System Capital Long Short Strategy

Quarterly Report March 2026

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

STRATEGY PERFORMANCE OVERVIEW

The fund declined 16.3% for the quarter, bringing one year performance to -13.8%.

The quarter was marked by two significant events.

January and February saw a rapid sell-off in the software sector, driven by fears that new, more powerful AI models will displace traditional software or significantly lower future growth. The sell-off quickly spread to other sectors including information services, payments and classifieds. In some cases, these businesses have a small % of their revenue exposed to AI; in other cases they may have been held by the same group of investors as software stocks and were sold collectively to balance the portfolio or meet redemption requests.

One of our key investment areas is digital infrastructure: in essence, companies who sell digital services or products that are essential to the way consumers and businesses operate, and which are growing their structural advantage through time. Typically, their value comes from their network effects (largest number of proprietary records, largest number of users) or regulatory lock-in (needs to be used for regulatory or legal purposes) rather than the software they sell. Information services business like MSCI, S&P Global and London Stock Exchange (LSEG) all fit in this category. We also own leading classified verticals in Norway (Vend) and Switzerland (Swiss Marketplace Group) and payment businesses (Visa, Mastercard, Adyen), which were also sold off. Through February, we rigorously re-underwrote our digital infrastructure business, trimming some positions, adding to some ideas where opportunities were compelling, and putting selective shorts in place. Please see our “AI Disruption” section later in the newsletter for a comprehensive review.

March saw the start of the Iran conflict and a general market sell-off. The high fuel price and potential for a consumer downturn affected some of our positions, such as Ferrovial (toll roads), James Hardie (lower housing sales), Floor and Décor (consumer confidence) and Safran (less flying hours). Several of these stocks have recovered strongly into April.

Position Type	Mar 26
Short Positions	24
Long Positions	38
Total Positions	**62**
Of which Index Positions	5

Region	Gross Long (%)	Gross Short (%)	Net Long (%)
Europe	56	-33	22
North America	67	-36	31
Asia	11	0	11
Australia/NZ	18	-4	14
Total	**152**	**-74**	**78**

	Month (%)	3M (%)	FYTD (%)	1 Year (%)	2 Year p.a.	3 Year p.a.	Cumulative Since Inception	Since Inception p.a.
System Capital L/S	-9.1	-16.3	-19.5	-13.8	0.5	8.1	39.3	10.1
MSCI World AUD Hedged	-5.8	-3.3	7.5	17.7	12.0	16.1	69.3	16.6
Stoxx 600	-7.7	-1.0	9.0	12.1	9.6	11.3	56.1	13.9
ASX 200	-7.1	-1.6	2.0	11.7	7.2	9.5	41.6	10.7

Performance is in AUD (Hedged) and is before fees. Cumulative Returns and Annualised Returns from 26th Oct 2022 to 31st March 2026. Returns in AUD. Gross returns before management and performance fees. MSCI World 100% Hedged to AUD Index, ASX 200 Accumulation Index, Stoxx 600 Net Total Return.

QUARTERLY MACRO REVIEW

UNITED STATES

Real GDP growth in the first quarter of 2026 was modestly positive but well below the pace of the second half of 2025, with growth supported by non-residential fixed investment, particularly AI, while broader domestic demand softened. Military action in Iran in late February closed the Strait of Hormuz, driving oil prices sharply higher and injecting a new layer of uncertainty into an already complex macro environment.

Consumer spending entered the quarter on soft footing, with real spending estimated to have grown at only 1.2% annualised in the first quarter, down from 1.9% in the fourth quarter of 2025. An unusually strong tax refund season helped cushion the slowdown, providing a temporary boost to household cash balances that partially offset weakness in underlying demand. Heightened short-term inflation expectations have registered clearly in survey data and in headline CPI prints but have not yet translated into a sustained pullback in real consumption.

Core PCE inflation ran at approximately 3% annualised in the quarter, elevated by tariffs and residual seasonality. The Federal Reserve held steady at 3.625% throughout the quarter, and the Iran crisis pushed rate cut expectations back. The Fed views the energy-driven inflation spike as largely transitory, with limited pass-through into core, and financial conditions have tightened meaningfully since the onset of hostilities, reversing the easing accumulated earlier in the year.

