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

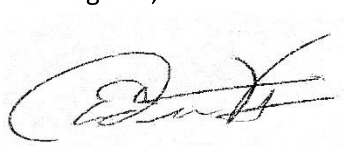
October 24, 2023

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
elugo@el2capital.com

International Small Cap Performance *(ending September 30, 2023)*	Quarter	YTD	Since Inception*
EL2 Capital International Small Cap Focus Fund LP – Gross of Fees	-3.14%	+7.04%	+4.91%
EL2 Capital International Small Cap Focus Fund LP – Net of Fees	-2.85%*	+6.24%	+3.35%
MSCI EAFE Small Cap Index	-3.40%	+2.30%	-11.78%

**Performance Fee Accrual Added Back, thus the Net Fee for the Quarter is Higher than the Gross Fee.*
**Cumulative Performance for 18 months - Start Date as of April 1, 2022.*

Global Opportunities Fund Performance *(ending September 30, 2023)*	Quarter	YTD	Since Inception**
EL2 Capital Global Opportunities Fund LP – Gross of Fees	-2.48%	+5.65%	+6.39%
EL2 Capital Global Opportunities Fund LP – Net of Fees	-2.44%**	+4.90%	+5.31%
MSCI World Index	-3.36%	+11.56%	+11.26%

*** Performance Fee Accrual Added Back, thus the Net Fee for the Quarter is Higher than the Gross Fee.*
***Cumulative Performance for 13 months - 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 8 companies in the International Small Cap Fund, and 9 companies in the Global Opportunities Fund, with 45% and 44% cash, respectively. Cash rose after the close of the third quarter in the International Small Cap Fund, which was 35% at the end of September. Recently, we sold 2 positions in reaction to increased risks in this fund. First, there was a change in the German anti-trust regulation that gives Germany's Federal Cartel Office (FCO) broader powers. In our opinion, this may be a concern for CTS Eventim, the German-based promoter and provider of ticketing services in Europe. It has roughly 80% share of the German ticketing market, which we believe represents over 40% of its profits. In the past, CTS was challenged a few times with regulators, but now the FCO may have the upper hand. It is too hard from an analytical perspective to determine how this risk will evolve going forward, thus we exited the position. Second, we reluctantly sold out of Jumbo, the Greek retailer, after the war Hamas and Israel broke out. At this time, it is difficult to ascertain how far the war will spread in the region and as a result we are concerned that Jumbo's operations may be affected. Therefore, we decided to exit the position until the conflict subsides. More discussion of our decision to reduce risk in the International Small Cap Fund will be discussed in our annual letter.

Overall, in the past quarter, we saw valuation multiples contract on high quality companies, further accelerating in October. We noticed it coincided with the interest rates rising above 4% on longer term Treasury bonds. It looks like our patience for better prices may begin to be rewarded, possibly giving us more opportunities over the next few months. Certainly, a quicker decline in stock prices will make us more aggressive with investing our cash.

China Risk

As part of our process, the analysis of risk is a priority. Therefore we always like to explore and discuss risks here in more detail and certainly try to minimize them as much as possible within our portfolios.
For China, it continues to pose a number of challenges in terms of our understanding of the long term risk to companies that have a large exposure to the region. For instance we have examined LVMH, the luxury goods operator based in

France, and Otis Elevator in the US, and thus far we have been reluctant to invest because of their exposure and reliance on growth from China. We clearly see the short term risks of a China slowdown, but the long term risks, in our opinion, make China almost univestable, or investable but with a large discount to equity values.
For the next 10 years, we feel that conditions are developing in China that make it very hard to safely invest in a communist country that wants to reassert itself and its values. Especially now that President Xi Jinping has almost complete control. Since 2018 he has ended term limits in office. The book, "Red Roulette", by Desmond Shum, describes much of the current political challenges in detail. Consider the following:

1) Since 1949 China has always been built around the Communist Party - Elites want to protect their livelihoods. This includes the descendants of the original revolutionaries under Mao and the children of current leaders. The main incentive is to prolong the party, reinforce its values, and protect their own.
2) The Communist Party uses fear and supression for its own survival and control – Business men and politicians that fall out of favor tend to dissappear, then only to resurface months or years later on charges of corruption, tax evasion, or misusing state assets. Some are warned, others are jailed, and a few are executed.
3) Private businesses are at the mercy of the communist party and its leaders - Private firms must have a Chinese state representive on their board. These representatives have a say in management and their decisions are made by consensus and committee, slowing progress in many instances. Also it allows close monitoring by the state.
4) Laws are purposely broad allowing much room for interpretation – This gives the Communist Party flexibilty to charge individuals and institutions that fall out of favor. Moreover, the party changes laws to suit their interests and many of the changes are retroactive. In other words, one can be jailed today, for an act that was legal several years ago.
5) The judicial system serves the Communist Party and its aims – Thus trials are essentially a means to subdue opponents or those who do not fit with the political agenda. On the flipside, if one has connections and/or relatives in high places, the law becomes less potent, reducing or eliminating fines for misconduct, or jail sentences, avoiding imprisonment or even execution.

