System Capital Long Short Strategy

PLEASE FIND OUR JANUARY 2026 NEWSLETTER BELOW. COMMENTS AND SUGGESTIONS ARE HIGHLY WELCOME.

STRATEGY PERFORMANCE OVERVIEW

The fund declined 4.7% for the month, bringing 6-month performance to -9.1% and one year performance to -4.6%.

The fund's investments across information services, classifieds and payments have seen significant share price falls, based on fears of AI disrupting existing business models. We own very few software businesses directly affected by AI. However, the market has been indiscriminate in selling any business with intangible assets, high returns on capital and a large profit pool that can, even tangentially, be affected by AI. Our most obvious exposures to AI are in the information service area (16% of portfolio). We have highlighted the stocks below. We believe if even all "AI at risk" revenues were written down to 0, these stocks now represent compelling value. We will have more to say on this in our February newsletter.

Key information services stocks in portfolio

Stock	Key Business Activities	CY 26 P/E Multiple	Average 5 yr P/E Multiple	What can AI disrupt?	% of EBIT exposed to AI disruption	CY 26 P/E multiple ex AI EBIT
FICO	• Credit scores sold to financial institutions and utilized in the US securitization market. **85% of EBIT.** • Decisioning software sold to financial institutions (e.g. credit card fraud detection). **15% of EBIT**	31.8X	42.8X	• Certain FICO decisioning tools could be replaced by superior AI based predictive algorithms. • Some are protected via unique datasets while the remainder possess disruption risk.	10% of EBIT	35.3X
MSCI	• Index subscriptions (**40% of EBIT**): Benchmark licensing to active managers. • Asset-based fees (**31% of EBIT**): Revenue tied to AUM in ETFs and products linked to MSCI indices • Analytics (**18% of EBIT**): Factor data, VaR and stress-testing models, and performance attribution tools. • Private assets data (**4% of EBIT**): LP-sourced private fund performance histories and cash flow datasets.	26.4X	40.2X	• Analytics: AI-native tools could replicate reporting, dashboards and insights, pressuring lower-value analytics layers (25% of Analytics EBIT or 4% of MSCI EBIT). • ESG & Climate: AI lowers the cost of scraping disclosures / news, which could compress pricing in ESG data screening products (30% of ESG & Climate EBIT or 2% of MSCI EBIT).	6% of EBIT	28.4X

	• Climate & ESG (**6% of EBIT**): Risk data, metrics and ESG ratings solutions.					
S&P	• S&P Global credit rating agency (**50% of EBIT**). • S&P Dow Jones index business (**15% of EBIT**). • Platts' commodity price benchmark business (**7% of EBIT**). • Commodity Insights Data (**10% of EBIT**). • Market Intelligence Data sells financial data and valuation (**7% of EBIT**). • Enterprise workflow tools for the financial services industry (**6% of EBIT**). • Desktop segment provides equities information, industry data and sell side models to the financial industry (**5% of EBIT**).	20.2X	29.7X	• The Desktop service uses extensive public data, leaving this segment at risk from an AI built tool focused on data ingestion. • Within Market Intelligence Data the valuation tools and non-proprietary datasets could be replicated with AI tools. • Some enterprise workflow products could be subject to competition from AI built products with more modern interfaces.	12% of EBIT	23.0X
LSEG	LSEG is a provider of: • Data & Analytics including Real-time & end-of-day market data and reference data and analytics (**25% of EBIT**). • Workflows via APIs & desktops (**14% of EBIT**) • FTSE Russell Indices (**14% of EBIT**) • Listing/trading venues (LSE, MTS, Turquoise, FX, majority stake in Tradeweb) (**27% of EBIT**) • LCH clearing plus securities reporting (**12% of EBIT**) • Risk Intelligence: World-Check for KYC/AML (**8% of EBIT**)	16.1X	25.2X	Workflows (Desktop) • Copilot-style UIs may commoditize front-end desktops, reducing the premium on traditional interfaces. • LLMs pulling data via APIs and answering inside Microsoft 365 could erode seat count and switching costs. Data & Analytics • Readily available datasets (non-real-time prices, fundamentals, news summaries) via auto-cleaning cheaper sources. • Note: 90% of Data & Analytics revenue is protected by proprietary data (70%), or IP / cleansing applied to public / private data (20%).	14% of EBIT (assuming all of the Workflow segment profits are disrupted)	20.0X

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RECENT POSITIONING

Position Type	Jan 26
Short Positions	19
Long Positions	38
Total Positions	**57**
Of which Index Positions	4

Region	Gross Long (%)	Gross Short (%)	Net Long (%)
Europe	53	-26	26
North America	57	-20	38
Asia	4	0	4
Australia/NZ	19	-2	17
Total	**132**	**-48**	**84**