EURO AREA

The Euro Area ended last year with subdued growth, with quarterly GDP running at 0.3%. Since then, the Iran conflict introduced headwinds that prompted a downward shift in full-year expectations, with 2026 estimates now ranging between 0.6% and 1.1%. The primary medium through which the conflict has affected GDP growth expectations is through a compression of real household incomes from higher energy costs.

The most consequential development of the quarter was the dramatic repricing of ECB policy expectations. The quarter opened with rate cuts expected at the June and September ECB meetings, on the basis that headline HICP had fallen to 1.7% year-on-year in December 2025, its lowest level since April 2021, and core inflation was forecast to undershoot the 2% target through 2026-27. The Iran energy shock reversed this picture sharply: with oil up approximately 40% and gas up 80% from January levels, headline HICP rose to 2.5% year-on-year, and the ECB's own communication made clear it prioritises inflation risks over downside growth risks.

SIGNIFICANT CONTRIBUTORS FOR THE QUARTER INCLUDED:

TRADEWEB

Tradeweb's shares rose 9% in 1Q2026 following a strong 4Q2025 earnings report. Trading activity in January, February, and March 2026 continued to show strong year-over-year growth. March trading volume reached $87.0 trillion, with average daily volume (ADV) of $3.8 trillion, up 42% YoY, alongside records in several asset classes such as U.S. government bonds, interest rate swaps and US high grade credit. The company continues to be a structural leader in the electronic fixed income market and should benefit from interest rate and FX volatility through the year. The company also disclosed during its 4Q2025 results that it repurchased $156.6m worth of shares in 4Q2025 and 1Q2026, a notably higher level of share repurchases than in 2023 ($35m) and 2024 ($59m).

RAMSAY HEALTH CARE

Ramsay Health Care shares rose 17% in 1Q2026 following a strong 1H2026 earnings result and a decision to exit the French hospital business. Ramsay's new leadership team has focused on restoring margins in the core Australia segment, following years of declining returns driven by lower hospital visits, high employee cost growth and overinvestment. Early signs are promising with a strong lift in theatre utilisation and tighter operating controls starting to lift margins. Capital investment has also been much more tightly controlled, lifting free cash flows. On the portfolio side, the company has begun a wholesale review of international assets, which have depressed group returns over several years. System Capital believes there is a credible path to lifting returns in the Australian hospital divisions to pre-covid levels, which together with further asset sales and restructuring could result in a much strong cashflow profile for the business.

THE LOTTERY CORP

Lottery Corporation's share price increased 6% in 1Q26 following the release of its 1H26 results report (18 February 2026), which showed resilient performance in the face of a below average number of jackpots, as well as good operating cost discipline. We believe the market also reacted positively to the constructive tone from the new CEO, Wayne Pickup, who plans to drive digital innovation and improve player retention, particularly in younger, more infrequent customer cohorts. An investor day is planned for later in the year, which should give us more insight into these plans.

DETRACTORS FOR THE QUARTER INCLUDED:

FLUTTER

Thesis: Flutter remains the global leader in online sports betting and iGaming, with FanDuel the clear U.S. market leader and a broad international portfolio that gives it market-leading positions and meaningful scale advantages in product, pricing, and customer acquisition. That said, our thesis is no longer that this is a straightforward compounder: the business has clearly become more exposed to short-term U.S. handle volatility, increased U.S. OSB promotional intensity, and new competition from prediction markets, all of which have challenged sentiment and near-term earnings visibility. Our conviction rests on Flutter still being best placed to navigate those pressures through its "Flutter Edge" (local brand autonomy combined with global knowledge sharing in product and tech, pricing and risk management, content, player protection, marketing, and generosity), strong brand portfolio, and ability to respond strategically — including launching its own prediction product and continuing to win share in the strategically important US iGaming market.

