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

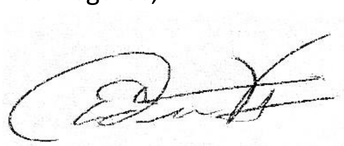
July 25, 2023

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
elugo@el2capital.com

International Small Cap Performance *(ending June 30, 2023)*	**Quarter**	**YTD**	**Since Inception***
EL2 Capital International Small Cap Focus Fund LP – Gross of Fees	+5.60%	+10.51%	+8.31%
EL2 Capital International Small Cap Focus Fund LP – Net of Fees	+4.76%	+9.36%	+6.38%
MSCI EAFE Small Cap Index	+0.74%	+5.90%	-8.67%

**Start Date as of April 1, 2022*

Global Opportunities Fund Performance *(ending June 30, 2023)*	**Quarter**	**YTD**	**Since Inception****
EL2 Capital Global Opportunities Fund LP – Gross of Fees	+4.91%	+8.34%	+9.09%
EL2 Capital Global Opportunities Fund LP – Net of Fees	+4.26%	+7.84%	+8.26%
MSCI World Index	+6.99%	+15.44%	+15.13%

***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.

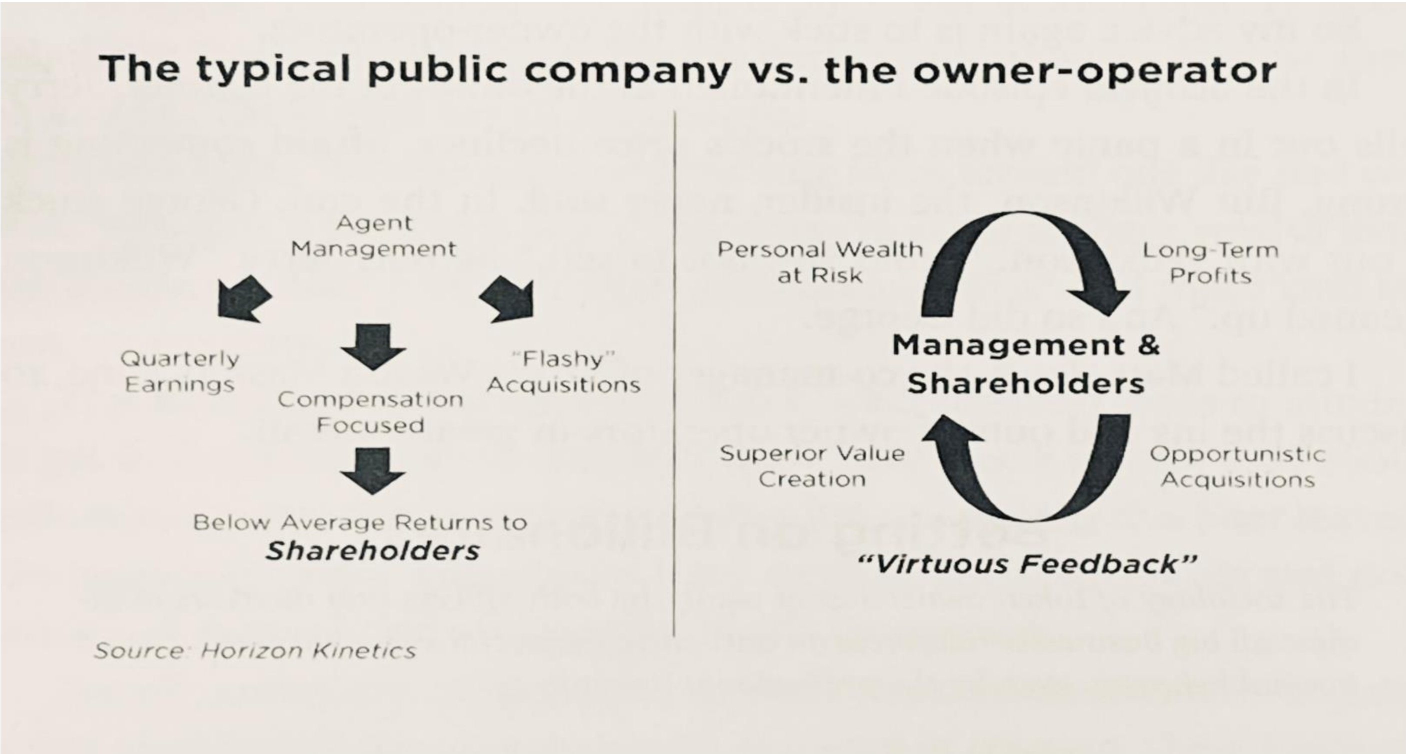
Portfolio Update

As of this writing, we have 9 companies in each fund, the International Small Cap Fund, and the Global Opportunities Fund, with 37% and 43% cash, respectively. We have used up more cash as some prices came into our range, this included adding to existing holdings and initiating new positions. As mentioned in our previous letter, I expect this to continue throughout 2023.

Management and Intelligent Fanatics

In our quest for outsized returns there is one theme you will find emanating from our portfolio – the owner-manager element of our investment process. We have found through our experience that when management has a large stake in the business, decisions tend to be on the side of the shareholder. This reduces risk with usually more prudent capital allocation. In fact, we would argue that one of the CEOs most important jobs is simply investing the cash the business generates into the highest return options. Interestingly, for a business generating a 10% return on its equity each year, the management team will be responsible for 60% of the equity value at the end of 10 years. Therefore, we focus quite a bit on the allocation skills of management and their long term objectives.

Generally, management teams that do not have a stake in the business are incentivized differently, and therefore act differently. They are compensation focused and thus tend to concentrate on shorter term earnings to meet their payout objectives. This increases risk in our opinion as they may take a chance to boost earnings on riskier projects. Sometimes they seek more influence by making larger acquisitions, many times at a cost to the shareholder in the form of low returns. In contrast, owner-managers have their personal wealth at risk, the equity value is their incentive. As Christopher Mayer said in his book 100 Baggers, "what is good for them is good for you". In essence, they think how to create value longer term and tend to make lower risk opportunistic acquisitions.



