System Capital Long Short Strategy

Monthly Report July 2026

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

STRATEGY PERFORMANCE OVERVIEW

The fund increased 5.6% for the month, bringing one year performance to -14.8%.

RECENT POSITIONING

Position Type	Jul 26
Short Positions	21
Long Positions	39
Total Positions	**60**
Of which Index Positions	5

Region	Gross Long (%)	Gross Short (%)	Net Long (%)
Europe	48	-38	10
North America	85	-33	52
Asia	21	0	21
Australia/NZ	12	-5	7
Total	**165**	**-76**	**89**

	Month (%)	3M (%)	6M (%)	1 Year (%)	2 Year p.a.	3 Year p.a.	Cumulative Since Inception	Since Inception p.a.
System Capital L/S	**5.6**	**1.9**	**-6.3**	**-14.8**	**2.3**	**6.8**	**48.6**	**11.1**
MSCI World AUD Hedged	0.3	5.2	8.6	20.2	17.3	17.6	93.3	19.1
Stoxx 600	1.2	7.1	8.2	21.8	14.8	14.2	76.1	16.2
ASX 200	2.3	4.1	2.9	6.0	8.9	10.4	50.7	11.5

Performance is in AUD (Hedged) and is before fees. Cumulative Returns and Annualised Returns from 26th Oct 2022 to 31st July 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:

- **Paylocity:** Paylocity shares rose by 32% in July. Paylocity provides cloud-based human capital management, finance, and IT software solutions in the United States to small and medium enterprises. Since its IPO in 2014, Paylocity has grown revenues by 26.2% and EBITDA by 50% per year. Current revenues stand at 1.7bn USD and EBITDA at $700m, despite never raising capital outside the $100m IPO. The exceptional growth of Paylocity is due to significant market share gains from incumbent processors such as ADP, product expansion beyond basic payroll, and the very high level of customer retention. Historically Paylocity has traded at a 30x EV/EBITDA multiple to account for its exceptional growth in EBITDA and return on capital. However, concerns about AI disruption over the last year have seen the multiple collapse to just 9x EV/EBITDA by end of June. This is despite revenue growth of 12% and operating EBITDA growth of 16% over the year. We took the opportunity to significantly increase our position in Paylocity during this period of weakness. The sell-off in AI stocks resulted in a sharp re-rating of Paylocity in July and this is continuing in August after Paylocity reported a strong set of results.

- **Paycom:** Paycom shares rose by 30% in July. Paycom provides HCM services to mid-market firms which include payroll, talent, expense management and other modules. Since its IPO in 2014, Paycom has grown revenues by 27% and EBITDA by 39.7% per year. Current revenues stand at 2.2bn USD and EBITDA at $1bn, despite never raising capital outside the $60m IPO. Almost exactly like Paylocity, growth has come from share gains from incumbent processors and module upsell, although Paycom has the added advantage of a highly automated single stack, which means margins are higher than Paylocity's, although at the cost of some ability to partner with accountants and other distribution partners. Historically Paylocity has traded at a 21x EV/EBITDA multiple to account for its exceptional growth in EBITDA and return on capital. However, concerns about AI disruption over the last year have seen the multiple collapse to just 6.5x EV/EBITDA by end of June. This is despite revenue growth of 10% and operating EBITDA growth of 13% over the year. We took the opportunity to significantly increase our position in Paycom during this period of weakness. The sell off in AI stocks has resulted in a sharp re-rating of Paycom in July and this is continuing in August after Paycom reported a strong set of results, which have seen the stock rise a further 30% month-to-date.