Why it underperformed: Shares fell 52% in 1Q2026. The fall was largely due to:

- Disappointing results from peer DraftKings and Flutter's own underwhelming 2026 guidance. DraftKings' 2026 below-consensus revenue outlook ($6.5–$6.9bn) sparked a sector de-rating and revived concerns around promotional intensity and prediction market disruption. Flutter then added to the pressure with its own full year update. 2025 revenue fell short of expectations and management flagged softer U.S. handle growth trends.
- The ongoing volume growth of "prediction market" companies, with fears they are starting to take volume share from traditional OSB operators. 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.
- Increased promotion intensity from traditional OSB operators – offering higher levels of free bets to win new customers – causing Flutter to respond with more promotions to defend market share. At the same time, Flutter executed poorly on these promotional offers, causing the market to question its long-term sustainable win margin.

What we did to re-underwrite (case / valuation): Flutter had been one of System Capital's most successful investments since the inception of the fund but over the last year we have been slow to recognise the potential structural challenges from prediction markets and a more competitive online sports betting environment. This has been greatly compounded by Flutter's own management missteps, with a poorly executed NFL sports season, resulting in market share losses in US sports betting in 2025 and a higher required level of promotional spend in 2026. With a more conservative set of assumptions, including Flutter's own prediction market investment, valuation is extremely compelling at these levels: 17x P/E for a stock growing EPS 23% p.a. (next 3 years). However, execution must improve across sports betting, and Flutter must prove it can be a share leader in non-regulated sports betting markets where newer players like Kalshi and Polymarket have taken an early lead.

ADYEN

Thesis: Adyen has a competitively advantaged single payments platform with a unique global footprint that can serve online and offline commerce. Furthermore, Adyen's long term investment in acquiring banking licences globally allows it to offer both a superior payments product as well as adjacent financial products such as banking accounts and card issuance. The vast majority of competitors offer an inferior service as the result of using a patchwork of legacy systems. This is reflected in Adyen consistently and rapidly winning market share every year since the business started 20 years ago. Adyen still only has ~5% market share in an end market growing high single digits, with the opportunity to materially increase their market share.

Why it underperformed: Shares fell 39% in 1Q2026. The fall was largely due to:

The FY26 guidance given at their earnings release was slightly below market expectations on the revenue line (20-22% range vs 22% expected) and the margin line (flat margins compared to expectations of ~1 percentage point increase). Despite the reasonable stability of underlying revenue growth (21% in FY25, 23% in FY24 and 23% in FY23), management communication on business trends and investment cycles has been inconsistent and difficult for investors to follow, resulting in mismatched expectations. This has led to significant monthly share price moves when business results have differed from expectations.

What we did to re-underwrite (case / valuation): The result led to small changes in our underwriting as a result of the slightly lower than expected revenue growth and higher employee count. However, there was no fundamental change to the structural opportunity in front of Adyen. The company has +50% margins, ~20% revenue growth, a net cash balance sheet, and, at the end of the quarter, was priced at a 22X multiple of this year's earnings.

FICO

Thesis: FICO's mortgage and auto credit scores have +90% market share of their respective securitization markets, with FICO's dominance stretching back decades. Due to legacy contract structures, FICO was unable to amend the price of their scores until recently. Over the past several years FICO has been able to move their prices to more closely resemble the value they provide to the lending ecosystem. Despite those changes, FICO's prices, when considered as an effective take rate on underlying loan value, are still materially below other standards in the credit ecosystem – providing an opportunity to increase mortgage and auto score revenues at very high incremental margins.

The conventional mortgage market (mortgages implicitly guaranteed by the GSEs) has long used the FICO score as the only accepted score for securitization. This was changed last year with the introduction of the Vantage Score (VS) as an option. The VS has been available as a product for 20 years in all other loan verticals where FICO is not mandated and has had minimal traction – with securitization investors consistently showing preference for the FICO score. FICO's long history in the mortgage ecosystem has embedded the score across the value chain – including lenders, regulators, investors, rating agencies, and mortgage insurers. Despite the lower price of the VS to the lender, the mortgage-backed security (MBS) investor is not paying for the score and thus will not make investment decisions based on the price of the score – rather they will decide based on other factors such as history, consistency, predictiveness, and liquidity. Furthermore, the newly launched FICO performance program creates a pricing structure that more closely aligns lender volume and profits with FICO score fees.

