SREDNA
CAPITAL MANAGEMENT

Monthly Investor Letter – August 2026

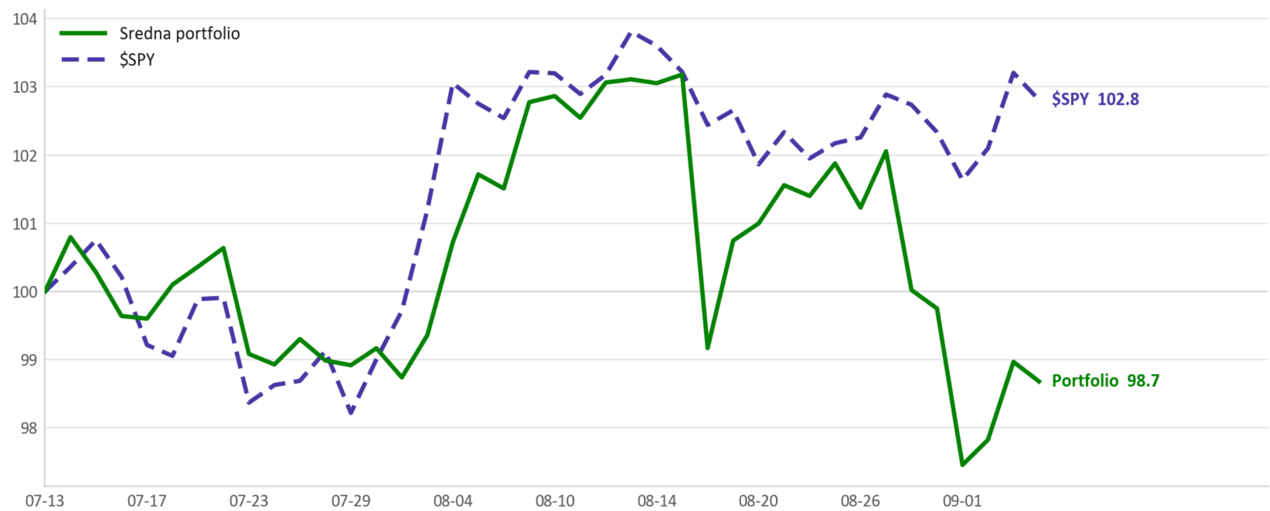
This is the second letter in the monthly series, covering August 2026 and the opening sessions of September. It is not a comfortable one to write. The portfolio finished the month ahead in absolute terms but behind its benchmark, and — far more importantly — well behind the result its own strategy called for. That gap was not caused by markets. It was caused by two defects in our operational process, and this letter is largely about what they were, what they cost, and what we have done about them.

1. Performance Summary

AUGUST RETURN	$SPY	EXCESS	SESSIONS
+1.02%	**+2.63%**	**−1.60 pp**	**21**

Live account performance — to 4 September 2026

Period	Portfolio	$SPY	Excess
August 2026	+1.02%	+2.63%	−1.60 pp
September, month to date	−1.07%	+0.46%	−1.53 pp
Since inception (13 July 2026)	−1.32%	+2.81%	−4.12 pp
Net asset value	**Rebased to 100.0 at inception → 98.7**		



Live account versus $SPY since inception, rebased to 100. Actual account values, valued daily, net of all costs incurred. To 4 September 2026.

Two features of that chart deserve more attention than the headline number. The first is the single session in the second half of August in which the portfolio lost close to four percent — a decline larger than any single day in more than twenty years of backtested history. The second is that the account has now spent its first eight weeks slightly below where it started, while the benchmark has advanced. Neither is the result we intend to deliver, and neither is being presented to you as noise.

Thirty-nine sessions still carry no statistical meaning. We report them because we committed to transparency, not because they yet tell you anything about the strategy.

2. Market Context

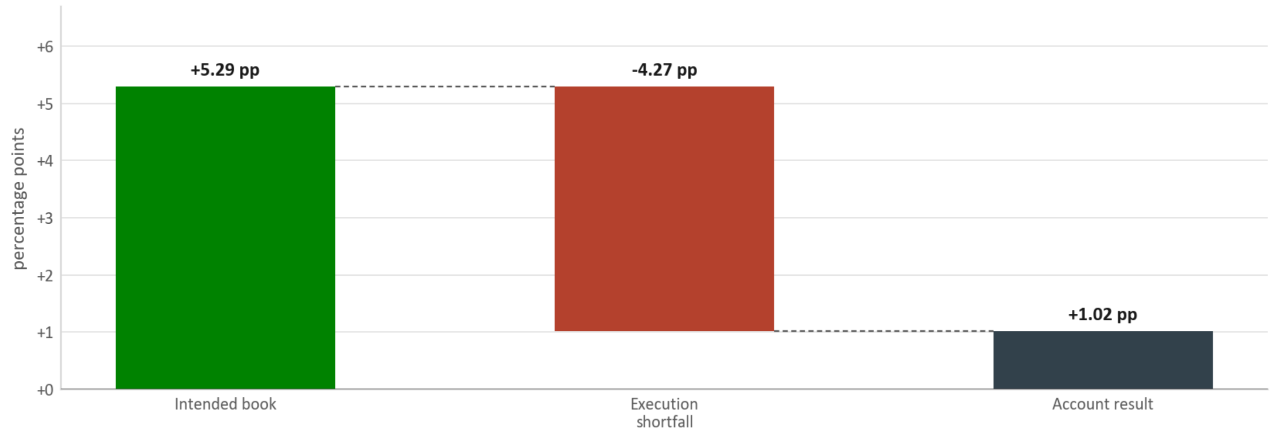
August was a month of continued index-level advance, interrupted by a sharp and narrow volatility event in its middle third. The broad market absorbed that episode within days and finished the month higher. For a system that commits capital only on confirmation, the environment was materially more workable than July's: sustained directional moves were available to hold for much of the month, rather than the shallow, directionless strength that characterised the opening weeks of the live account.