	Month (%)	3M (%)	6 Months (%)	1 Year (%)	2 Year p.a.	3 Year p.a.	Cumulative Since Inception	Since Inception p.a.
System Capital L/S	-4.7	-5.2	-9.1	-4.6	8.1	13.6	58.6	15.2
MSCI World AUD Hedged	1.7	2.5	10.7	16.4	19.4	18.4	78.0	19.3
Stoxx 600	3.2	7.1	12.6	16.3	15.1	13.4	62.7	16.1
ASX 200	1.8	0.4	3.1	7.4	11.2	9.8	46.5	12.4

Performance is in AUD (Hedged) and is before fees. Cumulative Returns and Annualised Returns from 26th Oct 2022 to 31st Jan 2026. 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.
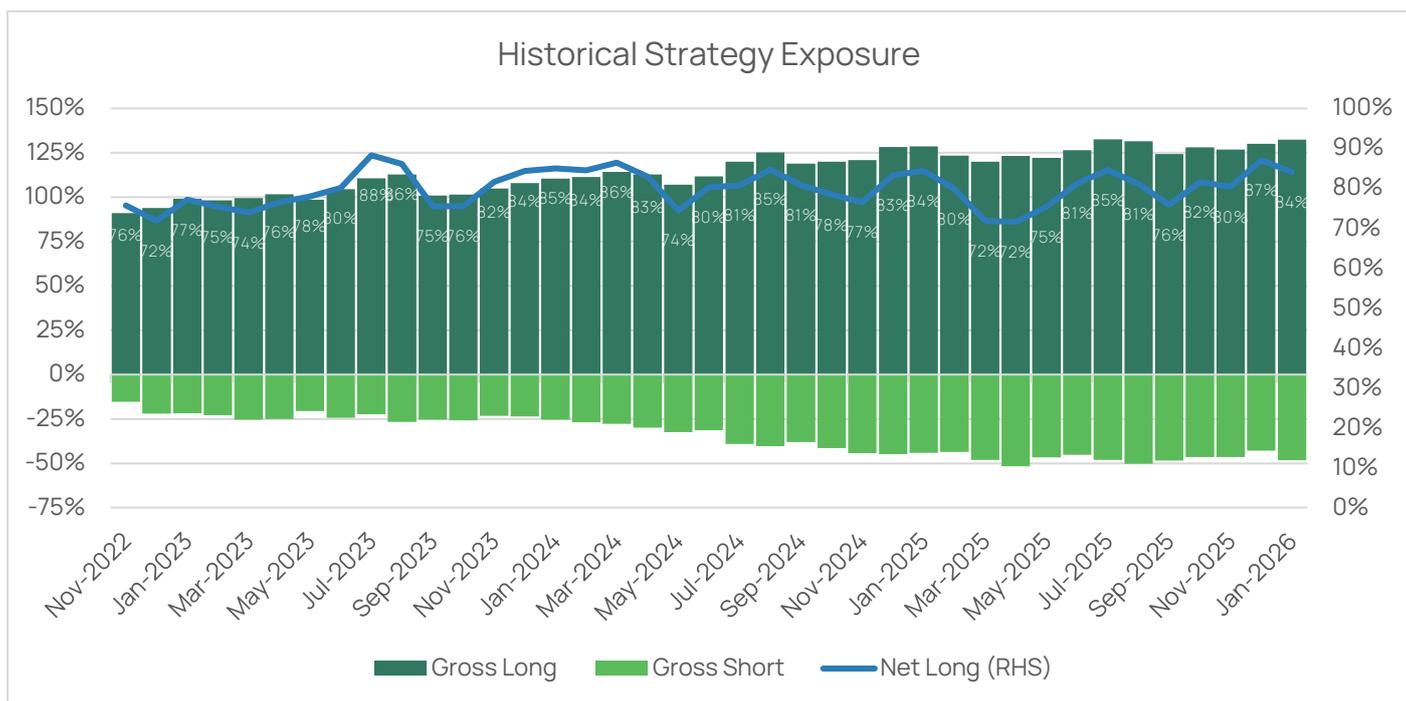
SIGNIFICANT CONTRIBUTORS FOR THE MONTH INCLUDED:

- **Lippert (LCI):** Shares increased 27% following a recent earnings upgrade and encouraging commentary from manufacturers of RVs through January. Please see our write-up in the December quarterly about this position.

- **CK Hutchison:** Shares rose 18% as investors increasingly anticipate a breakup of the conglomerate group. CK Hutchison has leading positions in infrastructure, telecoms, ports and retail pharmacies in western markets. but has long traded at a deep discount to fundamental value. The issue has been the unwillingness of management to address the longstanding discount between the trading price of the shares and the break-up value of the business. With an IPO of the retail pharmacy business, sale of ports, and an IPO of telecom business all being actively considered we believe this may change in 2026.

