have been tumultuous and have provided some opportunities in the face of inflation and recession fears. At the end of 2022, we have 5 holdings and 68% in cash in the international small cap fund, and 4 investments and 76% cash in the global opportunities fund. I expect that we will be increasing our position sizes and adding more companies to the portfolio in 2023. In the meantime, in both funds, there is an implicit bet that the market will decline further of which I am fully aware, however the delay in deploying our cash is simply driven by valuation and opportunities from a bottom-up perspective. We have been held up by the recent bear market rallies. My goal certainly is to invest the cash as soon as reasonable.

As customary at EL2 Capital the last few quarterly reports included updates and observations of the current investing environment. However, these reports have been sparse on specific investments, as forewarned. The reason is to dedicate more time to research versus writing reports, which is a benefit to our partners and me. Nevertheless, I will discuss some of our investments in the paragraphs below in this year-end letter as promised.

Dole PLC

Dole PLC, headquartered in Dublin, is by far our largest holding – 10% in each fund and the only cross holding. I have known the management as an investor for about a decade and understand that the business of fruit and vegetable manufacturing and distribution is a growing, recession resistant, inflation pass-through operation.

For Dole, the Fresh Fruit division represents about 31% of sales, which includes the more familiar Dole pineapples and bananas. Distribution is 56% of Dole's sales primarily in Europe and the US, in other words, picking up fruits and vegetables at the farms and transporting them to supermarkets in an efficient and competitive manner. One advantage is the decades long relationships with farms in different parts of the world to provide a variety of fresh fruit to your local supermarket year-round. The remaining 13% of Dole's sales are packaged salads and vegetables.

Chairman Carl McCann and his family own roughly 7%, which is something we like to see. He has been directly involved in the business since the 1980s when it was Fyffes, one of the world's largest Banana producers, based in Dublin (eventually bought by Sumitomo in December 2016 for 12x EBITDA, Dole is currently at 6x). Fyffes spun out Total Produce, which was its distribution arm, in 2006. Under the leadership of CEO Rory Byrne and CFO Frank Davies, they

grew Total Produce by consolidating the fresh fruit and vegetable distribution industry in Europe and the US, thereby multiplying profits and subsequently the share price. Fast forward to 2018, Total Produce started acquiring a stake in privately held Dole, eventually combining, and going public in 2021. This started when David Murdock, longtime owner of Dole decided to sell a controlling interest to Total Produce, and currently is the largest shareholder of the combined entity with 12%.

David has been involved with Dole since 1985 through his acquisition of Castle & Cooke, which held real estate across Hawaii and was the owner of Dole. Dole was spun off and became public in 1996. Subsequently, David took Dole private in 2002, and then he made it public again in 2009. After four years, David then decided to take it private again in August 2013 (yes, you read that correctly). This last transaction valued Dole at $1.2bln or 11x EBITDA.

In July 2021, Dole's IPO proceeded but was considered a failed IPO at $20 because the shares finally sold for $16. One reason was that the shares were competing with faster growing tech companies that were also going public at the same time. In essence, US investors had little appetite for a slower growing business, and furthermore they were unfamiliar with the Dublin based management team. Soon after, Dole missed street estimates for the next few quarters due primarily to problems at their fresh salad and vegetable packing facilities. It was a swing factor in their operating profit forecasts. Thus, since the IPO, the share price has fallen precipitously. It eventually fell to $7.50 or 6.5x earnings with a double-digit free cash flow yield. Today the shares still trade excessively cheap at 8.5x next year's PE at $9.89. By comparison, its closest peer, Fresh Del Monte Produce, trades at 14.3x PE.

The biggest risk to Dole is bacteria or fungus that can destroy plants, particularly Tropical Race 4 (TR4), a fungus that attacks the roots of banana trees. It was responsible for the wiping out the Gros Michel banana in the 1950s. Today we have primarily the Cavendish variety as a result. The fungus still exists but has been mitigated over the last 30 years by proper sanitation procedures and diversified planting techniques. Recently, there has been ongoing progress on creating a genetically resistant banana. Nevertheless, bananas only represent 17% of sales for Dole.

