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October 22, 2024

Dear Partners, Friends, and Family,

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

Keep in mind that these quarterly updates will be 3 to 5 pages with a longer version at year end. This efficiency is to focus our efforts on the portfolio but still bring you up to date as we navigate throughout the year.

Best regards,

Edwin Lugo
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International Small Cap Focus Fund (*ending September 30, 2024*)	**Gross**	**Net**	**MSCI EAFE Small Cap Index**
Quarter	+7.27%	+6.25%	+10.67%
Year-to-Date	+24.15%	+20.43%	+11.58%
Since Inception Cumulative*	+44.92%	+36.59%	+9.47%
Since Inception CAGR*	+15.90%	+13.20%	+3.70%

**Performance is for 2 years and 6 months - Start Date as of April 1, 2022.*

Global Opportunities Fund (*ending September 30, 2024*)	**Gross**	**Net**	**MSCI[1] World Index**
Quarter	+5.30%	+4.49%	+6.47%
Year-to-Date	+17.45%	+14.69%	+19.29%
Since Inception Cumulative**	+35.55%	+33.71%	+48.05%
Since Inception CAGR**	+15.70%	+14.90%	+20.60%

***Performance is for 2 years and 1 month - Start Date as of September 1, 2022.*

CAGR = Compound Annual Growth Rate since the inception of the fund.
Please note that performance among different partners may vary depending on their time of initial investment.
Fees are calculated using our management fee of 1% and performance fee of 15% after a 6% return.

Portfolio Update

As of this writing, we have 12 companies in the International Small Cap Fund, and 12 companies in the Global Opportunities Fund, with 1% and 3% cash, respectively. We sold our small position in Brunello Cucinelli, in the international small cap fund, bringing turnover to 2% for the year so far. We could not gain confidence that its high valuation can be justified given the potential risks over the next few years. We will discuss this in more detail below. Brunello was exchanged for a new position in Jumbo SA, the Greek discount retailer. You may recall that we held Jumbo before, and we know the company well. The change in our opinion of Jumbo was that CEO Mr. Vakakis decided to take a more aggressive stance on share buybacks. Jumbo has a return on capital greater than 15%, growing revenue 5% to 10% annually, and it is net cash with €416mln on a €3.4bln market capitalization, generating €250mln of free cash last year. In the meantime, the shares trade at 11x price to earnings (PE). The CEO was more accustomed to making large dividends, which are great, but we prefer the business buys itself with these metrics, which can add more value as the company grows. On a macro level in the recent past, we were concerned about the Mideast conflict, which is next door to Jumbo's operations in Greece. Thus far, there has been no impact. Nevertheless, we will continue to monitor it closely.

[1] The MSCI World Index performance is primarily driven six companies out of 1,429 that are in the index. It is a market cap weighted, global developed market benchmark. Specifically, most of the gains were driven by Alphabet, Amazon, Apple, Meta Platforms, Microsoft, and Nvidia for 2023 and for the first nine months of 2024. Year-to-date the index increased 19% and these six companies added ten percentage points to this performance. In other words, without these six companies the index gained only 9% so far this year. For comparison, the equal-weighted version of the MSCI World Index, which includes these six companies was up 12% during the same time frame. As of September 30, 2024, these six companies represented 20% of the index and their proportion is greater than the country weights of Japan, UK, France, and Canada combined (16%).

In the Global Fund, we sold DigitalBridge, the alternative asset manager focused on digital infrastructure. We think the next few years may have more headwinds than we originally anticipated. We will also discuss this in more detail below. We exchanged it for Copart, the leading auto auctioneer and auto salvage operator in the US. Its strong moat allows the company to generate more than 15% return on its capital. Its long-term growth path is driven by owner-managers Willis Johnson and Jay Adair, who invest all the company's cash back into the business and periodically buys back shares. Copart is generating just over $4bln in sales with greater than 30% net profit margins. The balance sheet has over $3bln in net cash. The management's long-term goal is to make life easier for their customers, particularly insurance companies and rental car agencies to process damaged cars quicker, saving time and money. Copart sells these cars mainly to dismantlers, resellers, and used car dealers through an online auction process that is continually upgraded and streamlined to make purchasing easier and faster. Today, it is the largest and most efficient operator in the industry for buyers and sellers, creating a network effect that reinforces its competitive advantage.

Going forward, we will keep you updated as we look for ways to continually upgrade the quality of our portfolio and our prospects for higher returns.

Our Thoughts on Risk

Several of our partners were asking how we control investment risk in the funds. We thought we would dedicate a part of this letter to sharing our thinking on this important topic. It is not as straightforward as one might like because risk means different things to different people. In other words, risk is subjective. For example, one investor may see risk as volatility[2], defined as the standard deviation of returns, especially relative to a benchmark. Another may consider returns less than inflation to be more harmful, while another simply looks at risk as losing money. We realized that it also depends on the viewpoint of the investor and his or her time horizon.