Source: 100 Baggers, Christopher Mayer, p85.

Pushing this idea further, our preference is for a type of manager that we would call an "intelligent fanatic". This is a term coined by Charlie Munger and is defined as follows:

"A Founder, CEO or management team with unconventional ideas and a fanatical drive to build a high performance organization. A learning machine that can quickly adapt to change. Able to create a trust based culture that aligns everyone to think like owners. Focused on acquiring, training, and motivating the best talent. Their time horizon is in ten year increments, not quarterly, and they invest in their business accordingly. Regardless of the industry, they are able to create an impenetrable moat that competitors initially cannot understand and eventually fear."

We believe the majority of companies in your portfolio are driven by owner-managers, some we would call intelligent fanatics. This includes Bruce Plested, CEO, founder, and 15% owner of New Zealand-based Mainfreight. He concentrates on the very long term with a 100 year view, instilling a unique and durable culture. This includes empowering employees and incentivizing each with a share of the profits. As a result, employees are driven and share the same focus and values, allowing Mainfreight to grow at the expense of the competition by providing a better service to customers. In fact, Bruce and his team are expanding globally in warehousing, freight forwarding and trucking into Australia, US and Europe, outgrowing their New Zealand roots. Similarly, CEO and founder George Vakakis is a 19% owner of Greek discount store operator Jumbo. He is relentless on costs, underpricing other retailers, and passing off some of those savings to his customers. Furthermore, George focuses on growing even through downturns, expanding his large store formats successfully into Bulgaria and Romania, and his sights are set on other countries in the region. Another owner-manager is chairman, president and founder Mark Leonard, 2% owner of Constellation Software (his stake is worth about $870mln). He continues to decentralize his business, pushing acquisition decisions of vertical market software companies down into his smaller subsidiaries and operating units, giving responsibility to his employees, and rewarding them accordingly, creating a programatic M&A flywheel of high returns to the shareholder. Recently, Mark is creating more value by spinning off parts of Constellation Software at higher valuations while still owning the majority of the spun-out businesses. Finally, Klaus Schulenberg, chairman, CEO, founder, and 39% owner of CTS Eventim in Germany continues to add to his computer ticketing service for entertainment events across Europe, strengthening his competitive advantage by acquiring local operators and eventually holding significant market shares, already an estimated 80% in Germany and 60% in Italy, despite Ticketmaster being his largest competitor.