Another item to monitor is Dole's debt at about 3.5x Net Debt to EBITDA. We typically try to avoid higher debt levels in our investments but diversified businesses in this industry tend to hold more debt because of their stable revenues and profits. Fruits and vegetables tend to be recession resistant, and pricing is passed through during periods of inflation. Specific to Dole, we feel more comfortable because of its diversity of revenues from various fruits and vegetables, and a management team that has historically been more biased toward a conservative balance sheet. Thus, I suspect the debt will likely come down over time, eventually below industry averages.

Finally, given Dole's low valuation, it has attracted the attention of activists. There is a long history of acquisitions in this industry. Specifically, Jan Barta, a Czech based activist firm has recently taken a 7.8% stake and Taylor Farms, a competitor to Dole, has taken a 6.5% stake. Thus, it looks like 2023 might be more interesting for the value of Dole, especially as the business has already started to normalize. We expect the valuation to trade in line with its peers over time and closer to its private market values, which are currently more than twice the current share price.

Mainfreight

I have always admired Mainfreight and their culture. Their positive slogans, hardworking ethos, and incentives transform this company into a unique and transparent culture that outpaces the competition. Moreover, it is one of the only companies that I know where the founder explicitly claims a 100-year vision. However, at a peak of 50x earnings in 2021, it was excessively expensive. Today at 16x earnings with a potential to multiply in value over the next 10 years makes this investment, I believe, one of the most attractive in our portfolio.

New Zealand-based Mainfreight started in 1978 as a less-than-truckload (LTL) freight company. LTL is freight that is carried on behalf of customers but does not fill up a standard truck. This typically is more challenging to transport because it is less scalable and more costly to handle. Nevertheless, Mainfreight grew to become one of the largest in New Zealand. They expanded into air and ocean freight forwarding in 1984, and then warehousing in 1991. Mainfreight took market share by working hard to be the best in the business, particularly with customer service, but also offering employees a share of the profits. Bruce Plested, the founder, chairman and 15% owner, along with Don Braid, CEO and 3% owner, created a special culture to take care of their employees, allowing them to benefit as the business grows.

After New Zealand, Mainfreight entered Australia in 1989, and then became one of the largest logistics providers in that country. Now they have a foothold in the Americas and in Europe and growing quickly. The company is expected to generate close to NZ$ 6bln in sales ($4bln) by fiscal year end March 31, 2023. Australia represents about 24% of sales and the Americas with 30%, both now larger than New Zealand's 22% of sales. Europe is at 18% of sales, while Asia is the remainder at 6% of sales. These sales levels hint at their success overseas. Moreover, they have many years of growth as they are just a fraction of the market particularly in the Americas and in Europe. From a business segment perspective, air and ocean freight forwarding represents 51% of sales, transport 38%, and warehousing 11%. More importantly as they increase the density of their respective network, profitability tends to rise. In 2005 pretax margins stood at 2% when they had NZ$ 857mln in sales, today they are expected to be at 10% by March 2023 on NZ$ 6bln in sales. New Zealand is the most profitable, given the higher density of their network in this country, running at a pretax margin of 12%. The smallest margin is Europe at 6%. As the business grows overall margins are expected to move toward New Zealand's profitability levels.

The near-term risk however is that pricing and volume for freight forwarding will likely come down as shortages resulting from the pandemic subside. Basically, prices spiked, and demand rocketed upward when economies came back online. Allowing Mainfreight to over-earn and thus make a higher margin. Today, the valuation has come down because the market is trying to assess how the decline in freight prices will affect companies in the freight forwarding industry. Thus, I view the next year as a time to accumulate a position, especially because the likelihood of a recession is almost certain. Longer term, the company's prospects are bright. I expect the culture that drives Mainfreight's market share gains will continue, thus creating value and growing the business globally, eventually to many times its current size with similar or better profitability.

Jumbo

Jumbo SA is based in Greece, and it is one of the country's most successful retailers with 25%+ operating margins achieved through scale, a world class distribution system, and most importantly a hard driving founder and 19% owner, CEO George Vakakis. He always told me, "If you don't grow, you die".

