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April 24, 2023

Dear Partners, Friends, and Family,

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

These quarterly updates will be 2 to 4 pages with a longer version at year end. This efficiency is to focus my efforts on the portfolio but still bring you up to date as I navigate throughout the year.

Best regards,

Edwin Lugo
Founder and Managing Partner
EL2 Capital LLC
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International Small Cap Performance *(ending March 31, 2023)*	Quarter	YTD	Since Inception*
EL2 Capital International Small Cap Focus Fund LP – Gross of Fees	+4.66%	+4.66%	+2.67%
EL2 Capital International Small Cap Focus Fund LP – Net of Fees	+4.35%	+4.35%	+1.74%
MSCI EAFE Small Cap Index	+5.10%	+5.10%	-9.36%

**Start Date as of April 1, 2022*

Global Opportunities Fund Performance *(ending March 31, 2023)*	Quarter	YTD	Since Inception**
EL2 Capital Global Opportunities Fund LP – Gross of Fees	+3.27%	+3.27%	+3.97%
EL2 Capital Global Opportunities Fund LP – Net of Fees	+3.02%	+3.02%	+3.39%
MSCI World Index	+7.88%	+7.88%	+7.59%

***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

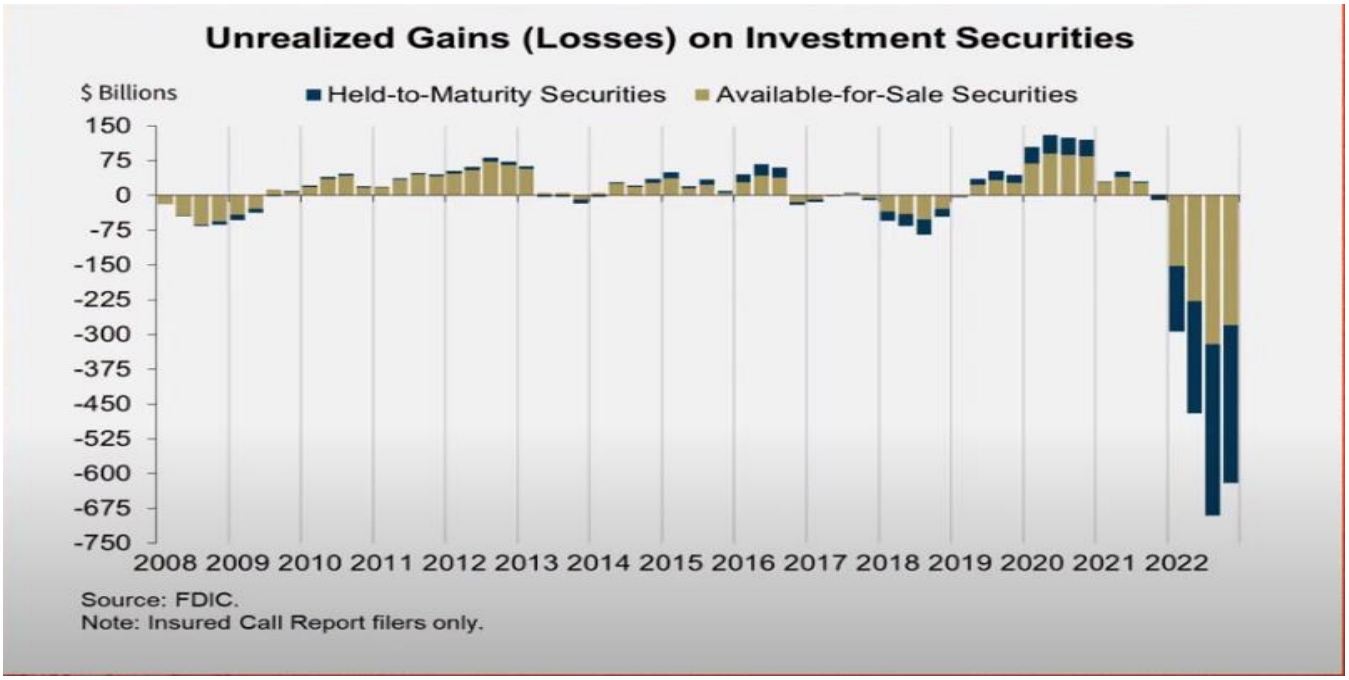
As I write this quarterly update, we have been witnessing our first crack in the financial system due to the increase in interest rates. Silicon Valley Bank (SVB) and other banks have realized that their equity positions have been greatly impacted by their losses on their investments in US Treasury and Agency securities. This sent depositors running to take their money out of these banks.

<u>Rest assured that your cash is safe. We have invested in US Treasury money market funds at JP Morgan, purposefully in the event of a catastrophic event. Moreover, we have no positions in any banking institution at this time.</u>

As of this writing, we have 6 holdings and 63% in cash in the International Small Cap Fund, and 7 investments and 65% cash in the Global Opportunities Fund. We have used up more cash and added an additional holding in each fund over the last quarter by layering into our best ideas as prices fluctuate. I expect this to continue throughout 2023, as we find new opportunities and add to current positions.

