

System Capital Long Short Fund Class A



Quarterly Report

December 2025

The investment team is very pleased to present our December 2025 newsletter. Comments and suggestions are highly welcome.

Please note the performance data reflects the returns of System Capital Class A units (inception date 4th Feb 2025). Performance data for the System Capital strategy (inception date 26th October 2022) is available on our website at systemcapital.com.au

FUND PERFORMANCE OVERVIEW – Class A

2025 marked a very disappointing year following strong performance in 2023 and 2024.

Index returns over 2025 have been concentrated in the AI space, speculative small caps and resource stocks. The strongest returns in 2025 came from buying stocks with high price momentum and beta (market risk), with quality stocks and those with higher free cash flow yields materially underperforming. In addition to this, several significant positions (Cellnex, Flutter, Equifax) significantly underperformed during the year, while a large part of the portfolio was flat. We see current portfolio valuations (18x 2025 FCF multiple, or Free Cash Flow multiple, with forecast 15% FCF growth into 2026) as compelling for a high-quality group of industrial, information services and infrastructure businesses. Furthermore, we believe there are more near-term catalysts to unlock value across a number of our positions. The investment team remains significantly invested in the fund and hopeful of a better outcome in 2026. We want to thank all of our investors for their support during the year.

Position Type	Dec 25
Short Positions	18
Long Positions	40
Total Positions	58
Of which Index Positions	4

Region	Gross Long (%)	Gross Short (%)	Net Long (%)
Europe	54	-26	28
North America	55	-14	41
Asia	3	0	3
Australia/NZ	18	-3	15
Total	130	-43	87

	Month (%)	3M (%)	6M (%)	1 Year (%)	2 Year p.a.	Since Inception p.a.
System Capital Long Short Fund Class A	0.34	-2.60	-4.38	-	-	-

Data Source: Fidante Partners Limited, 31 Dec 2025. Returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures. Past performance is not a reliable indicator of future performance.

The Inception date for Class A is 4 February 2025.

QUARTERLY MACRO REVIEW

UNITED STATES

The second half of 2025 was marked by a significant rebound in real GDP growth in the US, with the BEA (Bureau of Economic Analysis) estimating third quarter growth at an annualized 4.3%, with indicative growth estimates for the fourth quarter targeting over 5%, despite headwinds from the government shutdown. Quarterly GDP numbers have been volatile throughout the year due to tariff impacts on import and export flows, however annual data suggests a strengthening US GDP growth rate with healthy productivity improvements.

Core inflation moved lower to 2.7% in November. The October report was not released due to the federal government shutdown, which also affected the November report. Monthly job creation continued to trend down through the year, declining 105,000 in October and then growing by 64,000 in November. Unemployment increased to 4.6% in November.

The Federal Reserve continued to lower its effective federal funds rate during the fourth quarter, however the minutes indicated a range of rate cut outlooks from the board members, muddying the outlook for future rate cuts. The Fed is attempting to manage inflation trends, a slightly deteriorating labour market and uncertainty regarding tariff impacts. Despite the cuts during the quarter, the 10-year bond stayed within a relatively narrow range. Although the 10-year yield was stable, mortgage rates trended down through the quarter and spreads compressed. Any further declines in mortgage rates would help to unlock activity in a historically depressed mortgage and housing market.

The US budget deficit decreased for fiscal year 2025 on a total dollar and percentage of GDP basis. This was driven by healthy revenue growth due to strong individual income taxes and tariffs, offset by lower corporate taxes driven by legislative changes. The scope of tariffs and their amounts continues to have important implications for individual businesses and overall budget deficit levels.

EURO AREA

The Eurozone continued to grow, albeit at a much slower pace than the US with GDP growth at 1.4%. Inflation trended down through the quarter, settling at 2% by the end of the year. Unemployment stayed at historical lows of 6.3%. The ECB (European Central Bank) continued to hold rates at 2% with the ECB indicating current rate levels were appropriate.