In our case, the risk is losing money whether on an absolute basis or relative to inflation because we have a long investment horizon. Therefore, we evaluate the potential losses that can occur five to ten years out on the business model. Price volatility on the other hand is not risk for our purposes. However, we do track our volatility relative to our respective benchmarks mainly for clients who would find it useful. We would agree that volatility can be risky if one has a very short-term time frame, for instance day traders and investors with turnover greater than 50% per year may lose money from the vicissitudes of the market. That is not our program, therefore not our definition.

"The real problem is not finding a good fund manager; it's finding the right time horizon for your investing and what your temperament is for volatility" – Peter Lynch

Risk Reduction in Our Investment Process

Mitigating Risk at the Outset

Before we buy a business, we use guidelines that reduce the potential for loss. Specifically, they direct us toward companies that operate in a programmatic and conservative fashion and have lower financial and operational leverage to protect our investment through various economic cycles. In other words, the strength to weather various economic storms that will occur from time to time. As a result, we tend to stay away from highly cyclical businesses, focusing on those that are less economically sensitive. For instance, today we have exposure to vertical market software companies that manage and sell critical software to customers with subscription-like revenues that have very low attrition, even in tough times. We have investments in the accounting industry, where it is driven more by the increase in tax complexity and regulation over the long term versus small companies leaving during recessions. We own quality insurers where they tend to have fortress-like balance sheets with a focus on profitability that can weather both natural and financial

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[2] Generally, volatility is often debated in money management circles. It became more relevant after Harry Markowitz introduced the concept of Modern Portfolio Theory (aka mean-variance analysis) in his landmark paper in 1952 in The Journal of Finance. He decided to use standard deviation as a quantifiable measure of risk, partly for practicality and measurability. It was challenging for him to find some sort of measure of risk because it means different things to different people.

disasters. When it comes to management, we want to see a track record of prudent capital allocation, share ownership, and the right incentives. When management has a large proportion of their net worth in the company, they tend to be much more careful with their decisions. Any violation such as large acquisitions, share issuances, and aggressive behavior sets off our alarm. Finally, and most importantly, in our search for investments we look for companies that have high returns on capital and that can grow profitably for many years with a long-lasting competitive advantage. This further protects our downside risk because these strong business models can also persevere through difficult times and support the preservation of our capital.

"You can't go to sleep holding cyclical stocks for a decade and expect to be richly rewarded. The rich rewards are in growth stocks and special situations." – Peter Lynch

"The beauty is that the businesses which typically ward off permanent loss of capital are the businesses which are ideally designed to create actual compounding. The businesses which inherently have the capability to avoid the permanent loss of capital are the businesses which enjoy a superior ROCE (Return on Capital Employed), which have an inherent long term growth potential, and which usually have durable growth visibility, spanning a period of time." – Bharat Shah[3]

Controlling Exposure at the Portfolio Level

Looking holistically at our portfolio we control risk by starting with a smaller 2% position. This gives us an opportunity to hold shares and understand the company better overtime. If we feel comfortable, we will continue increasing the position to 5%. Generally, it is only worth our time and effort when positions are 5% or more. Better ideas with good risk and reward profiles can be increased to a maximum 10% position. Thus, we typically have less than twenty positions, but more than ten. We feel comfortable with this range of companies where problems in any one investment can be managed by limiting the downside in a worst-case outcome, allowing us to sleep well at night. Like you we have our money on the line. When it comes to geographic exposure we mostly stay with developed markets and away from emerging countries unless we have clear access to information, and we can make a reasonable assessment of the management and the business. More generally, we strive to be diversified geographically and on a sector basis to manage exposure to specific areas. Furthermore, we use no derivatives or leverage in the portfolio to safeguard us against unpredictable negative events. Finally, when it comes to selling, we do not trim and will sell only if fundamentally something changes with the business, or we find something better. The objective is to hold forever and to let the magic of compounding take over.

Pre-emptive Risk Reduction

We are constantly reviewing our positions and reevaluating based on new information. As we continue our ongoing research, we may conclude that a position does not make sense given our long-term goals or we find something better. For instance, we mentioned above that we sold out of Brunello Cucinelli and DigitalBridge across our funds. The reason is that we underestimated the future uncertainty of both businesses.