Why it underperformed: Shares fell 37% in 1Q2026. The fall was largely due to:

Firstly, the price of the Vantage Score was reduced to $0.99 from ~$4.50 (compared to the $10 FICO price). However, due to the difficult economic and technical factors with making VS operational in the conventional mortgage market, the VS is still not available for use. Secondly, late in the quarter, mortgage rates increased due to the Iran war, which has a negative impact on mortgage origination volume. Thirdly, due to its information service (Scores) and software business lines, FICO has likely had selling pressure due to membership in different factors and baskets exposed to those two themes.

What we did to re-underwrite (case / valuation): Whilst any aggressive price action from a potential competitor should be perceived negatively, lender side pricing changes are not the only factor in the ecosystem. Securitization investor appetite and pricing for the VS is a key factor along with any lender incentives to now potentially run two scores in order to maximise origination success (buying both scores still costs a small fraction of end loan value). We are closely watching any further news on VS introduction, VS MBS pricing (once operational) and whether lenders revert to a dual score workflow. The business is now priced at 26X CY26 earnings. Whilst there is risk to conventional mortgage market share (as described above), the business has numerous opportunities to grow earnings per share at a healthy double-digit rate. These include a mortgage volume recovery from origination volumes that are still ~50% below pre-COVID numbers, continuing to close the price to value gap with the auto score (an area unaffected by the regulatory changes), and the continued rollout of the performance-based mortgage score model and its associated success-based fee.

AI DISRUPTION AND SECTOR DE-RATING DURING THE QUARTER

The AI disruption trade: The first quarter of 2026 saw a pronounced rotation out of software and related technology sectors, driven by a sharpening of investor concerns around AI's capacity to displace traditional SaaS business models. Companies whose revenue models depended on seat-based or workflow-specific licensing faced the sharpest re-rating, as investors questioned not merely near-term growth rates but the terminal addressable market and long-run pricing power of products that AI agents were increasingly able to replicate or substitute.

What was notable about the rotation, however, was how little discrimination it applied within and across sectors. Companies with genuine structural exposure to AI displacement (those with commoditised workflows, weak retention metrics, and no meaningful data advantage) were sold alongside businesses with defensible moats and high switching costs. The contagion also spread to sectors adjacent to software, despite some of them facing materially different competitive dynamics. In several cases, businesses that are arguably beneficiaries of increased AI adoption, supplying the infrastructure, compliance, or data layers that AI deployment requires, were repriced as though they faced the same existential risk as the seat-based SaaS vendors at the centre of the debate. We did not believe the contagion effect would be as broadly spread as it was.

Relevant portfolio exposures: While our portfolio does not have a meaningful direct exposure to software businesses, our investments across information services, classifieds, and payments saw considerable price falls over the first quarter of the year. These are high-quality companies that are asset-light, essential to the functioning of the digital economy, have a high degree of pricing power, and high ROICs. None of these businesses have shown a slowdown in earnings.

We note that businesses with relatively minor exposure to data commoditisation have been heavily sold down through the period. For example, LSEG, primarily a markets infrastructure business but with a small data platform component, has seen heavy selling. The same applies to S&P Global (mainly focused on credit ratings) and MSCI (mostly an index business).

Overall, we believe our portfolio stocks benefit from genuine and durable sources of structural advantage.

Industry	AI Disruption Bear Thesis	Exposure (% of Long Book)	Stocks	Sources of Structural Advantage
Information Services	▪ Data commoditization: LLMs can gather and synthesise publicly available data. Data providers with friendly UI but no proprietary data lose value. ▪ A commoditised interface also means lower switching costs. ▪ Customers gain bargaining power from strong AI alternatives.	20%	LSEG, MSCI, Paylocity, S&P Global	▪ Proprietary data ▪ Systems of record ▪ High switching costs ▪ High potential for applying AI in their incremental products
Classified Ads	▪ Disintermediation by AI search: LLMs may reduce direct traffic by intercepting searches before users enter an ads platform, making ads platforms a data service and reducing monetisation potential. ▪ New AI-native competition: vertical AI agents could bypass classified ads platforms.	8%	Vend, SMG	▪ Liquidity: platform with most listings and buyers in one place remains indispensable ▪ Switching costs for agents/dealers remain high due to workflow integration ▪ Proprietary transaction data: may monetise as an AI training/analytics asset
Payments	▪ AI agents making purchases autonomously may choose the lowest cost alternative to complete the transaction. ▪ Displacement by potential agentic wallets or LLM-native payment rails, which could bypass card networks entirely, routing through stablecoin rails instead.	10%	Adyen, Visa, Mastercard	▪ Network effects: moat via wide acceptance ▪ Incumbents best placed to train fraud and credit models on big data ▪ Fees justified by value-added services such as fraud prevention, dispute resolution, data analytics