The French government was unable to pass its budget during the period and is now running on a provisional budget. As a result, concern has grown around the government's spending trajectory given persistent budget deficits of 5-6% of GDP and a debt-to-GDP ratio of 110%.

SIGNIFICANT CONTRIBUTORS FOR THE QUARTER INCLUDED:

Lippert Group (LCII). Lippert shares rose 32% in the quarter following better operating results, accretive M&A and increased optimism about a better macroeconomic backdrop for 2026. Lippert is a global manufacturer of engineered components and systems for the recreational vehicle (RV), marine and industrial sectors. It has a dominant share and a structurally advantaged position in the manufacture of RV chassis parts and a value-add strategy to increase share in RV components. The company is majority-owned and run by the Lippert family, providing a high level of alignment between management and minority shareholders. Please see our write-up below.

Navigator Group (NGI.AX). Navigator rose 41% in the quarter, following an investor day that outlined key longer-term targets for the group. Navigator's core business is taking strategic minority stakes in alternative asset managers, providing growth capital, strategic distribution and infrastructure support as needed. We first invested in Navigator in June 2023 at around \$1.20 a share following the announcement of a strategic deal with Blue Owl (a large alternative investment manager based out of the US) which has resulted in a high degree of value creation. Valuation is no longer as compelling 2.5 years later but there are several longer-term strategic catalysts which continue to be underappreciated by the market.

DETRACTORS FOR THE QUARTER INCLUDED:

VEND

Thesis: Vend (formerly Schibsted) is a dedicated pure-play Nordic online classified and marketplace business, with dominant market shares across its key verticals, relatively low levels of monetization and a strong cost-out story driven by IT simplification and separation benefits. Given Vend is a scaled, multi-vertical classifieds operator it can spread product (including AI) investment across multiple large marketplaces, spanning FINN, Blocket, DBA, Bilbasen, Tori and Oikotie. The company has gone through several major changes over our period of ownership including divesting its traditional newspaper business, divesting a material stake in Adevinta to PE buyers and further exiting other non-core assets and minority investments. More recently the company is engaged in a platform unification project which aims to streamline product velocity and deliver back-end efficiencies. Over the last 3 years Vend has been a large contributor to performance.

Why it underperformed: Shares fell ~21% in 4Q2025. The first leg was cyclical: despite beating EBITDA expectations at the group level by ~10% (through strong cost control), results showed weakness in advertising trends and a softening listings environment, particularly in jobs and real estate. The second leg was multiple-driven: Vend's UK peer Rightmove's update signalled a step-change in AI investment (£18m extra in 2026) and lower margin guidance, which drove a broad de-rating of the online classifieds sector (including Vend) as investors extrapolated higher AI investment needs and lower medium-term margins.

What we did to re-underwrite (case / valuation): To review the position, we reframed the AI "disruption" narrative into a concrete cost/margin/moat question and stress-tested whether Vend's existing guidance already embeds AI investment. Management has reiterated that the margin (and capex) framework from the 2024 CMD (Capital Markets Day) already includes investment in new products including AI-driven enhancements. On the concern that AI will divert traffic share from portals,

we have spoken to a number of industry experts about this issue. We view Vend as structurally better prepared for AI than many peers: it has a dedicated Department of AI (~35 people) and has been investing in AI over the last few years already. These investments are aimed at productivity, product enhancement and new revenue streams specifically targeted at improving the search experience. While we continue to monitor developments closely, we remain comfortable with the investment case.

THE LOTTERY CORP

Thesis: Lottery Corp is an Australian lotteries and Keno operator with a structurally attractive business model anchored by exclusive and/or long-dated state-based licences, which materially limit direct competition and support durable cash generation. The company runs a diversified portfolio of major lottery brands and games distributed through a large retail network alongside growing digital channels, which we view as a multi-year margin opportunity as participation steadily migrates online. From a shareholder returns perspective, TLC's stated intent to pay out 80–100% of NPAT (before significant items) provides a clear framework for capital returns, underpinned by the inherently cash-generative nature of the model.