These points above are further underscored by the troubling document that emphasized China's ideological aims. The following excerpt from Desmond's book explains:

A "Briefing on the Current Situation in the Idealogical Realm" in 2012 was circulated by the the Party's General Office when Xi Jinping was prepared to take power. The report known as Document Number 9, warned that dangerous Western values such as freedom of speech and judicial independence, were infecting China and needed to be rooted out. These ideas, the document said, were "extremely malicious" and would, henceforth, be banned from being taught in China's schools and universities.[1]

I think you get the picture. In fact, it may be no surprise that wealthy Chinese, who benefitted handsomely from the rise of China, are trying to pull their money out of their country despite capital controls. With this type of leadership and political system coupled with increased belligerence towards the US, it makes it nearly impossible to have comfort in not only Chinese companies, but also with Western companies having large exposures to China. Imagine a worst case where economic sanctions are imposed by the West on China, much like Russia. In summary, and on a basic level, it is hard to see how Chinese companies and US investors can concentrate on free cash flow and high returns on capital while the Chinese Communist Party expands its value system and exercises its power. Throughout recent history these actions tended to be a very low return option for investors.

[1] Red Roulette, by Desmond Shum, p.253

Successful Companies are Rare

Moving from risk to opportunity, we consistently look for successful small companies that can overtime scale and multiply their value as they grow. The requirements are higher than one may think to reach such a level of success. Let me give you some numbers. In the US, only 1 in 2,000 startups reach $500mln in revenue. Of those successful startups, only about 7% to 8% are able to scale. Apparently, those that do scale tend to be a large fraction of value creation in the stock markets[2]. There are several reasons why it's so hard for companies to become compounders of value. First is complexity which is one of the biggest detractors of growth. More people and systems are needed. New locations are established. The management layers increase, and budgets are created in departments and managers begin to claim their territories, reducing communication. Some of us are quite familiar with this experience, especially working in a large company. Another is losing focus on the core business. In the desire for growth, companies expand their product range away from their core competence, eventually dealing with new competitors in a less familiar environment. Some may even make acquisitions in new areas to diversify. Often these actions tend to lead to poor capital allocation decisions. Finally, as the top management moves further away from the frontline and is surrounded by managers, it gets harder to touch the customer and evaluate the marketplace. Adaptation struggles as new technologies take hold and as the competitive landscape changes.

In response, we look for companies that are aware of these issues and that are addressing them as they grow so that they can remain focused on value creation. These characteristics include a focus on decentralization, pushing decisions to employees that are close to the customer. Additionally, we like management teams that remain close to the front line with an unyielding focus on costs but incentivizing and rewarding employees on key performance indicators. It is not uncommon that these companies get high marks from their employees as one of the best places to work. Moreover, we often see a culture of equanimity and less hierarchy. Hiring employees more on attitude and fit, less on skill sets. This may seem contradictory, but we believe the technical part can always be taught. Finally, it is the "underlying processes and fundamental dynamics"[3] of the organization and its purpose that should come first, even before profits. This adds to the firm's durability and scalability. If executed well, profits will inevitably follow, and likely multiply over time.

"I have always had the soul of an operator, somebody who wants to make things work well, then better, then the best they possibly can…....I was never in anything for the short haul; I always wanted to build as fine a retailing organization as I could" – Sam Walton, founder of Walmart stores.

Our intention is to build a portfolio of companies that exhibit most of these characteristics, and preferably imbedded into their culture. We believe this reduces operational risk and allows for better returns over the long term. To give you a clearer example of how we are thinking about this in our strategy, we recently discovered and added Kelly Partners Group (KPG), an accountancy firm out of Australia, to our portfolio. We found that CEO Brett Kelly is implementing a number of these methods outlined above. He is a 51% owner of KPG, its founder, and a former accountant who became frustrated on how the industry was treating its employees and customers. Over the last 20 years he has created a culture and a vision to become a great organization, where employees would be successful and happy, while offering unrivaled service to customers. At the same time Brett has been improving cash flows and doubling the business every 5 years by acquiring small accounting firms across Australia, and now has plans to expand cautiously overseas. So far, he appears to be accomplishing part of his goal - KPG is highly ranked among employees and clients. At the same time, Brett has been averaging a 25% return on capital over the last 5 years.

"We're not in business for money; we want the best for other people. We're in the business to make other people genuinely better off. There has to be a genuine ethic and an ethos to make other people better off and build a flywheel of making a difference. If you're in a business like ours where you can make a difference, you will earn a profit, but not

[2] The Founder's Mentality, by Chris Zook & James Allen, pp.38-39

[3] Built to Last, by Jim Collins, p.41

quickly. We want to be long term people in a short-term world" – CEO Brett Kelly, Kelly Partners Group, In Practise Interview, December 23, 2022.

All told, we believe that companies with these characteristics are rare and can create a tremendous amount of value over the long term for our partners. Thus, we constantly search for such businesses. Once we find such an opportunity, we learn about the company as much as possible, and if it passes our test with high returns on capital, a long path of growth, and a focus on treating customers and employees well, then we wait patiently for our price.

Business Update

We continue to add partner assets but at a methodical pace as the focus is on returns, as mentioned in the last quarterly report. In addition, we have updated our business plan and marketing materials so that they are more current and encompass our goals. These documents are available to our partners upon request. We are excited for our future as we continue to build our business step by step.

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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