Today Jumbo has a total of 83 large 60k to 140k sq ft stores where 56 are owned and the rest are leased. The average price per item in Jumbo's store is EUR 5, and the average basket is about EUR 26. There are 53 stores in Greece (60% of sales) and 5 stores in Cyprus (12%). Both countries are saturated with Jumbo stores. However, Mr. Vakakis over the last 10 years has expanded into Bulgaria with 9 stores (9%), and Romania with 16 stores (19%), having repeatable success in scale and profitability, drubbing the local competition with its attractive price points and selection of toys, baby products, seasonal items, home products, and stationary. For instance, in Bulgaria Jumbo entered in 2009 and now generates EUR 89mln in revenue annually with 29% operating margins. It has become one of the largest non-food retailers in the country. In Romania, Jumbo entered in 2014 and generates EUR 151mln in revenue and 30% operating margins. For Jumbo, Romania can have at least double the number of stores, because it is much larger in population with 20mln, and has 19 cities with over 100k people. In comparison, Greece is smaller, but has 3x the number of stores and half the population. Certainly, Greece is slightly wealthier with $20k per capita and Romania with $15k per capita, but Jumbo's low-price points and demonstrated success in Romania show that Jumbo can expand further. Moreover, Jumbo also franchises its stores in other countries and thus serves as a test case of where to expand next. This includes 32 other stores in Kosovo, Albania, Bosnia, North Macedonia, Montenegro, Serbia and next year in Israel.

The biggest perceived risk is online shopping for Jumbo. However, in Greece, Jumbo's prices tend to be lower than other online operators, particularly Amazon, where items must be shipped into Greece with higher delivery costs and longer delivery times. Moreover, despite online shopping being available in Greece now for several years, Jumbo's recent financial statements show that there seems to be little impact, sales have been reaching new highs, and profit margins are being maintained, not only in Greece but in other geographies as well. Nonetheless, Jumbo has been experimenting with online, which currently represents about 5% of total sales with online stores in Greece and Cyprus. Romania is expected to be online in 2023.

In 2020, COVID had a large impact on Jumbo as lockdowns closed Jumbo's stores at various times in different regions, thus dramatically impacting sales and consequently a collapse in profits. That was followed by a surge in freight costs with immediate effect on Jumbo's gross margins. Jumbo purchases 70% of its goods from Asia. Despite those challenges Jumbo's margins bounced back strongly and sales are now much above pre-COVID levels. Today with EUR 439mln in net cash, a buyback program for 10% of the shares (below EUR 13.50/share), special dividends (7.4% yield in 2022), and at 11x PE valuation, it makes Jumbo almost irresistible.

Observations

As I invest our assets I have been complaining that valuations are still not cheap enough as explained by my previous quarterly letters. We are certainly finding companies, but we are targeting a reasonable price for exceptional companies, not a crazy price. This is illustrated above in my valuation discussions on some of our holdings. Nevertheless, today we find that there are still many high prices. Valuations are still frustratingly sticky, despite higher inflation and a likely recession next year. For example the S&P 500 is still at 18x PE or stated differently a 5.6% earnings yield (earnings divided by price), not really compensating us for inflation, which is currently running higher than 7%, based on the CPI. In reality, since 1954, when the CPI was above 4% the average PE for the S&P 500 was 12x, and when it was above 6% the S&P 500 averaged 10x. So in thinking this through, I can only conclude that it is investor optimism and hope. In other words, the equity markets still seem to believe that the days of low inflation (and high PEs) will be back. Certainly exceptional companies with proven records are expensive. But even factoring that into the equation, I see investors still hopeful that the markets will bounce back when the Fed pivots "soon". The driver of this optimism seems to be a lack of historical perspective or denial (or both).

Specifically when looking back, inflation tends to average between 2% to 4% as measured by the CPI. In fact, 3.3% since 1914. Looking at the distribution closer, over the last 108 years 60% of the time the CPI has been above 2%. Morever, the data shows that long stretches of low inflation below 2%, tend to be followed by long stretches of higher inflation above 2%. Thus it seems that inflation falling back to less than 2%, as in most of the last 10 years, is a lower probability going forward.

"We've gone from the low-return world of 2009-2021 to a full return world, and it may become more so in the near term"……and "we are unlikely to quickly see the same optimism and ease that marked the post-GFC period (2009 to 2021)". – Howard Marks, Sea Change Memo, December 2022.

Ultimately, my objective is to understand where we are on the investment roadmap. I have no clue on the market direction or have any desire to predict the markets. Moreover, under any market conditions, I will find opportunties, but will wait for the "fat pitch" to get those higher returns that are mandated by our investment process.

Fat Pitch Investing

Let me expand on "Fat Pitch Investing (FPI)". FPI is waiting for the right opportunity to strike – where an investment in a good company has a very high probability of success, generating a high return with very low risk. In a way it "hits you over the head" and the investment case is within your circle of competence.