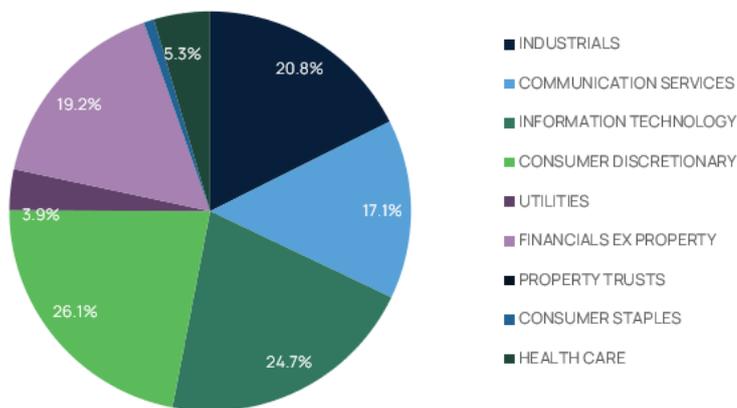## DETRACTORS FOR THE MONTH INCLUDED:

- **Flutter:** Shares fell 25.9% during the month as U.S. sportsbook handle growth (amount wagered) came in softer than seasonal norms. This was driven by NFL playoff variance (fewer exciting matchups than last year), calendar variation (one less Sunday than last year) as well as operator friendly results in December (bettors winning less) resulting in less "recycling" of winnings into more bets. Headlines around CFTC-regulated prediction markets also weighed on sentiment, raising questions about sportsbook growth durability. What we have observed is very minimal discernible impact from prediction markets on sportsbook revenues as communicated by BetMGM and DraftKings who have already reported 4Q25 earnings.

- **FICO:** Shares fell 13.5%. The stock declined despite mortgage rates continuing to trend down and a strong earnings report that included 26.5% EPS growth, credit score price rises and a small recovery in mortgage volumes. The launch of FICO's new direct licensing program was delayed to later in the year due to external party testing, however they continue to sign up a large portion of the mortgage credit score reseller industry. Industry pressure on other businesses in the credit bureau ecosystem (credit file sellers) also weighed on the industry overall. FICO remains well placed to increase its value share of the ecosystem due its position as a key under-monetized input for the $11 trillion MBS market and the broader ABS market.

- **LSEG:** Shares were down 9.3% in January amid a sector-wide rotation away from data and desktop software providers, with investors concerned about potential generative-AI disruption and fears of moderating subscription momentum ahead of results. Headlines through the month (including the release of Anthropic Cowork) highlighted concerns that generative AI could impact parts of LSEG's Data & Analytics segment (specifically the desktop business), causing shares to slip despite ongoing company share buybacks. In early February, Elliott, a prominent U.S. activist hedge fund, acquired a "significant" stake in LSEG to work with management to realise faster margin expansion, accelerate operational upgrades and push for larger buybacks – initiatives we support given significant mispricing in the shares (see above).
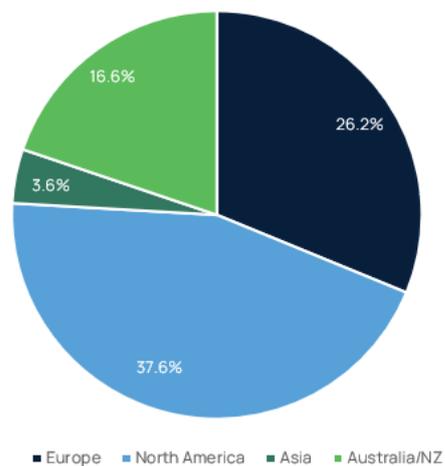
STRATEGY EXPOSURE

Historical Strategy Exposure

Legend: Gross Long, Gross Short, Net Long (RHS)

SECTOR AND GEOGRAPHIC EXPOSURE

Net Sector Exposure

- INDUSTRIALS — 20.8%
- COMMUNICATION SERVICES — 17.1%
- INFORMATION TECHNOLOGY — 24.7%
- CONSUMER DISCRETIONARY — 26.1%
- UTILITIES — 3.9%
- FINANCIALS EX PROPERTY — 19.2%
- PROPERTY TRUSTS
- CONSUMER STAPLES
- HEALTH CARE — 5.3%

Net Geographic Exposure

- Europe — 26.2%
- North America — 37.6%
- Asia — 3.6%
- Australia/NZ — 16.6%

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PORTFOLIO TOP 10 ACTIVE STOCKS (ALPHABETICAL)

Issuer	Issuer Name
ADYEN NL	Adyen NV
AMZN US	Amazon.com Inc
CLNX ES	Cellnex Telecom SA
EFX US	Equifax Inc
FER ES	Ferrovial SE
FICO US	Fair Isaac Corp
LSEG GB	London Stock Exchange Group PLC
MSCI US	MSCI Inc
TLC AU	Lottery Corp Ltd
VEND NO	Vend

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