Observations

Let us explore a little bit more on the banking issues that were highlighted earlier, which warrants our attention as we make our way through the next few quarters and how that can affect the stock market and our opportunitiy set. The main issue is that the banking system has good credit quality but an asset problem. Essentially the value of their long dated assets, such as a bank's bond and loan portfolios have fallen, in some cases 10% to 20%, because interest rates have moved higher. The question now is how big is this problem. One way to examine this issue is to look at the held-to-maturity and available-for-sale investment securities on the banks' balance sheets. We have come up with the following losses for insured banks estimated by the FDIC since 2008.



Looking at the chart above, unrealized losses are apparently large in the banking system. In response, the Federal Reserve and the US Treasury moved quickly to stop deposit outflows by guaranteeing deposits of SVB and Signature Bank, and the Federal Reserve has allowed regional and international banks to sell their securitites at par to the Fed for 1 year, basically erasing their losses (in essence, another injection of liquidity). Nevertheless, this has further evolved into a crisis of confidence. Specifically, First Republic in the US and Credit Suise in Switzerland struggled as deposits continued to leave these institutions despite the Fed's efforts. Morever, Deutsche Bank with a solid balance sheet has also been under attack. History shows that defaults can be contagious, thus more banks may collapse, and it will likely take some time to stabilize banks both in the US and in Europe.

For us we have no clue which way this will turn, but what we can control is risk, in this example, balance sheet risk. In every company we analyze we make sure that we understand what is on the balance sheet – if we cannot, we pass. For banks in general this can be a black box, particularly smaller banks overseas. In addition, banks are built on a leveraged model where assets can be 10x the equity. Generally, we tend to shy away from leverage. Thus, there are quite a few hurdles for us to even consider a bank.   We have yet to find one where we would feel confident and safe. As a result, today we have no exposure to banks.

"Real knowledge is to know the extent of one's ignorance" – Confucius

Research Insights

To give you some understanding of our daily activity, we spend most our day on research – reading annual reports, articles, and books. This includes learning what to avoid, staying disciplined, and focusing patiently on buying good stuff cheap. Recently, we have been examining Canadian and US railroads, where for years their wide moats have been a key part in growing shareholder value successfully. Railroads remain one of the most cost effective and climate friendly ways to move goods across North America. In addition, the competition is quite consolidated with 6 major railroads in North America. When it comes to growth, our analysis tells us that it will likely continue and may accelerate as near-shoring becomes more prominent over time in response to the changing geopolitical climate. In particular, we have been spending time on Omaha-based Union Pacific. On valuation, it is one of the cheaper major railroads in North America, and it looks like it may do much better with a new CEO. For the last 8 years, the previous CEO undermanaged operations creating less efficiency and therefore running at higher costs when compared to the competition. Nevertheless, the business continued to do reasonably well in our opinion, despite Union Pacific's problems. We think it speaks to the resilience of the business model despite an underwhelming management team. Thus, with the upcoming change in management it may lead to even a higher growth, a re-rating, and optimized operations translating into higher margins. We started a small position for the global fund.

Our research also led us to Mark Leonard at Canada-based Constellation Software. In our opinion he is one of the least known and yet one of the greatest asset allocators that we have stumbled upon. Mark concentrates on consolidating the vertical market software industry. In essence, buying small private software companies at cheap prices (4x to 8x free cash flow) that have moats in an industry niche with a very sticky customer base. In fact, these customer-dependent businesses generate high levels of cash flow. As a result, Mark is able to make acquisitions organically from the cash he generates. In fact, Mark's track record shows he has been able to compound free cash flow at over 20% per year for more than a decade, and he expects this to continue as the company claims there are over 100,000 of these small businesses globally. We now have an intense focus on his business and took starting positions in Constellation Software for the global fund and its small cap spinoff Lumine Group for both funds.

On a macro level, we also been exploring Ray Dalio's work on the changing world order and dove deeper into the 1935 to 1945 war period as it may be a closer roadmap to today's economic and political environment. In other words, helping us to understand how to invest during inflation and war, so that we can compound our wealth in any circumstance. Who knows, the Fed may pivot soon, sending growth stocks soaring again as in the last decade. But usually the next 10 years are vastly different than the previous 10 years. Either way we plan on being ready.

"Rich people have small TVs and big libraries, and poor people have small libraries and big TVs." – Zig Ziglar

Business Update
This is my first quarter working with Martin "Marty" Steinik, and it is great to be a team again. As you may recall in my previous letter, I discussed how we have worked together, off and on, for the last 30 years in the global and international equity markets. Today, we discuss ideas at least weekly and strategize on the growth of the business. Marty's depth of knowledge and experience has certainly been a plus, and I believe it can enhance and accelerate the growth of our business. Overall, Marty and I are on the same page – focused to do our very best to deliver good long-term returns that we feel will grow your capital (and ours) successfully and most importantly safely into the future.

"This (long-term) mindset is a great competitive advantage in an investment world that's increasingly focused on the short term."
– Guy Spier, Aquamarine Fund Letter 2022.

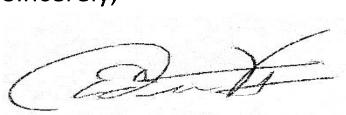
Finally, I leave you with our new website. You can now access recent quarterly reports and our annual letter. Moreover, you can learn more about Marty and me.

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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