Why it underperformed: During 4Q2025 Lottery Corp shares fell 12%. At the FY25 full year results in August (3Q2025), the company outlined a 17% price increase in its flagship Powerball jackpot game commencing in November 2025. However, 1H26 has seen the weakest 1H run of jackpots in the past 5 years, driving a 6% year-on-year decline in the lottery prize pools.

What we did to re-underwrite (case / valuation): We went back through the data and analysed the number of jackpots during 1H26 and compared to prior history. Jackpots are by their nature a probability driven outcome and during 1H26 there just hasn't been the expected level of large jackpots to get enough people excited to participate in jackpot lottery games – for example Oz lotto has had only 2 jackpots >\$30m in 1H26 with a total jackpot value of \$60m compared to 6 in 1H25 with a total jackpot value of \$220m. Periods of lower jackpots occur periodically but tend to even themselves out over time. We are confident that this will prove to be the case again and that the pricing changes that Lottery Corp have made (together with cost control) will drive earnings power and cash flow in future periods.

FLUTTER

Thesis: Flutter is the world's leading sports betting and gaming operator. It offers one of the highest quality investment opportunities in a structurally growing global online gaming market. Its proprietary capabilities result in a popular product suite, capable of driving market share gains and a structural win margin advantage. Our review of the ecosystem of competitors and suppliers highlighted Flutter as best placed to capitalise on the industry's growth story through their leading competitive playbook known as the "Flutter Edge". In particular, Flutter's high growth US business, FanDuel has attained market leadership over the past 4 years.

Why it underperformed: Shares fell 17% in 4Q2025. The fall was largely due to:

- the entry of "prediction market" companies into the US gaming space. These companies operate under a regulatory "grey area" to offer sports-related contracts broadly (even in states that prohibit sports betting), potentially avoiding state gaming taxes and various regulatory burdens that apply to traditional operators.
- adverse "customer-friendly" sports results where an unusually large number of favourites won in the current NFL season (during Sep and Oct) impacting Flutter's win rate. Given that this also happened in 4Q2024 the market became concerned that this could be an ongoing issue, and impact assumptions around FanDuel's structural hold rate.

What we did to re-underwrite (case / valuation): We focused the re-underwrite on real unit economics and competitive impact rather than headlines: we spoke directly with Flutter as well as peers Entain and DraftKings and prediction markets participant Robinhood and did extensive work on the economics of prediction markets.

The conclusion to date is that Flutter has so far lost minimal market share to new participants, and that volume growth by prediction market participants is concentrated in states where Flutter (and other players) don't have a licenced traditional OSB (Online Sports Betting) offering. More recently, as the "prediction market" category has evolved, Flutter responded by launching its own prediction product in key states that don't yet have sports/iGaming licenses, helping grow its addressable market. If Flutter is able to reach new customer categories through prediction markets, and then cross-sell these customers into traditional sports betting post-legalisation, this will enable Flutter to defend its leading market position. We remain vigilant and continue testing our assumptions as the regulatory and product landscape evolves.

STOCK REVIEWS

LIPPERT INDUSTRIES

ABOUT THE COMPANY

Lippert Industries was founded in 1956 by Larry Lippert, providing galvanized roofs for the trailer and recreational vehicle (RV) industry. Today, Lippert operates 140 manufacturing and distribution facilities across North American and Europe. Over the last 40 years, through organic growth and M&A, the company has secured dominant positions in a number of key components for the RV industry including the chassis, windows and axles as well as strong leadership positions in the marine sector.

WHAT ATTRACTED US TO THE BUSINESS

The underlying RV and marine boating industries are highly cyclical. Demand fluctuates with interest rates, consumer confidence, petrol prices and the prices of raw commodities. Holding excess finished product inventory (RVs or boats) is also high problematic, as there is typically a high amount of depreciation each year as new models are introduced. As a result, RV and marine boat manufacturers rely on a just-in-time manufacturing cycle to minimise inventory and working capital, trying to match production to the underlying demand environment. Importing a key component from offshore, such as a RV chassis, may cost less but ultimately will result in higher working capital, a lower ability to match sales to demand and a high risk of obsolete stock.

