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April 22, 2025

Dear Partners, Friends, and Family,

Enclosed you will find our quarterly update of our funds and our business. This letter is 4 pages, including some discussions on our holdings.

We welcome any constructive feedback or comments that you may have on our letter.

Best regards,

Edwin Lugo
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International Small Cap Focus Fund (*ending March 31, 2025*)	**Gross**	**Net**	**MSCI EAFE Small Cap Index**
Quarter	+2.14%	+1.82%	+3.83%
Year-to-Date	+2.14%	+1.82%	+3.83%
Since Inception Cumulative*	+51.04%	+41.46%	+4.22%
Since Inception CAGR*	+14.70%	+12.30%	+1.40%

**Performance is for 3 years - Start Date as of April 1, 2022.*

Global Opportunities Fund *(ending March 31, 2025)*	**Gross**	**Net**	**MSCI World Index**
Quarter	+0.94%	+0.72%	-1.68%
Year-to-Date	+0.94 %	+0.72%	-1.68%
Since Inception Cumulative**	+43.86%	+41.38%	+45.45%
Since Inception CAGR**	+15.00%	+14.20%	+15.50%

***Performance is for 2 years and 7 months - 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 10 companies in the International Small Cap Fund, and 9 companies in the Global Opportunities Fund, with 23% and 21% cash, respectively.

The tariff upheaval since the close of the first quarter has sowed much uncertainty. In response, we reduced our exposure to our businesses that may materially be affected by tariffs such as Mainfreight Ltd, the global logistics provider (freight forwarding, warehousing, and trucking) based in New Zealand, in the International Small Cap fund, and Union Pacific, the US railroad, in the Global Opportunities Fund. Though both are great businesses, the original investment thesis has changed, which was based on global free trade. That is no longer the case. These sales added to our cash positions after March 31st. For the global portfolio we continue to stay mostly invested outside the US.

Generally, we are continuing to hold our positions in companies that are more local in nature. For instance, we are invested in cash rich vertical market software companies, primarily in Canada and in Europe, such as Constellation Software (CSU), Topicus (TOI), and Lumine (LMN). In short, they are critical software providers to a variety of businesses. Each is made up of business units that manage a collection of software companies. Individually they tend to have a monopoly-like market share at the local level, serving local customers. Thus, little to no exposure to tariffs.

Finally, at the portfolio level, we are well placed to take advantage of declines in the market with our cash on hand going forward. We plan to add to current positions and/or to purchase other exceptional businesses with great manager capital allocators that we have on our target list. We will be deploying cash methodically throughout the rest of 2025.

Going back to the 1st quarter there were also some changes. The continued weakness in organic growth of TerraVest (TVK) was concerning us. TVK, based in Canada, specializes in the manufacturing of storage tanks and pressure vessels, boilers and furnaces, and oil and gas equipment. They also provide wellhead services in Canada for the oil and gas

industry. What attracted us to the company was management's unique capital allocation skills in acquiring family-owned operators in Canada and in the US, which created an immense amount of value over the last three years.
In terms of the business, it is not unusual for the company to have a negative quarter, however over the last three years our position size grew to 15% of our portfolio due to price appreciation. To stay in that position, we want to see continued long-term confidence that management is on the ball and that we can feel immense comfort about their industry. Thinking about this for the next five years we see that there is potential for more risk. First TVKs industries are low growth, and returns are primarily made through disciplined acquisitions which have been very successful, but we like to see more of a process among TVKs managers where M&A becomes more decentralized over time so that the acquisition machine can scale up. We haven't seen that yet. Generally, we expect CEO Dustin Haw and his team to continue, but it will likely be more challenging as TVK becomes larger, size will likely be an impediment. Second, there has been a tailwind since our purchases because their wellhead services business improved from 20% EBITDA margins to 29% from their operational leverage as the price of oil increased demand for fracking in Canada. The price of oil may turn lower in the future, creating a headwind to earnings. In summary, at 30x PE for an industrial business requires a deeper level of conviction, which we find it hard to justify. Our position size has been sold as we move the money to Asseco Poland SA where we have much more conviction. Basically, during the quarter Mark Leonard through his team at Total Software Solutions (TSS), a division of TOI, took a 25% stake in Asseco Poland (ACP), one of Poland's leading software companies, buying out a 10% stake from Cyfrowy Polstat, the satellite subscription service in Eastern and Central Europe, and 15% from ACPs treasury shares. CSU/TSS has a successful track record of purchasing underperforming mission critical software businesses and turning them around by repricing, cutting costs, and refocusing on profitable contracts to meet return targets. After which the goal is to grow the business through acquisitions with at least a 25% internal rate of return. Acquisitions are made at the business unit level with a very disciplined investment process. ACP being undermanaged presents an excellent opportunity for CSU/TSS to create more value. We expect to see a re-rating on the shares closer to the businesses in the Constellation Eco-System, an expansion of the operating margins, and a pickup in top line growth of between 15% and 30% driven by acquisitions.

Path to Performance

Since this letter marks our third year with our International Small Cap fund (Global Opportunities at the end of August 2025), we take some time to reflect on our recent success in delivering returns. Our goal continues to be on performance for our partners. Below we share some of the elements that are helping us achieve our objectives.

<u>Focus on the Best Companies.</u>

The best companies are companies with a moat that can be embedded in the business model or in the management team. Not only does the business typically have good operational management but there is a clear-eyed focus on capital allocation. Often, we see good businesses, but their capital allocation decisions are swayed by the market. For example, we sometimes see management teams too focused on dividends to placate their investor base. This is especially illogical when the cash can instead be reinvested at much higher rates into the business when it is growing. We tell them to cut the dividend and to invest in the business instead. In addition, it is not uncommon that managers, who reach the C-suite through effective management and politics, are not well versed in the principals of capital allocation. Often managers start reaching for growth and start making acquisitions to expand. Small acquisitions are less risky. However, it is the larger acquisitions that get the company into difficulty and translate into several years of underperformance. For us the manager's allocation skills are a key element to the success of our investments.

<u>Reduce the number of positions</u>

Another big challenge for money managers is that they own too many stocks.   They are constantly scrambling to get the latest data on a company or catch up on multiple earnings announcements. It removes precious time for thinking and reflection. We make sure that there is time for reflection as this allows us to be preemptive in our decisions.
Keep in mind studies have shown that 65% of stocks in the past underperformed the treasury bill yield, and only 4% delivered most of the performance. Which means good companies are rare, and thus staying focused on the best companies, and not being distracted by others, gives one a higher chance of outperforming.

Reduce Risk

In our experience we realized that money managers take unnecessary risks. The biggest ones that we have seen are leaps of faith in the potential turnaround of a business, the perceived understanding of the business, and too much focus on the valuation at the expense of the business model.

Leaps of Faith

Many managers and analysts are very successful in academics and has developed an "ego" of success. That then gets translated to stock picking. For instance, one common error is that the analyst believes and feels confident that a company can turnaround their business prospects with a new management team or after a transformative acquisition based on their modeling skills and intuition. We are guilty of this ourselves. More likely, the reality is that turnarounds take years and become a headwind to performance. Though one may get it right a few times, it is hard to repeat consistently. It is much better in our opinion to invest in an already healthy company with a strong moat and it can for the most part control its growth in the future.

Perceived Understanding

We have seen managers invest in companies that are very complex and do not truly understand the machinations of the business. Some of these businesses are "black boxes". One must be able to distinguish between the good and the bad. How can we tell the difference? It must come down to the track record and commitment of the management team. For example, we invest in Berkshire Hathaway, where the black box sits at the center of the organization with its massive insurance operations. We do not know the specific models of their underwriters when covering various risks. Essentially, we depend on Warren Buffett and Ajit Jain to deliver the returns through their perseverance, honesty, and commitment to us (and themselves) as shareholders.

Valuation Near-Sightedness

We see investors focus too much on valuation metrics without more emphasis on the company's growth dynamics and the ability of management. For example, oftentimes the focus goes into the price earnings ratio (PE) without much afterthought. We were guilty of this for many years. Certainly, valuation is important, and it is no doubt a careful balance. However, just because a high-quality company has a high PE it should not be ignored. It doesn't mean they will automatically underperform in the future. We have seen businesses that trade at breathtaking values but 5 to 10 years into the future continue to outperform the market. Many times, companies with high returns on their invested capital (ROIC) will multiply in value quicker than the market. For example, a market index trading at 14x PE with earnings growing at 10%, the value of those earnings will be 2.6x larger in 10 years, with the index following in tandem. A company trading 25x PE with a 20% ROIC, its earnings will likely be up 4x in 10 years. Thus, it demands a higher value today as a multiple of earnings, certainly more than the market PE. Keep in mind for investment success in expensive companies these businesses must be in an industry that has a long pathway to growth with a sustainable advantage to maintain those returns and the managers must be proven in their ability to allocate capital. On occasion PE's do contract in times of stress, this undoubtedly will delay returns, but over the long run the internal growth rate more often compensates if the company maintains its durability and excellence in management.

Below is an example of one of our conceptual mistakes. Taking a quick snapshot of our thinking between December 31, 2013 and December 31, 2023, we were searching for truly exceptional businesses. You can certainly accuse us of data mining, but most would agree that these are exceptional businesses run by excellent operators. The result was that we passed on Costco and Amazon because the valuations were too high. However, we stretched our minds, paid up, and invested in Berkshire instead.

	12/31/13	12/31/23	Total Return	CAGR
Berkshire	19x	21x	200%	11.6%
Costco	25x	37x	588%	21.3%
Amazon*	90x	49x	662%	22.5%
S&P 500	17x	22x	211%	12.0%
Fed Funds Rate	0.11%	5.03%		

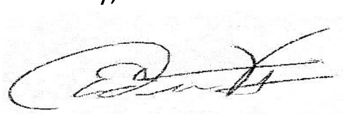
*Price/Free Cash Flow

Self-reflection is always difficult. Not only should we consider acts of commission but also omission. It broadens our minds. Looking into this further we realized that the compounding effects of great businesses with high ROICs far exceeded the market and can deliver managers above average market returns over the longer term.

"The mistakes that have been most extreme in Berkshire's history are mistakes of omission. They don't show up in our figures. They show up in opportunity costs." – Charlie Munger

Business Update
We plan to add selective partners as we move forward through the year. Today, we are in the process of onboarding a new partner that is also appreciative of the long term and the benefits of compounding. Similarity in goals is the key attribute that we hope to see in those that are joining us. Going forward, we will continue building strong relationships with potential partners.

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.

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