3. Portfolio Activity

The portfolio was directionally engaged for the substantial majority of the month — a marked change from July, when its directional engine never committed capital at all. Posture changed twice during the period. Both changes were systematic. No discretionary override was applied at any point, and none ever will be without being disclosed to you in the letter covering that month.

The intended book — the positions the system actually called for, valued at market — returned **+5.29%** over the month. The account returned **+1.02%**. That difference is the subject of sections 4 and 6, and it is the single most important fact in this letter.

4. Attribution



August 2026, in percentage points: the return of the book the system called for, the shortfall introduced in execution, and the result actually realised in the account. Reported at portfolio level; individual positions are not disclosed.

In an ordinary month this section explains which components of the portfolio produced the return. This month that framing would mislead, because the dominant driver was not any component of the strategy — it was the difference between what the strategy asked for and what the account actually held. The strategy's own book performed well in August. The account captured under a fifth of it.

We present this as a bridge rather than burying it in a footnote because the distinction governs how you should read the result. A strategy that underperforms is a research problem. A strategy that performs while the account fails to follow it is an operations problem. The two demand entirely different responses, and confusing them is how firms end up rebuilding something that was never broken.

5. Risk & Exposure

Measure	Period	Comment
Posture	Directional	Majority of sessions; two changes of posture
Discretionary overrides	0	All changes systematic
Worst single session	−3.89%	Exceeds the worst day in backtested history
Peak-to-trough, August	−3.89%	Against $SPY −1.87%
Peak-to-trough, since inception	**−5.55%**	**Against $SPY −2.51%**

The worst-session figure is the one we would put in front of a risk committee. A live account producing, inside its first two months, a daily loss larger than anything in twenty-two years of backtested history is either evidence that the risk model understates the tails, or evidence that the account was not holding what the model assumed. We investigated on the presumption that it was the former, because that is by far the more dangerous possibility. It was the latter. The position responsible was one the system's own records no longer showed as held.

6. Special Topic: Operational Review

Two defects in the daily operating process were identified and corrected during the period. Both sit between the strategy and the account. Neither touches the strategy itself, and no research finding has been revised as a result. We describe them plainly because their effect on your capital was real.

Defect one: a suppressed instruction

The daily process publishes the change of positions required for that session. If that process was run a second time on the same day — something done routinely, and for entirely innocent reasons — the second run compared the portfolio against the state it had itself just written, rather than against the previous session. Finding no difference, it reported that no action was required and that the new positions were already held. On any day this occurred, a genuine instruction to change positions was replaced by an instruction to do nothing. This is the larger of the two defects and the more serious, because the system was not merely silent: it stated affirmatively that the account was already correctly positioned.

Defect two: a signal that revised after the fact

For one session, the position recorded at the time was not the position the same process produced when that session was later recomputed on fully settled data. The account acted on the original; the strategy's own history subsequently showed the other. That is how a position the system did not want came to be held into the worst session of the period.

Remediation

The first defect is fixed and the fix is verified. The daily process now refuses to treat its own output as a prior session, retains the genuine previous state independently, and produces identical output however many times it is run in a day. We confirmed this by re-running the exact sequence that produced the failure.

The second is now observable rather than fully solved, and we would rather say so than overstate it. Every run writes a permanent, timestamped record of what it produced and of the data it produced it from. Previously each run overwrote its predecessor — which is why the original diagnosis took longer than it should have, the defect having quietly destroyed the evidence of itself. Should a signal revise again, the divergence will be visible immediately and attributable to a cause. We are not yet willing to tell you we know why it happened, because we do not.

Cost of the two defects — August 2026

Item	Return
Book the strategy called for	+5.29%
Shortfall introduced in execution	−4.27 pp
Realised in the account	**+1.02%**

We are aware how this reads. A firm whose stated premise is the removal of discretion and human error has lost four percentage points in a month to human-authored software error. We would make two observations, neither of which is a defence. First, the defects were found by our own routine reconciliation of the account against the model, not by a client noticing — and that reconciliation exists precisely because we assumed something of this kind would eventually happen. Second, the errors were detectable only because the strategy and the account are tracked separately and compared every session, a practice that costs nothing while everything works and which has now justified itself entirely.

7. Outlook & Next Steps

We are making no change to the strategy in response to this month. That should be read carefully: it is not stoicism, it is the direct consequence of the diagnosis. The evidence is that the strategy performed and the process around it failed. Altering a system because its output was not correctly delivered would be the least rational response available to us. The work has gone into the operational layer, and that is where it will continue to go.

Our priorities for the coming month are, in order: confirming that the corrected daily process runs clean across a full month with no recurrence; establishing the cause of the second defect using the record we now retain; and continuing the session-by-session reconciliation of account against model, which is the control that surfaced all of this in the first place.

The standing caution from last month is unchanged, and worth repeating precisely because the live record is now negative — which is exactly when such cautions get abandoned. The system is not superior in every month, or in every year. It trails in a meaningful share of calendar years across its backtested history. A period of underperformance is not evidence that something is wrong, just as a period of outperformance would not have been evidence that everything was right. We ask you to judge it over a horizon on which the question can actually be answered, and we will keep giving you what you need to do so — including, as this month demonstrates, when that information is unflattering to us.

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Thank you, as always, for your trust and your patience. We will keep trying to kill it for you,

The whole team behind
Sredna Capital Management

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