Specifically with Brunello Cucinelli, we realized that the recent trend toward quiet luxury may be questionable in the longer term. This type of fashion is characterized by clothing and accessories that are made of the highest quality, usually handmade, but with no logo, in other words very understated. Firms such as Brunello Cucinelli, Hermes, Loro Piana have benefited from this trend, boosting their sales growth over the last several years. Another concern regarding growth is that China has been a major driver for luxury good sales for the last decade. However, the country's political situation has changed, making luxury less attractive as the country leans more communist. This translated into lower sales recently for some competitors. Brunello has 12% of its sales in China, a smaller proportion relative to most peers,

[3] Bharat Shah is executive director of ASK Group, an Indian investment management company. In 2013, he coauthored "Of Long-Term Value & Wealth Creation from Equity Investing: Observation, Ideas and Reflection." ASK Group is one of the most successful and largest portfolio management service companies in India. Blackstone owns 70%.

but in our opinion a possible headwind over the next few years. Combine these concerns with a possible recession over the same time frame and it makes Brunello's 45x PE valuation untenable in our opinion

With regards to DigitalBridge, it is a US-based alternative manager that concentrates on investing in the digital infrastructure space, which primarily includes datacenters, towers, and fiber. The company's growth depends on fundraising and the continued expansion of the AI and cloud infrastructure. The rapid expansion of this sector today is attracting new competition to DigitalBridge. Moreover, fundraising may get difficult if stock markets turn negative, especially in the technology space. Currently, DigitalBridge lacks diversity in their product lines. In addition, the build out of the digital infrastructure depends on the capital expenditures of large internet companies such as Facebook, Amazon, and Google. Recently, each has announced billions in investment. However, this could change quickly if any of these businesses decided to cut back, especially during an economic slowdown. We know from experience that technology is cyclical. Moreover, the US has an antiquated electrical grid, this may act as a natural impediment to the growth of datacenters because they consume vast amounts of electricity. Consequently, going forward, there is a probability that the company's overall growth may not be as robust as the market thinks. As a precaution and because of our longer-term outlook through the economic cycle, we concluded that this business may not be able to safely achieve our return targets.

Valuation Risk

High valuations naturally are a concern for us, especially in today's market. We do buy companies much below the average market multiple. However, while valuation is important, it is not the main driver of our decision making. The most valuable calculation when it comes to these investments is that we understand them and get a sense of the potential value creation. In fact, stock market valuations can be misleading. We may buy companies that on the surface appear expensive at 30x PE, but in our understanding of the business model, the company is undervalued when looking out longer term. Typically, these are the exceptional companies that have an unusually talented owner/manager. He or she constantly improves the business model, oftentimes reshaping an industry while strengthening the company's competitive advantage. Furthermore, the management is well-versed in incentives and capital allocation, creating value for the common shareholder. Our goal here is to pay a fair price for these excellent operators and business models, especially when they are still small and have a higher level of certainty and predictability when it comes to profitable growth. For example, we bought Lumine when it spun out of Constellation Software in 2023. Lumine specializes in vertical market software focusing on the communications and media industry. It is made up of over twenty smaller business units that dominate their niche in critical software for a particular sub-segment. Most of their revenues are subscription-like and grow 3% to 5% but have virtually no capital expenditure requirements. Therefore, their profits turn mostly into cash, which is then used to buy other small vertical software businesses in the same space. Their operating margins are over 20% and the acquisitions allow Lumine to grow greater than 15% per year on average. The key is that Lumine is run by an exceptional management team led by one of best asset allocators in the industry, Mark Leonard. He and his team focus on instilling best practices to its proven roll up strategy. After the spin the shares were trading over 30x PE. In the past, we would avoid such an expensive valuation outright without examining the business. However, in the case of Lumine, given its small revenue size of less than $500mln, Mark and his team can double or triple the size of the business that generates over 20% return on capital with great certainty. Already, analysts are expecting revenues to be over $800mln by the end of 2025. In addition, the company is less susceptible to recessions due to the importance of their software to their customers' basic operations. Since Lumine went public in March of 2023, its shares have more than doubled. We are learning that better business models, combined with exceptional management teams, tend to do better over the long term despite the higher valuations and oftentimes with much less business risk.

"Markets remain obsessed about valuing the price, rather than pricing the value" – Bharat Shah

Business Update

Our increased focus on adding selective partners allowed us to grow recently. We have added one new partner during the quarter and another that has committed to investment at the end of the year. We also completed our first road show, visiting some wonderful individuals across the country that may have an interest in our funds. Going forward, we will continue building strong relationships with potential partners and we will certainly keep you informed of our progress over the next year.

Sincerely,

Edwin Lugo
Founder and Managing Partner
EL2 Capital LLC

P.S. For more details, please visit our website at www.el2capital.com. You can access recent quarterly reports and our annual letters. For serious 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.

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. Not for distribution to the public.