This makes local manufacturing of key RV and marine components at scale a key competitive advantage. Over the last 40 years Lippert has invested in vertically integrated manufacturing capabilities, which encompass metal fabrication, glass and plastics processing, electronics, and textile production in Elkhart, Indiana, where 90%+ of RV's are manufactured. Importantly facilities can be scaled up and down to produce very fast turnaround time for manufacturers. This manufacturing base has secured Lippert a dominant market position, commanding an estimated **85% market share** in North America RV OEM (Recreational Vehicle Original Equipment Manufacturer) chassis. Leveraging this strong position, Lippert cross sells other essential components such as windows, axles, slide-outs, suspension, air conditioning and other areas. This has resulted in a 50% increase in the \$ value of content sold into RV manufacturers over the last 6 years.

The company is known for its strong family culture (3 generations of Lippert family ownership), which is helpful in acquiring other family-owned businesses in the key verticals. Corporate culture is focused on "servant leadership" as a guiding principle, operating on the belief that supporting employees in their personal lives leads to higher engagement and better business performance, which has resulted in industry leading employee NPS (Net Promoter Score) scores and significantly higher employee retention than peers.

At the time of our investment in Lippert both the company and the RV industry were experiencing a cyclical downturn, which was exacerbated by a degradation in gross margins, as tariffs increased the prices of key inputs such as steel and glass. As a result, Lippert earnings were significantly below mid cycle levels. We underwrote our thesis based on the accretive value of recent M&A transactions, the optimisation of their operating cost base (a cost out program was underway) and the continued gradual increase in market share owing to their structural position. Our financial model suggested free cash

flow could grow at a double-digit rate over next 5 years, which was not adequately reflected in the 11x FCF FY2026 trading multiple. Importantly, we did not base our investment on a cyclical recovery in underlying demand, but we thought of that as a valuable option on top of the gradual structural strengthening of the business.