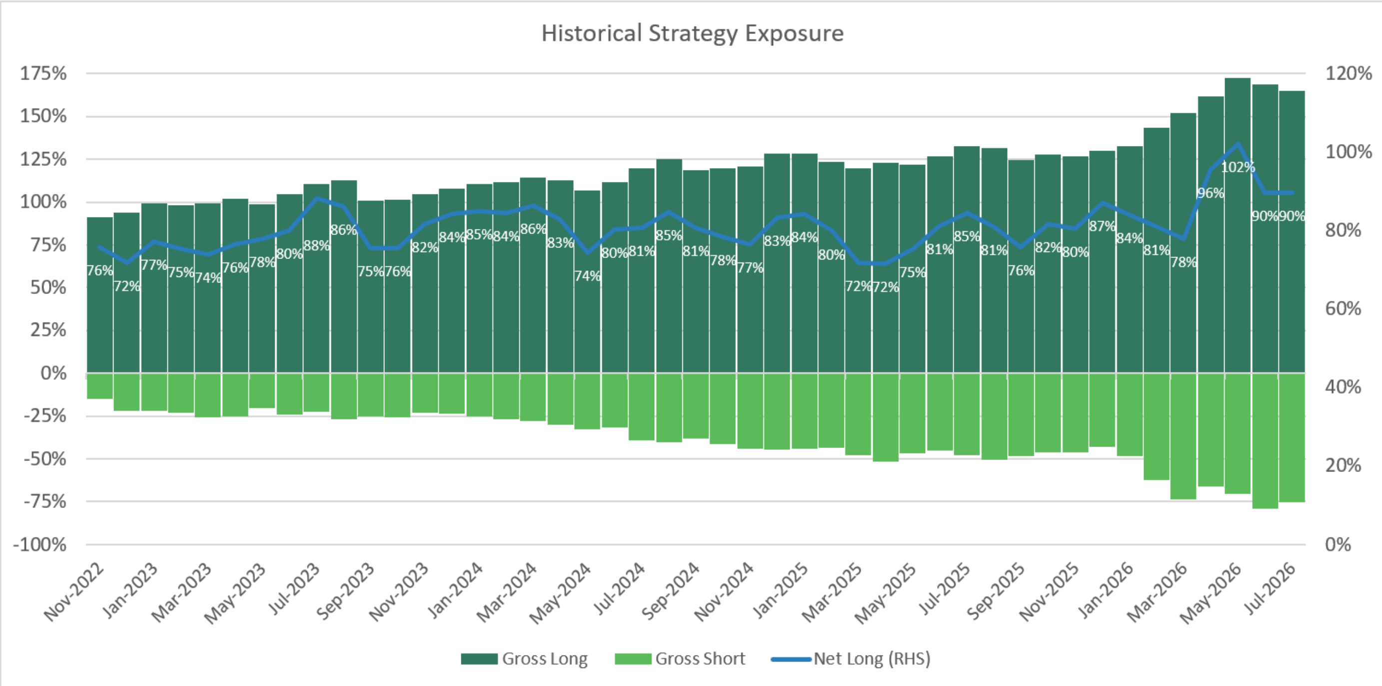
- **Amazon**: Amazon shares rose by 14% in July due to a strong quarterly earnings report. The retail business continues to grow at a double-digit rate with excellent operating efficiency and high incremental margins. AWS revenue growth continues to reaccelerate as previously built capacity begins to monetize. The scale of AWS' power portfolio, vertically integrated semiconductor products, and deep enterprise client list has led to healthy AI revenue combined with healthy growth in its core cloud business.

DETRACTORS FOR THE MONTH INCLUDED:

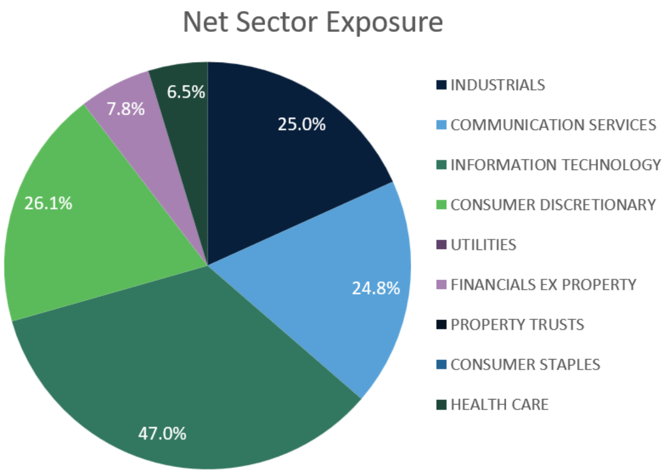
- **TSMC:** TSMC shares fell by 15% in July despite a strong earnings report with 36% revenue growth, healthy margin expansion, and an upgrade to guided financials. TSMC stock was subject to the weak overall semiconductor sector performance in the month. TSMC's dominant position across a range of leading-edge products (e.g. accelerators, CPUs, networking) and its responsible pricing strategy allow it to sustainably grow revenue and profits at attractive rates.

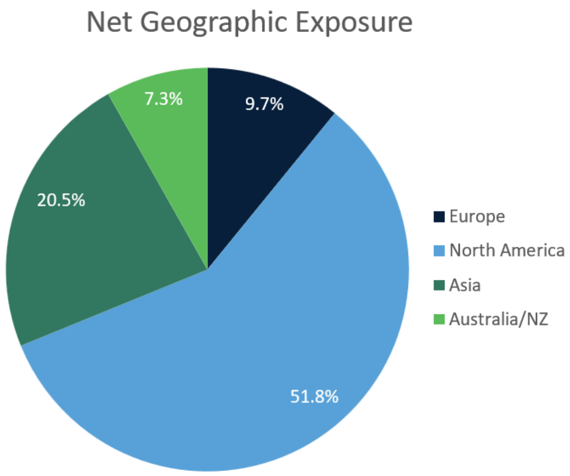
- **Paychex (short):** Paychex shares rose by 20% in July. In order to increase our exposure to Paycom and Paylocity, the fund shorted Paychex, an incumbent payroll processor with lower growth that has been ceding share. Paychex trades at a higher multiple than Paycom and Paylocity with lower growth. In a relative sense this pair trade worked, but generally speaking we are focussed on shorting companies facing structural disruption, rather than pair trades. Paychex is not one of these businesses and we will unwind this position as the relative valuation gap normalises.

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
MA US	Mastercard Inc
MSCI US	MSCI Inc
PCTY US	Paylocity Holding Corp
SAF FR	Safran SA
2330 TW	Taiwan Semiconductor Manufacturing Co Ltd
VEND NO	Vend Marketplaces ASA
V US	Visa Inc