The reality is that FPI is simply understood but difficult to execute. Investors and managers typically desire to be active and, in some instances, make their job more meaningful. On any given day, there are thousands of companies to invest and thus many opportunities in the global markets. Easy to go after them, underpinned by brokers offerring a wide selection in almost any industry. Managers are further pressured to stay fully invested.

In contrast, FPI helps maintain focus and depends on one not veering too far outside their knowledge base. It is a concentrated approach focusing only on the best opportunities available at any moment. As a consequence, knowing

what you own is critical. This actually reduces risk and increases the probability of success with a potentially assymteric payoff. In fact, when it comes to wealth creation, the truth is that one or two companies can generate the bulk of the returns over time in a portfolio. Most great wealth has been created through concentration and often in one company that an individual or family knows best, think Jeff Bezos, Mark Zuckerberg, the Walton Family (Walmart), and John D. Rockefeller as a few examples. In essence, we only need to invest in a few great companies with managers and owners focused on value creation.

In terms of FPI in our portfolios, it forces me to employ cash methodically into good businesses, and unfortunately slowly in todays environment. Generally, with FPI you will likely see me with less than 20 companies in the partnership at any one time. Of course, I can easily invest all our cash quickly but under current conditions I assure you it will likely lead to mediocre returns.

"Successful investing takes time, discipline, and patience. No matter how great the talent or effort, some things just take time: You can't produce a baby in one month by getting nine women pregnant." – Warren Buffett.

In summary, this form of FPI investing is an outgrowth of my cloning successful investors, specifically taking the parts that fit my abilities and personality, combined with a culmination of my investing successes and failures. Thus it has become a key part of our investment philosophy – "Good Stuff Cheap". I believe that in today's investment environment of higher interest rates and more normalized inflation, our strategy will likely do well as prices have a better opportunity to become lower and thus offerring higher returns. Today we have an arsenal of cash with a long list of great businesses, putting us in an advantageous position where we are ready to swing at the fat pitch.

Business Update

I am happy to announce that Martin Steinik, CFA, has decided to join EL2 Capital on a part time basis as a portfolio manager and analyst. He will participate in portfolio management discussions, help with marketing, and provide and debate ideas with me.

I have known Marty for over 25 years. I met him 1995 when he was an analyst on Templeton's international small cap team in Fort Lauderdale. I worked in the next office over as an analyst in Templeton's global equity group. In 1999, Marty left Templeton and sought his MBA at the London Business School. He subsequently joined Morgan Stanley in London as an equity analyst in 2001 and then moved over to JP Morgan in 2002. By 2005 I poached him from JP Morgan to join me and my efforts to build Brown Capital's international team. A year later in 2006 I left to go to back to Franklin Templeton to eventually run the global small cap team for the next 15 years, but he continued at Brown Capital for another 10 years. He made the Brown Capital International Fund even more successful, and he also started the Brown Capital International Small Company Fund during his tenure, which became one of Brown Capital's most successful products. In 2016 Mr. Steinik decided to join Invesco's global team in Atlanta, Georgia, managing $10bln. After a 4-year stint he now works with Three Bulls Capital, a private real estate fund. He plans to split his time between Three Bulls and EL2 Capital.

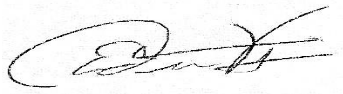
Finally, I leave you with our new website. You can now access recent quarterly reports and learn more about EL2 Capital. The site may change as we continually improve and add new features. We are also happy to hear any feedback that you may have.

www.el2capital.com

With prices beginning to capitulate again in the market, and with our high levels of cash, we are approaching a time when it may be one the best periods to invest in great businesses for the long term and generate outsized returns. I encourage our friends and partners to invest additional funds over the next 6 to 12 months.

For more details, inquiries and/or documents to invest into the International Small Cap Focus Fund or the Global Opportunities Fund please email me at elugo@el2capital.com or text me anytime at 410-258-1452.

Sincerely,



Edwin Lugo
Founder and Managing Partner
EL2 Capital LLC

Any performance discussed in this letter represents past performance, which does not guarantee future results. Current performance may differ from figures shown. The Fund's investment return and principal value will change with market conditions.

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