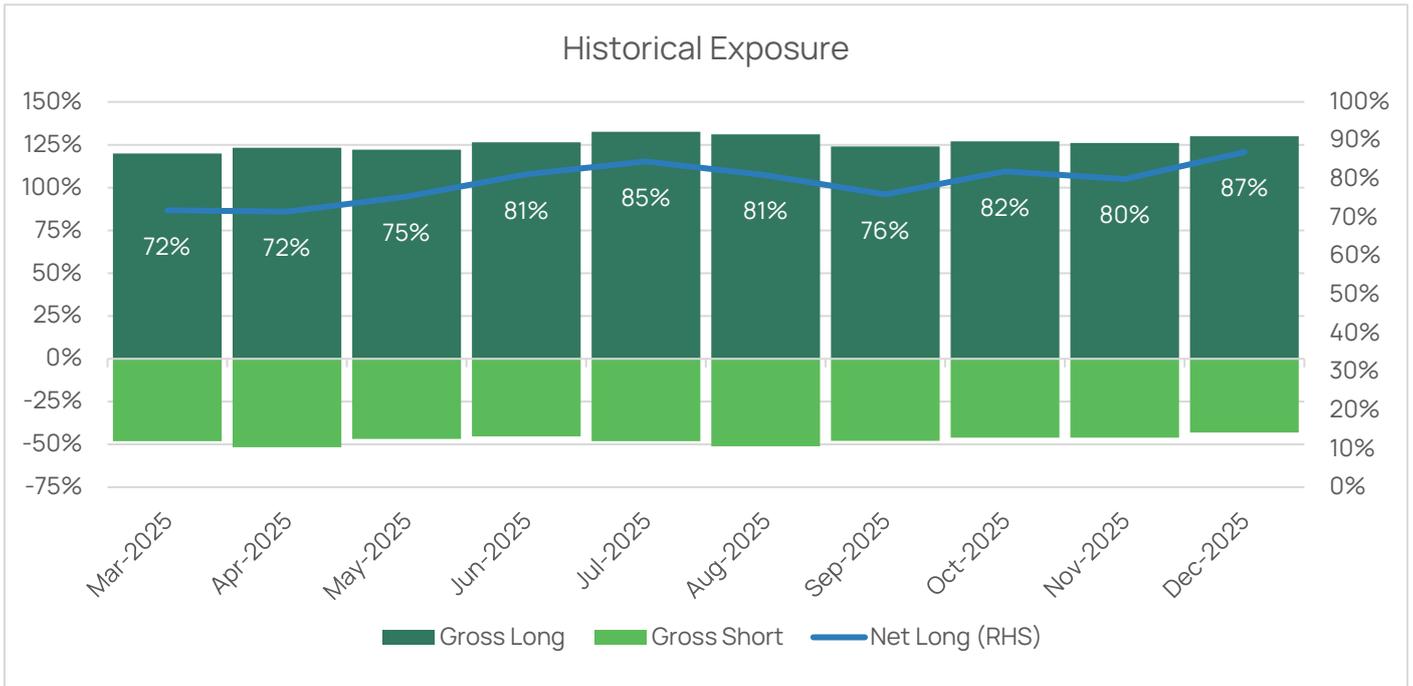
HOW ITS PLAYED OUT

Lippert has executed on its cost out program throughout 2025, which together with accretive M&A has resulted in an upgrade of short-term earnings expectations. As a result, shares have rerated from \$85 in April 2025 to circa \$137 at the time of writing. We believe consensus estimates continue to underestimate the structural margins and organic cashflow of the business.

EUROPE RESEARCH TRIP – KEY TAKEAWAYS

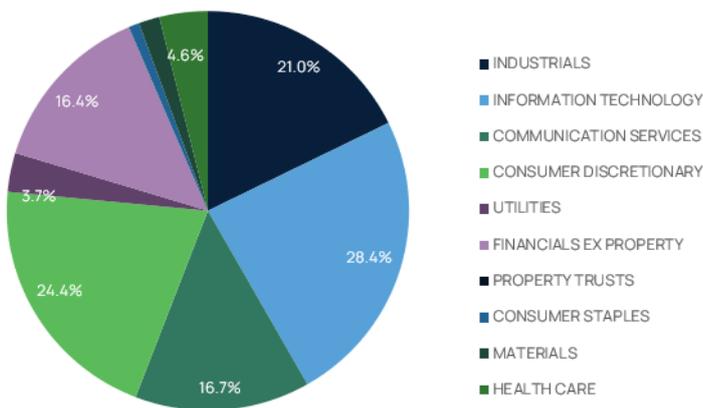
In November, we travelled to Europe to attend company investor days and meet with the management teams of Adyen, LSEG, Vend and Cellnex as well as a broad range of other companies across the key coverage areas of payments, information services, classifieds, telecommunications and infrastructure. We used the meetings to delve deeper into key business drivers as well as near-term and medium-term industry trends. Some of the conclusions we took away included:

- **The gap between payment innovators and laggards continues to widen.** There are a range of payment innovators that are rapidly improving the speed, cost and functionality of payment and money movement methods. These improvements are often structural features of the business model and are difficult for incumbents to copy or compete with. Adyen outlined how its single global platform provides a higher quality service and a more rapid pace of innovation. This has led to dramatic market share gains over the last decade, especially in the most complex payment segments (software platforms and global unified commerce). Our discussions with Adyen's management team also provided valuable insight into other payment industry trends, their key competitive advantages and the strategic difficulties that legacy providers face with their patchwork of systems.
- **Proprietary data and the usefulness of data for agentic tasks is the key differentiator in differentiating between losers and winners in the AI age.** A consistent theme of our conversations with information services providers was the strategic importance of proprietary data as well as the potential risks and opportunities with AI. LSEG discussed the rapid improvement in generative AI's ability to source and represent data in highly effective forms. As a result, information services companies that possess proprietary data have an opportunity to increase the usage and accessibility of their key data assets and potentially move to more consumption-based revenue models. As AI capabilities improve over time and the line blurs between human and AI based workflows, changes to business monetization strategies will be an area of focus for us. Furthermore, companies with undifferentiated public data will continue to be under pressure from rapid innovations at AI-native companies.
- **Strong opportunities in tower assets over the next 5 years.** Our meetings across the telecommunications sectors provided us with granular information on competitive dynamics in a range of markets that we follow. In addition to the telecommunications operators, we also met with cell tower companies and gained an increased understanding of the broader European cell tower industry as well as the contract structures and consolidation dynamics at portfolio company Cellnex. The consistent message from telecom operators, cell tower companies and consultants is that key tower assets will continue to play a crucial role in further 5G/6G roll and their contracts are very robust. We believe this is very different to where tower assets are trading today.

