SREDNA
CAPITAL MANAGEMENT

General Information Letter

About Sredna Capital Management

Sredna Capital Management (SCM) is a sole ownership {for now} based in Plovdiv, Bulgaria. Due to regulatory challenges within the European Union, a high level of bureaucracy, and the hardships arising from the oligarchic nature of countries in the CEE region, including Bulgaria, we do not currently operate as a financial company. Hopefully, our team will address this in the near future. Although we lack the attributes of a financial institution, we operate with full transparency. We plan to keep you updated on any short-term solutions and long-term development processes.

Now, let's examine the context behind the establishment of SCM…

The concept of Sredna Capital Management did not develop overnight. In fact, for nearly 10 years, I have been closely observing markets and experimenting with numerous strategies and management principles to gain a competitive edge. There are countless ways markets can be exploited for personal gain, but establishing, testing, adjusting, and properly implementing these methods is challenging. Such systems demand a wide range of professional expertise and appropriate tools to achieve their intended outcomes. Consequently, retail traders often attempt to bypass the rigorous preparation and processes for market outperformance by relying on "technical analysis", copy-trading, hype, and similar approaches. Clearly, these methods are ineffective, and those who believe otherwise are simply naive or uneducated.

From my experience working with major financial institutions, I understand the range of products offered by portfolio managers and the slow, bureaucratic processes involved. The financial products are generally unimpressive, and I bet many of you who have been pitched these portfolios and structured products haven't been fully satisfied with their returns and risks. I have seen client accounts worth millions of euros where only a small portion was traded and managed by the institution, while the rest was self-managed — guess which performed better. Regarding institutional slowness and bureaucracy, I have personally seen clients abandon investment products after nearly a quarter-long onboarding process.

Opting not to select a financial institution to oversee your funds offers alternatives: hiring a private financial advisor, investing in hedge funds (both options are generally not recommended for reasons I will not detail here), or managing your own investments. Investing in assets like the S&P 500 is one approach, but how well are you protected against drawdown risks? Is it truly the best risk-adjusted strategy available? Self-managing your funds is another possibility; however, do you possess in-depth market and financial expertise? If not, do you trust the hundreds of thousands of trading gurus who often make promises they themselves might doubt? Ultimately, they risk becoming nothing more than astrologers with their elaborate chart-drawing skills.

Purpose & Image of SCM

Having discussed how success and failure are achieved in the stock market, and having debunked some common myths about investment methods, we now want to clarify our mission. In addition to offering a proven market edge to those who recognise that the only legitimate way to outperform the market is through legitimate means, we established Sredna Capital Management to bring the unique qualities of

Balkan culture into this highly respected industry. Our aim is to challenge the stereotypes of prolonged meetings, endless ineffective presentations, lack of transparency, egocentric bankers, and narcissism.

Having experience with the Balkan approach to keeping promises, trust, and the willingness to give without expecting anything in return, together with friendly company, we believe you understand what we are striving to achieve. These procedures are still being developed, as our primary focus remains perfecting our system.

The name “Sredna” is inspired by Sredna Gora and relates to the geographical split of Stara Planina across Bulgaria’s north and south. This central division reflects our investment aims: achieving high results while minimising risk. Essentially, it symbolises the balance we seek — the core idea behind the name, “Sredna”.

Strategy & Investment Objectives

The strategy emphasises momentum, inertia, and market trends. It is designed to identify securities with genuine positive inflows, showcase strength in targeted areas, and capitalise on such opportunities. By analysing periods of extreme volatility, like the 2008 Financial Crisis, the strategy has been fine-tuned with specific parameters that prevent the system from acting arbitrarily, instead aligning its decisions with the current market environment to make the most optimal trades with the highest expected value based on momentum. Additionally, safeguards are in place to reduce the maximum drawdown during volatile periods; for example, in 2008 the system ended the year down 4.9% while the US market fell 36.8%, and the deepest peak-to-trough decline of that crisis was contained to a fraction of the market’s.

The strategy has been backtested across more than two decades of market history and subjected to out-of-sample validation on periods deliberately excluded from all design decisions, confirming no overfitting and consistent profitability. Overall, the strategy maintains a meaningful average exposure to global markets, which helps mitigate the risks associated with reliance on a single market. This aspect also contributes largely to the strategy’s alpha.

Analysis of the published statistics reveals that the strategy delivers a materially higher return than the benchmark while realising substantially *lower* volatility — a combination that is uncommon. The key metric indicating the success of the strategy is the Sharpe Ratio, which stands at **1.21** compared with **0.46** for $SPY. We consider this an impressive achievement, particularly given the early stage of the strategy’s development and the current lack of human capital at SCM.

Headline statistics — hypothetical backtest, November 2004 to August 2026, net of modelled costs

Metric	Sredna Portfolio	$SPY
Compound annual growth rate	17.93%	11.06%
Annualised volatility	11.2%	18.9%
Sharpe Ratio	**1.21**	**0.46**
Sortino Ratio	1.82	0.57
Calmar Ratio	0.92	0.20
Maximum drawdown	−19.40%	−55.19%
Beta to $SPY	0.37	1.00
Annualised alpha (vs $SPY)	**+11.87%**	**—**

$SPY is not the ideal benchmark for our strategy due to its broad exposure. A better benchmark would be a 60/40 split between $SPY and MSCI ACWI. That adjustment would raise the delta return while the delta volatility would remain approximately the same. For presentation purposes this comparison is more appropriate than simply using $SPY. We chose this approach bearing in mind the broad audience and the role of the US dollar as a global trade currency.

Additionally, the strategy performs best during volatile upward markets. Although the projected returns are attractive, the strategy is most effective over a 3–5-year timeframe. A critical factor that distinguishes this system from simply holding $SPY is its record of preserving capital during downturns: over the 2005–2025 period the portfolio finished **19 of 21 years** in positive territory, and in 2022 it ended **12.1% down** compared with the market's **18.2%** decline. Overall, these results demonstrate that the strategy successfully balances high returns with low risk.

The strategy is only long and uses situational leverage according to the market's environment!

Risks

Despite the statistical significance of the positive results and the safeguards provided by the portfolio's downturn protection, the strategy remains susceptible to external macroeconomic factors. In such scenarios, the strategy is expected to experience less loss than the broader market, which will also be affected. It is also important to note that the US market may periodically underperform due to our global exposure. By way of illustration: the strategy may at times hold a concentrated position in a single foreign market, and an adverse policy or economic development specific to that market — a central bank report flagging energy-supply risk, for instance — could produce a significant drawdown in that position irrespective of how the broader market behaves. Despite our Calmar Ratio being materially higher, recovery in the following months might be slow. It is important to consider position sizing accordingly.

Considering these observed risks, the reward-to-risk ratio remains attractive enough for some even more risk-averse individuals to consider exploitation. Personally, I have always taken well-calculated risks in life and trading, aiming to protect my assets while also taking enough risk for reasonable gains. Currently, however, we focus on refining the system. We believe it has been well-tested statistically and has shown

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Thank you for trusting in our work and goals, and for supporting us! We will keep trying to kill it for you,

The whole team behind
Sredna Capital Management

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PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS. All performance data presented in this letter, including charts and tables, represents **hypothetical, backtested gross returns** unless otherwise noted, and is net of modelled transaction and financing costs but before advisory fees and taxes. Backtested performance has inherent limitations: it is constructed with the benefit of hindsight and does not represent actual trading. Gross returns do not reflect the deduction of investment advisory fees, transaction costs, or other expenses that a client would have paid, which would reduce return. The “Sredna Ultimate Portfolio” is a theoretical strategy model. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown.