

System Capital Long Short Strategy



Quarterly Report

September 2025

THE INVESTMENT TEAM IS VERY PLEASED TO PRESENT OUR SEPTEMBER 2025 NEWSLETTER. COMMENTS AND SUGGESTIONS ARE HIGHLY WELCOME.

STRATEGY PERFORMANCE OVERVIEW

The fund declined 1.5% in the quarter, bringing one year performance to 8.5%.

Stock performance was muted across much of the portfolio.

Core holdings in the information services sector (MSCI, S&P Global, Equifax, FICO), were flat or down in the quarter. LSEG, a new position for the fund has also contributed negatively since our purchase in July. Performance across our classified businesses (Schibsted, Rightmove, Hemnet) and our key payments businesses (Visa, Mastercard, Adyen) were also flat or negative despite generally strong operating results. Infrastructure names were mixed with strong performances from Ferrovial, Chorus and Fraport, offset by a weaker Cellnex price. On the positive side, shares in leading European industrial companies added to returns. Importantly, despite strong markets (see below), our short positions also contributed to returns.

By contrast, the MSCI World Index (Hedged) rose 7.5% in the quarter. Performance was led by US stocks. Standout sectors included semiconductor manufacturing (17% quarterly return), technology hardware (22% return), the resource sector (8.6% return) and banks. Generally speaking, returns were driven by (1) excitement around the AI investment cycle, (2) a rally in small caps, unprofitable companies and cyclical stocks driven by lower US rates and (3) strong growth in resource stocks led by a rise in the price of both industrial metals (AI theme) and gold/silver as a hedge against persistent inflation. Apart from our small positions in Alphabet and Amazon we did not have any meaningful exposure to these themes in the quarter.

In terms of factor exposures, stocks with high price momentum (20% returns) and high beta (13% return) did best in the quarter. By contrast, stocks with low volatility (-13% returns), low net debt (-7% return) and high free cash flow generation relative to market (-6.3% return) underperformed. A number of ETFs geared towards the more speculative end of the market did exceptionally well in the quarter, with ETFs linked to cryptocurrency, non-profitable tech and small cap indices all rising 10%-40%.

We believe valuation for our portfolio is very attractive currently. The portfolio's estimated 2026 cashflow multiple of just under 22X compares to just under 26X for the market as a whole, while having lower debt, higher ROE and higher medium-term growth in cashflows than the index. This should put us in a strong position to achieve our 10%+ net return target over the medium term. We believe the short book may also produce more attractive opportunities in the months ahead.

We also continue to progress our understanding of AI and how it can affect structural advantage and lead to new areas of disruption, looking for ways to enhance the structural growth and safety of the portfolio.

Position Type	Sep 25
Short Positions	19
Long Positions	39
Total Positions	58
Of which Index Positions	4

Region	Gross Long (%)	Gross Short (%)	Net Long (%)
Europe	61	-27	34
North America	44	-17	27
Asia	3	0	3
Australia/NZ	16	-4	12
Total	124	-48	76

	Month (%)	3M (%)	FYTD (%)	1 Year (%)	2 Year p.a.	Cumulative Since Inception	Since Inception p.a.
System Capital L/S	-3.7	-1.5	-1.5	8.5	21.0	70.4	20.0
MSCI World AUD Hedged	3.2	7.5	7.5	16.7	22.8	69.3	19.7
Stoxx 600	1.5	3.5	3.5	9.6	14.3	48.1	14.4
ASX 200	-0.8	4.7	4.7	10.6	16.0	45.4	13.6

Performance is in AUD (Hedged) and is before fees. Cumulative Returns and Annualised Returns from 26th Oct 2022 to 30th Sep 2025. Returns in AUD. Gross returns before management and performance fees. MSCI World 100% Hedged to AUD Index. ASX200 Accumulation Index Stoxx 600 Net Total Return.

SIGNIFICANT CONTRIBUTORS FOR THE MONTH INCLUDED:

- **Alphabet (Digital Advertising):** Shares increased over 35% during the quarter, driven by increasing confidence that Alphabet's AI product roadmap can position it as a structural AI winner. Significant product releases in the quarter included Alphabet's Gemini chatbot (competitor to OpenAI's ChatGPT), continued rollout of AI Overviews in search results (now reaching 1.5bn MAUs (Monthly Active Users)) and AI-infused tools for advertisers and other customers within Search/YouTube/Cloud. The company also had a key legal victory, after a U.S. court declined to order a breakup of Alphabet as part of a longstanding DOJ (Department of Justice) case against Alphabet. Instead, the court's ruling allows Alphabet to keep paying distribution partners, including Apple, Android OEMs, and browser makers (e.g. Mozilla), for default search placement, but barred exclusivity. These rulings were viewed as close to a best-case outcome for Alphabet in the remedies hearing.

DETRACTORS FOR THE MONTH INCLUDED:

- **Flutter (Gaming):** Shares declined 6% during the quarter. Flutter shares rose in July due to operator friendly sports results, and an acquisition of Boyd's 5% stake in FanDuel at an attractive valuation. However, in September, gaming operators sold off on fears that the fast-growing prediction-market platforms (Kalshi, Polymarket) would use a grey area in the law and begin to offer sports contracts using existing laws covering financial futures exchanges. This would theoretically allow new entrants to offer sports "futures" contracts to all 50 states without paying any state taxes or having to conform to any anti money laundering or responsible gaming legislation. We think the market is overreacting; prediction exchanges target a distinct, price-sensitive cohort, can't offer the product set of regulated sportsbooks and face regulatory constraints, with early data showing minimal cannibalization in states that are legalised for OSB (Online Sports Betting). However, we remain vigilant and continue to test our assumptions on an ongoing basis.
- **LSEG (Info Services):** LSEG is a new position in the fund initiated in the quarter. LSEG's shares drifted lower over 3Q25 as sentiment turned against market-data vendors. Investors have become concerned about AI-driven (and legacy provider) competition in the financial desktop and data segments. The stock slid to a 12-month low in mid-September despite solid H1 results on 31 July when LSEG lifted margin guidance and announced a further ~£1.0bn buyback over 2H25. The caution was compounded by competitor FactSet who gave a disappointing outlook statement on ASV growth (4-6%) and margins for FY26. Please see the stock review section for further discussion of these issues.
- **Paylocity (Software):** Paylocity declined 14% in the quarter. Paylocity is a leading provider of payroll and HCM (Human Capital Management) solutions to small and medium sized companies in the USA. We covered Paylocity extensively as part of our deep dive into the HCM software sector in our December 2024 quarterly. Coming into the September quarter we had significantly trimmed our weight following the strong run up in shares through 2024. Following the recent decline, we believe the valuation is again compelling. The market is concerned with how slowing

employment growth will impact Paylocity revenues. However, growth in employees has been a small part of overall growth for the company historically. Since Paylocity's IPO in 2014, revenues have grown at a CAGR of over 20%, with the largest drivers being price increases (3-4%), HCM module up sell (3%-10%) and new logo wins (2%-10%). The shares trade on a 22x 2026 P/FCF (Price ÷ Free Cash Flow per share) multiple, significantly below the historic multiples of 35x+ and well below the multiple we would expect to pay for a business growing revenues at 10%+ and compounding FCF in the mid-double-digit range with a long runway of growth.

QUARTERLY MACRO REVIEW

INFLATION/INTEREST RATES

UNITED STATES

The Federal Reserve delivered its first rate cut since December 2024, trimming the federal funds rate by 25 basis points on the 17th of September as evidence mounted that growth was cooling and labour market slack was widening. August payrolls rose just 22 k, and the unemployment rate climbed to 4.3%, with softer hiring in retail, transport, and professional services.

At the same time, inflation remained stubbornly elevated: headline CPI rose 2.9% year-on-year in August, while core services inflation stayed sticky due to wage pressures and lingering supply-chain costs. The manufacturing sector showed persistent weakness, with the ISM index at 49.1 for the month, and ISM services easing to the 50 breakeven.

Consumer spending was steady but increasingly reliant on credit, while housing momentum stalled as mortgage rates despite easing slightly have held above 6.2%. Together, the data painted a picture of "stagflation-lite" dynamics, slowing growth and still-elevated prices, leaving the Fed cautious about the pace of further easing. Markets began to price in one additional 25 bps cut before year-end, although some forecasters cautioned that tariff fuelled inflationary pressure would remain a drag through year-end, making further cuts conditional on further labour market deterioration.

Growth itself has moderated. Consensus estimates for full-year real GDP in 2025 have drifted downward amid signs that consumer spending was holding only tenuously, and business investment was being deferred under uncertainty.

EURO AREA

The ECB (European Central Bank) left policy rates unchanged at its 11th of September meeting, emphasizing that inflation had broadly returned to its 2% medium-term goal, but that underlying pressures warranted vigilance. Headline HICP edged up to 2.2% year-on-year in September, driven by firm services inflation (~3.2%) and a slight rebound in energy, while core inflation remained around 2.3%.

Activity indicators remained mixed: the HCOB composite (monthly survey-based gauge of business activity across eurozone sectors) PMI hovered slightly above 50, signalling marginal expansion, but manufacturing dipped back below that threshold amid weaker new orders and rising inventories.

Employment in factories and construction softened further, while service-sector hiring slowed but stayed positive, cushioning overall labour demand.

Export volumes were flat as global trade remained subdued, particularly with China's ongoing slowdown and softer (tariff driven) U.S. import demand. Fiscal policy was largely neutral across major member states, providing limited support to growth. Higher services prices, alongside weak goods output, left the ECB in a delicate position—neither confident enough to declare victory on inflation nor ready to loosen aggressively. Forward guidance now points to an extended pause, with any renewed easing likely delayed into 2026 unless downside risks to growth intensify materially.

STOCK REVIEWS

LONDON STOCK EXCHANGE GROUP (LSEG)

ABOUT THE COMPANY

The London Stock Exchange Group (LSEG) is a global financial markets infrastructure and data company headquartered in London. It operates a range of businesses that support trading, clearing, settlement, and financial data services.

As its name suggests, LSEG owns and operates the London Stock Exchange, one of the world's oldest equity markets. However, the group's activities extend far beyond traditional stock trading which now comprise only ~3% of group revenue. LSEG's main businesses include:

- **Capital Markets:** This includes London Stock Exchange bourse, FX trading venues (Matching and FXall), and Tradeweb (credit and fixed income trading). These businesses connect issuers and investors to deep electronic liquidity,
- **LCH (Post Trade):** a leading global clearing house that manages counterparty risk by acting as a central counterparty for trades across multiple asset classes, including interest rate swaps, repos, equities, and other derivatives,
- **FTSE Russell:** a leading global index and benchmark provider,
- **Risk Intelligence:** which provides regulatory, compliance, and risk-management solutions - it helps clients perform know-your-customer (KYC), know-your-third-party (KY3P), screening, monitoring, identity verification, fraud detection, and due diligence on entities and individuals.
- **Data and Analytics (Refinitiv):** a major provider of financial data and analytics (acquired 2021) through enterprise grade Data & Feeds, Workflows (desktop solution for banks and asset managers) and Analytics (pricing, valuation, risk, and portfolio analytics to help financial institutions model securities/optimize portfolios),

WHAT ATTRACTED US TO IT

LSEG owns a 51% economic interest in a business called Tradeweb – a leading US listed global electronic trading platform that facilitates the trading of fixed income, derivatives, money market instruments, and exchange-traded funds (ETFs) between institutional investors, wholesale investors (dealers) and retail investors (financial advisors and wealth managers).

We invested in Tradeweb two years ago, attracted to its leading market share in electronic trading of US treasuries, interest rate swaps and expanding market share in US high grade and high yield credit (corporate bonds). Tradeweb has compounded annual revenue growth of 13.5% over the last 20 years and ~17% over the last 5 years.

Tradeweb is fully consolidated in LSEG results (major component of LSEG Capital Markets) and is responsible for approximately 17% of revenue and EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) of the wider group (and growing). Our knowledge of TW led us to dig into the other parts of LSEG and find some attributes of the broader business that had strong competitive advantages.

Our business divisions

We have an attractive mix of recurring and high-quality transactional revenue



	Markets				
	Data & Analytics	FTSE Russell	Risk Intelligence	Capital Markets	Post Trade
Income	£4.0bn	£0.9bn	£0.5bn	£1.8bn	£1.2bn
Share of group income	47%	11%	6%	22%	14%
What we do	High-value financial markets data, workflows and analytics.	Benchmarks, indices, analytics and data solutions.	Solutions to protect against fraud and financial crime.	Capital raising and trading venues in multiple asset classes.	Clearing, risk management and capital optimisation solutions
Revenue model	98% recurring revenue	100% recurring revenue	77% recurring revenue	28% recurring revenue	36% recurring revenue
Other market participants include	- Bloomberg - S&P Global - FactSet	- S&P Global - MSCI	- RELX - Dow Jones - Moody's	- MarketAxess - CBOE Global Markets - Euronext	- CME Clearing - Eurex Clearing - OSTTTRA

LSEG | 11

LCH (POST TRADE)

LCH has a greater than 90% market share in clearing of interest rate swaps globally. Clearing houses are winner takes most businesses as they benefit from deep liquidity and global scale with key network advantages being:

- 1) Multilateral netting - by netting offsetting exposures across thousands of trades, members reduce notional and capital requirements dramatically—often by 30–50% versus bilateral exposures.
- 2) Cross-margining benefits - Participants can optimize margin use across products (e.g., between swaps, repos, and futures cleared by LCH), improving funding efficiency.

The LCH business has compounded revenue and earnings at low double-digit rates (organic constant currency) over the last 10 years. Future growth opportunities include expanding trading of interest rate swaps, FX derivatives, repos and other derivatives products (driven by growth in government debt issuance). In addition, over half of OTC (Over-the-Counter) derivatives trading remains uncleared (not

processed through a central counterparty like LCH) which through increased regulation are migrating to centralised clearing over time.

FTSE RUSSELL

Similarly, due to our investment in MSCI we developed an appreciation of the advantages of index businesses and their ability to structurally strengthen over time. FTSE Russell, is one of the world's leading benchmark and data providers, offering a comprehensive suite of equity, fixed-income, and multi-asset indices used by asset managers, institutional investors, and ETF issuers worldwide. Its key advantage lies in its breadth and reputation; it maintains globally recognized index families such as the Russell US and FTSE Global series, along with flagship benchmarks like the FTSE World Global Bond Index (WGBI) and FTSE 100. The business benefits from deep integration within LSEG's data ecosystem, leveraging datasets from Tradeweb and Data and Analytics (Refinitiv) to enhance benchmark accuracy and transparency. This allows innovations such as incorporating Tradeweb's U.S. Treasury pricing into FTSE Russell's fixed-income indices.

Financially, FTSE Russell has shown steady, high-margin growth. Revenues have grown at high single digits over the past 5 years to £0.9 billion in 2024, while adjusted EBITDA grew to £591 million with margins of 64%.

RISK INTELLIGENCE

LSEG's Risk Intelligence division provides financial-crime and third-party risk solutions, based on its World-Check screening data, due-diligence reports, and digital/identity verification. It's used by banks, fintechs, corporates and governments to meet KYC/AML (Know Your Customer/ Anti-Money Laundering) and broader compliance needs. Risk Intelligence is a strong business because demand is regulation-driven and recurring, the data assets are deep and differentiated (World-Check's curated risk intelligence is backed by hundreds of analysts), workflows are embedded (creating high switching costs) and LSEG continues to add real-time/API capabilities like World-Check-On-Demand, expanding functionality and stickiness.

Revenues have grown at 17% p.a. over the past 5 years to £531 million in 2024, while adjusted EBITDA grew to £286 million with margins of 54%.

DATA AND ANALYTICS (REFINITIV)

LSEG's Data and Analytics business is the group's data and technology platform, further segmented into:

- Data and Feeds: delivering global real-time and end-of-day market data, reference data, pricing/evaluations and news (Reuters) to enterprises and regulatory bodies.
- Analytics: delivers model-ready tools like Yield Book and portfolio/risk analytics that sit atop LSEG data, helping banks and asset managers price and value securities, measure and manage risk, and optimize portfolios.
- Workflows: trading/desktop workflow tools (Workspace) to banks, asset managers, corporates and wealth managers.

This segment underpins much of LSEG's enterprise connectivity and distribution. Since LSEG acquired Refinitiv in Jan 2021, LSEG has taken actions to invest and structurally improve their suite of product offerings.

We've beaten our growth targets

	Historical performance ¹	Growth ambition as of July 2021	Growth achieved ²
LSEG		5-7%	6.7%
Data & Analytics	1-3%	4-6%	6.6%
Enterprise Data	4-5%	Mid single digit	9.0%
Trading & Banking	(1-2)%	Low single digit	2.5%
Customer & Third Party Risk	10-12%	Double digit	14.4%
Investment Solutions	3-5%	High single digit	11.6%³
Wealth	Low to mid single digit	Mid single digit	4.7%



1. Historical performance covers performance between 2018 and 2020, pro forma.
2. Organic growth 2023 Q3 YTD.
3. Benchmark Rates, Indices & Analytics. Total Investment Solutions growth 7.2%.

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HOW ITS PLAYED OUT

LSEG's shares have fallen 20% since mid-July, notably underperforming both the European exchange peers (-12%) and the data infrastructure provider peer set (-9%). We have taken advantage of this volatility to purchase shares at lower prices. Much of this movement can be attributed to two key debates amongst investors:

Near-term investor concerns around subscription-based revenue growth dynamics: LSEG reported a deceleration in Annual Subscription Value (ASV) in 2Q2025 and signalled a further slowdown in 3Q2025. We believe the slowdown in ASV (Annual Subscription Value) between 1Q (6.4%) and 3Q (5.4%) is driven in part by retirement of a legacy Workflows product and lapping effects of the Credit Suisse /UBS merger, with ASV expected to accelerate in 4Q2025.

Longer-term dynamic around the potential threat of AI, predominantly around disintermediation and pricing risk in LSEG's Workflows business: The main concerns around AI for LSEG centre on potential disintermediation, pricing pressure and product commoditisation within its Data and Analytics (D&A) segment - particularly in Workflows and Data and Feeds. Specifically, AI-driven automation and specialised tools could erode demand for traditional terminal-based services like LSEG Workspace, as clients increasingly integrate raw data directly into AI models rather than relying on bundled analytics platforms. This could lead to subscription attrition and margin compression. Analysts also flag competition from emerging AI-native providers, and the possibility of clients bypassing intermediaries to build in-house solutions.

It's important to note that any disruption risk is likely contained to the specific area of Workflows (LSEG desktop business), which is ~20% of LSEG revenue and ~15% of LSEG's EBITDA. LSEG's Workflows business is the desktop solution (led by LSEG Workspace for banking, wealth, FX, and commodities) that lets professionals interact with LSEG's real-time data, analytics, and trading tools (2/3 of users are traders). LSEG has also not been standing still in the Workflows business.

Microsoft made a 4% equity investment in LSEG in December 2022, acquiring shares from the Blackstone/Thomson Reuters consortium as part of a 10-year strategic partnership to rebuild LSEG's data/analytics on Azure and co-develop LSEG Workflows.

Through the Microsoft partnership, LSEG is continuing to modernise Workflows: migrating services to Azure; co-developing Workspace functionality embedded directly into Microsoft 365 and Teams; and enabling licensed LSEG data to flow into Copilot so end users can run secure, institution-grade AI use cases. These steps are making Workflows cloud-native, tightly integrated with everyday productivity apps, and AI-enabled. We believe these enhancements will allow LSEG Workspace to better compete with leading financial desktop providers and allow further price increases.

WHAT WE ARE LOOKING FOR TODAY

LSEG currently trades on an FY26 EV/EBITDA multiple of 11x and a forward price to free cash flow multiple of 16x. This valuation compares favourably to its info services (EV/EBITDA of 17x and P/FCF of 23x) and exchange peers globally (EV/EBITDA of 15x and P/FCF of 20x). We believe this valuation does not adequately reflect the growth of future earnings in the business both from the capital markets, post trade and risk related businesses (LCH, TW, FTSE Russell and Risk Intelligence) and its Data and Analytics Segment (Workflows, Data and Feeds and Analytics). We forecast Revenues, EBITDA and Free Cash Flow to compound at an annual rate of 6.5%, 7.9% and 11.5% respectively over the next 4 years.

We look for the company to deliver on its expectations of ASV growth re-accelerating in 4Q25 and starting to monetise its new product features (through further price increases) in the Workflows business in future years. We also look for ongoing cost and capex discipline in the business – a goal very much championed by its CFO (appointed in Nov 2023). Given the fall in the share price in mid-2025, the company has chosen to increase its share buyback program. LSEG, after having bought back £500m worth of shares in 1H25, plans to buyback £1bn in 2H25.

Importantly the business continues to invest in strengthening its structural advantage. LSEG has been investing heavily to reinforce its structural advantages by integrating its businesses (Data and Analytics, Capital Markets, and Post Trade) into a single, data-driven ecosystem. A key example is the integration of Tradeweb's real-time bond pricing into FTSE Russell's fixed-income indices (such as the WGBI), creating a closed loop between trading data and benchmark creation that competitors cannot easily replicate. Similarly, LCH (Post Trade) clearing data is being used to enrich LSEG's pricing and risk analytics, turning post-trade information into proprietary data assets. The group's 10-year strategic partnership with Microsoft underpins this ecosystem by modernising data delivery through Azure and embedding LSEG content into Microsoft Teams and Excel, improving accessibility and workflow integration for clients.

INDUSTRY PRIMER

TOKENIZATION

System Capital has been following developments in tokenization closely to understand its potential impacts on the broader financial ecosystem (we covered stablecoins and their relationship with the broader payments industry in our June quarterly).

Recent excitement around tokenization technology has focused on using blockchain technology to tokenize assets, such as traditional equities, on a blockchain. Due to our background and coverage of the equities “plumbing” ecosystem we thought we could take an opportunity to briefly delve into our thinking regarding the potential risks and opportunities from tokenization.

Current equity market structure

Before we analyse the potential impacts of tokenized equities we should step back and better understand why equities in their current form have had so much success:

- **Access:** The industry has successfully digitised, so that all trading can be done through digital channels, leading to tens of millions of purely digital low-cost broker accounts offering access to many global markets.
- **Security:** Robust infrastructure that manages risk at the broker, clearing and settlement level through strict capital and liquidity requirements, a strict legal regime in the US on broker asset separation as well as SIPC guarantees on broker failures.
- **Legal ownership:** Stockholders are the full beneficial owners of the assets and as such receive their respective voting rights and economics interests (dividends).
- **Liquidity:** On exchange equities trade over \$80 billion of volume on an average day in the US (excluding substantial off market volume) with very tight bid ask spreads on many large stocks, allowing the multi trillion dollar active and passive management industry to make substantial portfolio adjustments without incurring inordinate costs.
- **Costs:** Using a low-cost broker such as Interactive Brokers to purchase US equities can be as low cost as 0.02% all in (broker fees, regulatory fees, exchange fees and bid ask spreads) which is amongst the lowest cost methods of transacting assets. In fact, the changes to US equity market trading and regulation over the last few decades has reduced costs to end users so substantially that the attractiveness of US equity exchanges as a business has markedly decreased in the face of these industry changes.

What are tokenized equities?

Tokenized equities aim to represent an underlying equity asset as a token that is recorded on a blockchain ledger.

To create a “backed” tokenized equity, generally an issuer purchases the underlying equity (through traditional methods), holds it as custodian and issues a token in a 1 to 1 ratio on a particular blockchain. The tokens represent ownership of the securities, but in some cases despite the 1 to 1 backing, investors do not legally become shareholders in the underlying company. If the owner of the tokenized equity

wants to redeem for their underlying shares, they often have to pay a redemption fee and are only redeemed for cash value.

While there are tokenized equities available that are backed 1 to 1 by underlying equities, in some cases the tokenized equity has the legal and economic form of a derivative security that attempts to mimic the price action of the underlying equity but is not backed by equities in reserve. Due to its early evolution and the global nature of the product, tokenized equities are covered under a patchwork of preexisting laws that provide a wide range of legal alternatives depending on the jurisdiction (and confusion for the end customer). While there has been some pilot legislation passed in certain ex-US markets, the US is still early in legislating tokenized equities with the SEC considering them covered by existing securities laws. As a result, tokenized equities have limited current availability in the US and are more prevalent in areas such as the EU.

Tokenized equities can be bought on a centralized exchange (either from another consumer or through the issuance process). Depending on the purchasing instrument (USD vs crypto) there are trading fees as part of this process and the consumer receives the tokenized equity in their relevant exchange wallet. To keep the tokenized price as close to the underlying exchange price, token pricing is managed by the issuer and exchange, using an issuance and redemption technique similar to the method ETFs use (if there is a large enough gap, an arbitrageur can buy tokens and then redeem for the underlying value of the equity). As a result, “backed” tokenised equities are not truly decentralised as there is a centralised issuing and redemption process to manage the token price.

The consumer can then “trade” on the centralized exchange where the tokenized equity was purchased, paying trading and spread fees and receiving instant settlement of the tokenized equities. However, trading is not completed via a blockchain, rather it is all done on the order book of the centralised exchange. Whilst improving settlement times and transaction speeds, this restricts the liquidity pool available to the customer.

The customer can choose to withdraw their tokenized equity on chain (for a fee) and access alternative liquidity pools via a blockchain. However currently these alternative liquidity pools (predominantly decentralised exchanges) have very limited volume and involve network and gas fees as well as significant exchange fees and wide spreads that are uncompetitive with leading edge equity brokers today.

What are the advantages of tokenizing equities?

Based on this brief overview of tokenized equities we can use our previous framework to better understand their advantages and disadvantages.

- **Access:** Providing global access (many tokenized equities backed by US equities are not available to US investors) to international customers. However, global brokers already offer access to traditional equities in over 200 countries and territories, enabling access to many financial markets for broad swathes of the population. There may be certain jurisdictions where there is limited low-cost access to US equities however this is a minority of jurisdictions, who often have stringent capital regulations that may apply to tokenized equities as well.

- **Fractionalized Ownership and 24/7 trading:** Another argument in favour of tokenized equities is that they can offer fractionalised shares, however traditional brokers already offer this service. A further argument is that tokenized equities provide 24/7 trading and instant settlement. Whilst this is true, tokenized equities still trade fundamentally off the underlying equity price and several US exchanges are planning on rolling out 24/5 trading. Although token trading provides instant settlement, any attempt to redeem for cash or stock is still subject to the timeline of traditional financial infrastructure reducing the utility of the instant settlement times. Traditional brokers already offer instant settlement from a trading perspective (an investor can sell shares and then instantly purchase a different security).
- **Security:** There is currently no US institutionalised framework regulating tokenized equities and they are generally not covered by SIPC or broker dealer regulations, decreasing their security to end investors. Tokenized equities without reserve backing create significant security risk at the issuer end as the holder is reliant on the liquidity of the issuer. Furthermore, while tokenized equities that are backed by reserves sit on top of existing equity infrastructure and many of the existing layers still apply, the end asset often sits in offshore entities with lighter regulation.
- **Legal ownership:** Tokenized equities with no backing assets have no legal ownership of the underlying equity. Furthermore, some providers of backed tokenized equities expressly exclude shareholder rights to the token holders. Often dividends are not paid out in cash but in an increased multiplier on the token. The tokens can be redeemed (for a fee), however in some cases the token can only be redeemed for value not for the specific underlying asset further muddying the ownership picture.
- **Liquidity:** Currently the liquidity pools are fragmented and minute compared to equity markets today. Furthermore, as more tokenized equities are issued by a range of issuers, the interoperability problem (similar to our stablecoin write up) of different tokens on the same underlying equity creates continued fragmentation of liquidity pools.
- **Costs:** Today, spreads are orders of magnitude higher than traditional securities, liquidity is significantly lower and there are significant redemption fees. Furthermore, any on chain transactions completed through an exchange will include trading fees and any relevant network fees for using that blockchain.

Generally, tokenization works better the closer the linkage between the underlying asset and the token. While tokenized equities currently provide some advantages (limited extended trading and the ability to program contracts into the tokens), stripping the token of certain key attributes and limiting liquidity pools (key attributes of traded equities) reduces its attractiveness in its current form to a substantial portion of investors.

Tokenized private assets

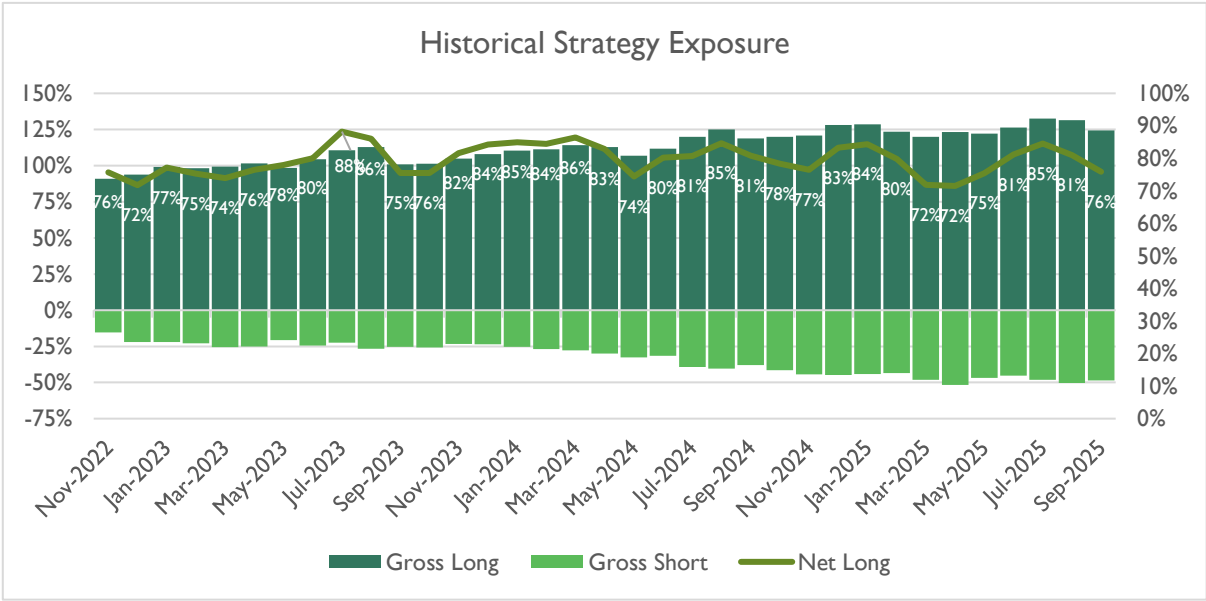
Tokenized private assets are another area of potential innovation and activity. They are still very early in their creation process and there are only a limited set of current examples. Their aim is to open investment access to private companies for retail investors. There is a strong argument for creating liquidity in assets that currently have limited liquidity. However, in its current form there are substantial roadblocks to implementation.

In many cases the reason for the limited liquidity is the unwillingness of existing owners to sell their stakes in the private assets and thus tokenization providers have resorted to offering tokenized private assets that do not reflect actual ownership stakes in the underlying enterprise (and have been expressly unendorsed by the private companies). The tokens are more akin to derivative transactions backed by a special purpose vehicle (SPV) that has invested in the underlying private asset, which limits the scope to the amount of equity purchased by the SPV. This may suit some segmented portion of the investment public; however, we don't believe it is likely to lead to mass adoption on a large scale within institutional and large retail investors in its current form.

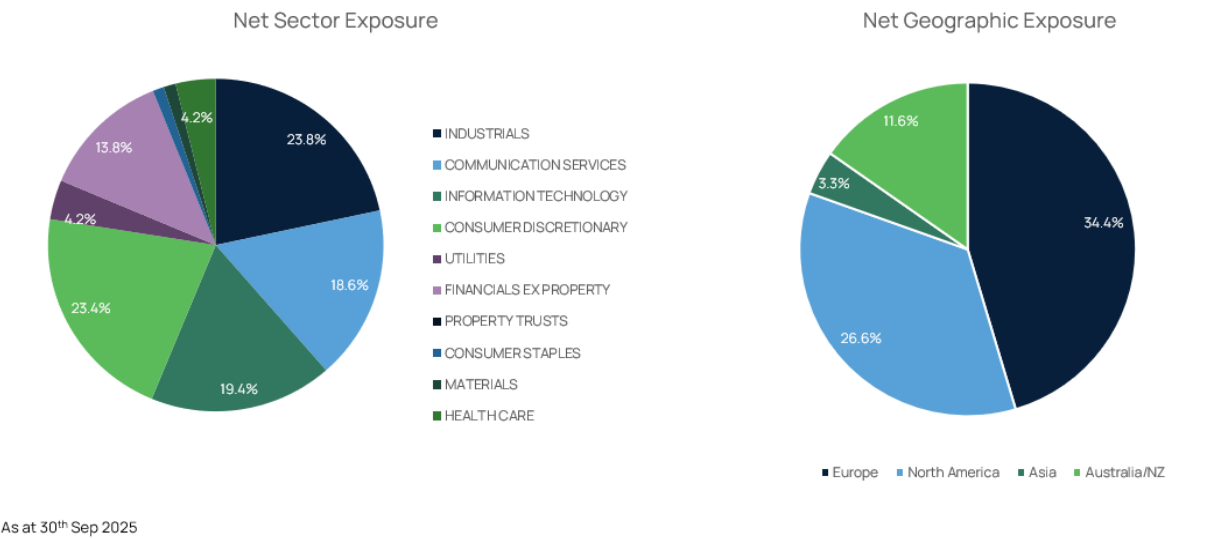
Is tokenization a risk or an opportunity?

As part of our focus on financial services we can use analysis from other sectors to aid our research areas. Our understanding of the existing value chain within equity markets allows us to better contextualize the innovations in the tokenization ecosystem. Equity tokenization still utilises many layers of the existing financial ecosystem and needs substantial key improvements to be made before it can have mass adoption beyond isolated scenarios. While there are elements of the equities ecosystem that needs process and cost improvement, there are still substantial scale, regulatory and cost advantages embedded within the ecosystem. We are watching for further improvements in tokenization, especially in each of the five key areas that drive consumer behaviour (access, security, ownership, liquidity and costs).

STRATEGY EXPOSURE



SECTOR AND GEOGRAPHIC EXPOSURE



PORTFOLIO TOP 10 ACTIVE STOCKS (ALPHABETICAL)

Issuer	Issuer Name
ADYEN NL	Adyen NV
CLNX ES	Cellnex Telecom SA
EFX US	Equifax Inc
FER ES	Ferro vial SE
FLTR GB	Flutter Entertainment PLC
LSEG GB	London Stock Exchange Group PLC
MA US	Mastercard Inc
MSCI US	MSCI Inc
SCHA NO	Schibsted ASA
TLC	The Lottery Corp Ltd

ASIC Periodic Reporting Requirements

The System Capital Long Short Fund (Fund) is classified as a hedge fund in accordance with the Australian Securities and Investments Commission Regulatory Guide 240 *Hedge funds: Improving disclosure*. We are required to provide this additional information to you on a quarterly basis.

Asset Allocation (as at 30 September 2025)

Exposure analysis	
Position	% of net invested capital
Long securities (including derivatives)	124.35
Short	- 48.48
Cash	24.13
Gross equity exposure	172.83
Net equity exposure	75.87

Liquidity profile

The table below demonstrates the liquidity profile of the Fund as at 30 September 2025.

In summary, 100% of the Fund's assets can be liquidated within 10 days.

Time to liquidate	% of assets
Within 1-10 days	100%
>10 to 21 days	100%
> 21 days	100%

Maturity profile

As at 30 September 2025, the Fund does not have any material liabilities.

Derivative counterparties engaged

The derivative counterparties engaged for the period 1 July 2025 to 30 September 2025 are provided in the table below.

Derivatives counterparty
Morgan Stanley & Co. Prime Broker International plc

Leverage

System Capital may use leverage to increase the exposure of the Fund to investment markets. Leverage will generally be obtained through the use of derivative instruments. Although the maximum allowable leverage permitted in the Fund is 150% of the Fund's NAV, the Fund's positions in long securities and derivatives and overall net equity exposure will generally not exceed 150% of the Fund's NAV. The Fund must provide collateral to secure its obligations under the relevant agreements.

As at 30 September 2025, the Fund is long exposure of 124.35% and short exposure of -48.48%. The gross equity exposure of the Fund is 172.83% and net equity exposure of the Fund is 75.87%.

Important Information

This material has been prepared by System Capital Pty Ltd (ABN 14 657 739 323) (System). System Capital is an Authorised Representative (No. 001309928) of Fidante Partners Limited ABN 94 002 835 592 AFSL 234668 (Fidante) and is authorised to provide financial services to wholesale clients only (within the meaning of the Corporations Act 2001 (Cth)). It is for wholesale investors and provides general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. Any projections are based on assumptions which we believe are reasonable but are subject to change and should not be relied upon. Past performance is not a reliable indicator of future performance.