WHAT WE HAVE DONE TO PROTECT THE PORTFOLIO

Identifying strongest business models: We continue to review the portfolio to identify the strongest and most durable business models. We have reviewed our portfolio stocks to ensure that they have durable moats against AI disruption, and we continue to search for genuine structural winners, protected from AI disruption, within sectors that have de-rated on AI concerns.

Valuation excluding AI-affected business segments: As part of our underwriting process, we reviewed our information services exposures and evaluated them on an assumption that all earnings at risk of AI disruption disappeared. We believe that even under that very conservative assumption, these stocks still represent compelling value.

Shorting strategies: Over the past quarter, we have also identified increased opportunity for relative value trades, where stock specific shorts allow us to invest in the structural winners of a particular sector, while protecting the portfolio from increasing AI disruption.

PORTFOLIO VALUATION

We believe the portfolio is attractively priced at this point. Our long positions continue to show strong sales and cash flow growth along with structural strengthening, while trading at multiples considerably lower than their historical average. Our short book is also priced attractively, with weak and structurally declining stocks trading at relatively high multiples despite low sales and negative cash flow growth.

Portfolio Book	Forward P/E	5y Average P/E	Forward P/CFO	5y Average P/CFO	12m Sales growth	12m CFO growth
Long	20.6	46.2	11.5	21.7	11.1%	12.9%
Short	22.4	20.9	8.7	13.8	0.2%	-10.7%

Data as of 31st March 2026.

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 March 2026)

Exposure analysis	
Position	**% of net invested capital**
Long securities (including derivatives)	151.81
Short	-73.96
Cash	22.15
Gross equity exposure	225.77
Net equity exposure	77.85

Liquidity profile

The table below demonstrates the liquidity profile of the Fund as at 31 March 2026.

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 31 March 2026, the Fund does not have any material liabilities.

Derivative counterparties engaged

The derivative counterparties engaged for the period 1 July 2025 to 31 March 2026 are provided in the table below.

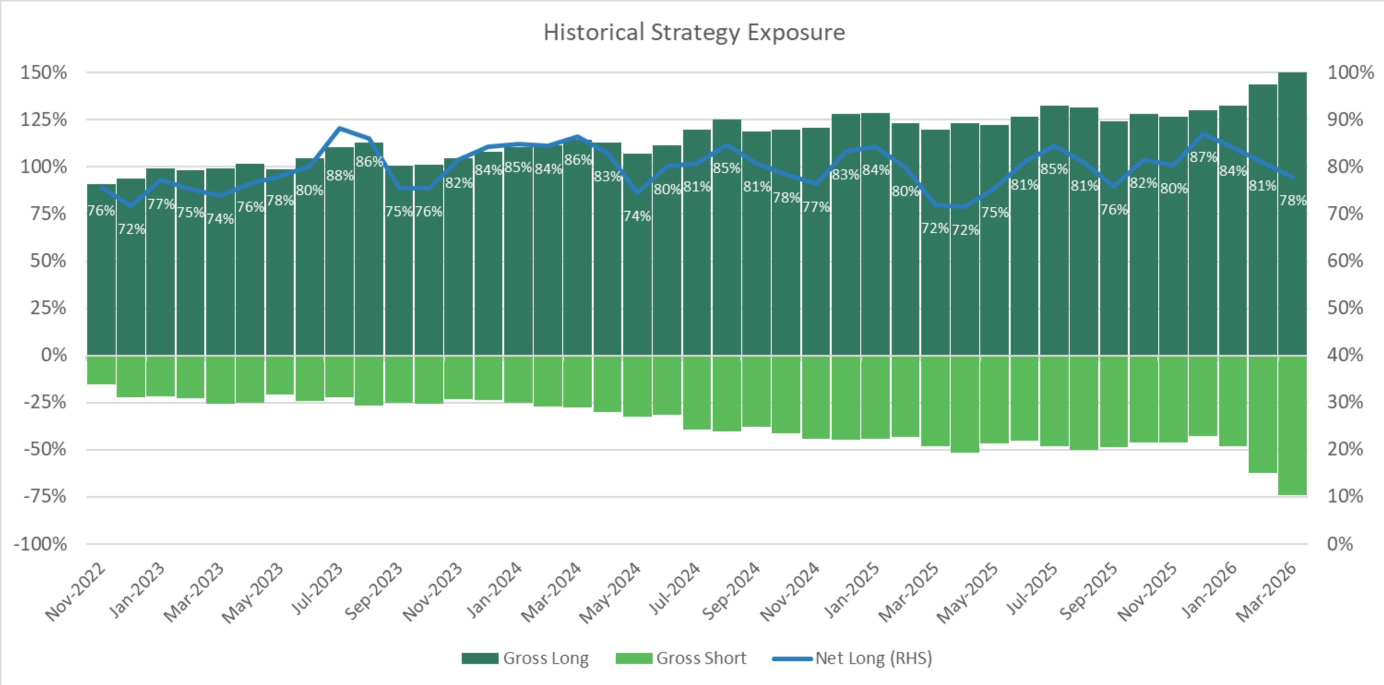
Derivatives counterparty
Morgan Stanley & Co. Prime Broker International plc

Leverage

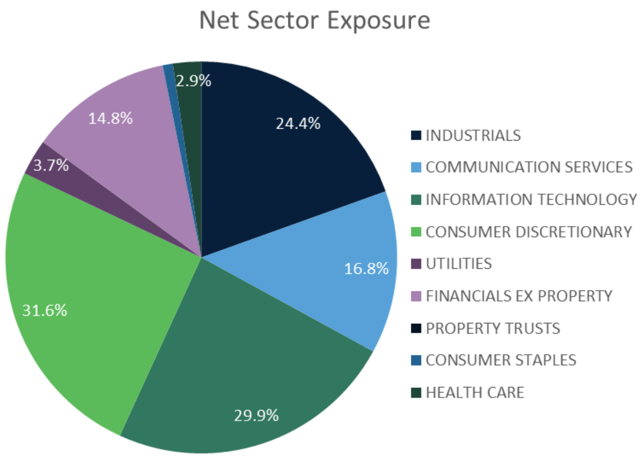
System Capital may use leverage to increase the exposure of the Fund to investment markets. Leverage will generally be obtained through the use of derivative instruments. Although the maximum allowable leverage permitted in the Fund is 150% of the Fund's NAV, the Fund's positions in long securities and 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.

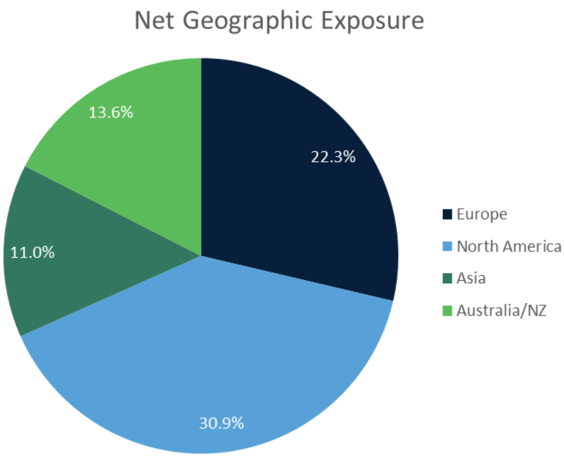
As at 31 March 2026, the Fund is long exposure of 151.81% and short exposure of -73.96%. The gross equity exposure of the Fund is 225.77% and net equity exposure of the Fund is 77.85%.

STRATEGY EXPOSURE



SECTOR AND GEOGRAPHIC EXPOSURE





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
LSEG GB	London Stock Exchange Group PLC
TLC	Lottery Corp Ltd/The
MSCI US	MSCI Inc
2330 TW	Taiwan Semiconductor Manufacturing Co Ltd
VEND NO	Vend Marketplaces ASA