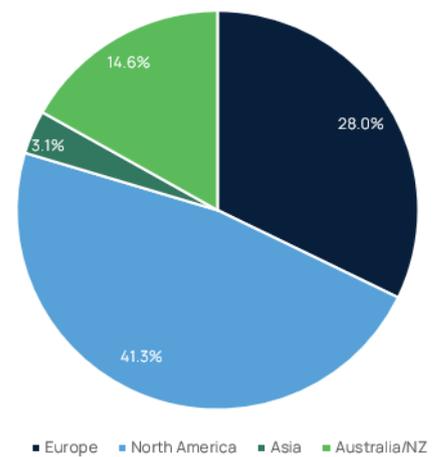


SECTOR AND GEOGRAPHIC EXPOSURE

Net Sector Exposure



Net Geographic Exposure



As at 31st Dec 2025

PORTFOLIO TOP 10 ACTIVE STOCKS (ALPHABETICAL)

Issuer	Issuer Name
ADYEN NL	Adyen NV
CLNX ES	Cellnex Telecom SA
EFX US	Equifax Inc
FER ES	Ferrovial SE
FICO US	Fair Isaac Corp
FLTR GB	Flutter Entertainment PLC
LSEG GB	London Stock Exchange Group PLC
MSCI US	MSCI Inc
VEND NO	Vend
VISA US	Visa Inc

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 31 December 2025)

Exposure analysis	
Position	% of net invested capital
Long securities (including derivatives)	129.95
Short	-42.95
Cash	13.00
Gross equity exposure	172.90
Net equity exposure	87.00

Maturity profile

As at 31 December 2025, the Fund does not have any material liabilities.

Derivative counterparties engaged

The derivative counterparties engaged for the period 1 July 2025 to 31 December 2025 are provided in the table below.

Derivatives counterparty
Morgan Stanley & Co. Prime Broker International plc

Liquidity profile

The table below demonstrates the liquidity profile of the Fund as at 31 December 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%

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 31 December 2025, the Fund is long exposure of 129.95% and short exposure of -42.95%. The gross equity exposure of the Fund is 172.90% and net equity exposure of the Fund is 87.00%.

Important Information

This material has been prepared by System Capital Pty Ltd (ABN 14 657 739 323) (System), the investment manager of the System Capital Long Short Fund (ARSN 683 513 948) (Fund). System is a corporate authorised representative (No. 001309928) of Fidante Partners Limited ABN 94 002 835 592 AFSL 234668 (Fidante). Fidante is a member of the Challenger Limited group of companies (Challenger Group) and is the responsible entity of the Fund. Other than information which is identified as sourced from Fidante in relation to the Fund, Fidante is not responsible for the information in this material, including any statements of opinion. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable to your circumstances. The Fund's Target Market Determination and Product Disclosure Statement (PDS) available at www.fidante.com should be considered before making a decision about whether to buy or hold units in the Fund. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. Past performance is not a reliable indicator of future performance. System and Fidante have entered into arrangements in connection with the distribution and administration of financial products to which this material relates. In connection with those arrangements, System and Fidante may receive remuneration or other benefits in respect of financial services provided by the parties. Investments in the Fund are subject to investment risk, including possible delays in repayment and loss of income or principal invested. Accordingly, the performance, the repayment of capital or any particular rate of return on your investments are not guaranteed by any member of the Challenger Group.