In essence, they all have created immense value and are constantly improving their moat around their business. The expectation is that more value will be created over the next 10 to 20 years with these owner-managers, thus we are happy to be partners in their businesses.

More on FPI

In our annual letter we referred to FPI or “Fat Pitch Investing”, the act of finding a cheap low risk, high retrun opportunity in a company with a strong management team and a great business. In essence the idea should “hit you over the head”. For us, they come in two principle flavors, an excessivley cheap price for a good company, or a great company at a fair price. Both bring the returns that we seek to deliver.

An excessivley cheap example comes with our investment in Dole PLC, the fruit and vegetable provider and distributor in Europe and the US. It was a fat pitch because it was trading at one point at what we believe was 30% of its intrinsic value. We have been involved with the company for over decade and have a good sense of its potential. Dole is a growing, solid underlying business that is recession and inflation resistant with a good management team. Thus we initiated with a 10% position at the outset. Over the last few months its market value has grown, but even today the private market values the company at least 2x its current price, still a potential double in our opinion in 3 to 5 years.

The other investment flavor is a company we find that has a long road of growth, high returns on capital that can be sustained, and a great owner-manager team. In other words one that we would never want to sell. This is our preferred fat pitch investment. The key in this case is a fair price and the sustainability of their capital returns. These companies tend to be expensive to start with. Investors know that it is a good business. Therefore we are already challenged with buying these businesses at a fair price. For instance, there is a high probability that Canadian-based Lumine Group, a recent spinoff of Constellation Software, will likely multiply in size over the next 10 years. The communication and media vertical software company is only $400mln in revenue, and is already proceeding to grow its revenues by more than 25% by the end of this year through acquisitions in the space while maintaining its high margins. It is run by a proven and outstanding management team led by legendary capital allocator Mark Leonard (mentioned above). We expect the company to generate a 30% to 40% returns on equity like its parent over time. In fact, all the capital gets reinvested into the business and generates large amounts of cash that self-funds its roll-up strategy of small vertical communication and media software companies. In these types of software businesses much of it is mission critical for clients and they tend to be very sticky and long term. The problem at spinoff was that the business was already too expensive for us. Like I said, everyone knows its good. Therefore, we decided to be patient with a fat-pitch price in mind. Suddenly, a few days after the shares started trading, investors started selling their small amount of spunout shares they received from their holdings in Constellation Software, which is characterisitic of a spin-off. In response, we started buying when the share price approached our buy target. However, it didn’t quite get there, our buy target was still lower and we would have bought a lot more at that fat-pitch price level. But as Marty on our team said, it turned out to be a “soft pitch”. Nonetheless, we have a small position. Thus, this highlights the challenge of buying exceptional companies at reasonable prices. In essence, we believe that our patience will pay off both ways, waiting for a cheaper price to buy more, and holding onto to our stake for the very long term.

“You can simply buy wonderful companies at reasonable prices, and let those companies compound cash over long periods of time. Surprisingly, there aren’t all that many money managers who follow this strategy, even though it’s the one used by some of the world’s most successful investors. (Warren Buffett is the best-known.)”

— Pat Dorsey, The Little Book That Builds Wealth: The Knockout Formula for Finding Great Investments

Business Update

We have welcomed a new partner to both of our funds in the past few months. As we grow assets the focus is always on compounding your capital with ours through performance. This takes precedence before any asset building goals. In fact, we prefer to stay small and grow our assets together with you through appreciation and income. We believe that this is the most important aspect of our jobs and, actually, the most fun for us. In my opinion, it is the joy of the challenge - the constant learning, curiosity, and humility required to achieve performance over the long term, underpinned of course with a good temperament to maintain calm and consistency with a long-term mindset. Overall, this wonderful opportunity to manage your assets alongside ours and to build a business around it, of which we are most grateful, gets us very excited. As Jeff Bezos once said, "I run to work".

Finally, I will leave you with our new website if you have not seen it already. You can now access recent quarterly reports and our annual letter. Moreover, you can learn more about Marty and me.

www.el2capital.com

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 the figures shown. The Fund's investment return and principal value will change with market conditions.

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