08 August 2026
Plovdiv, Bulgaria
Monthly Investor Letter – July 2026

SREDNA
CAPITAL MANAGEMENT

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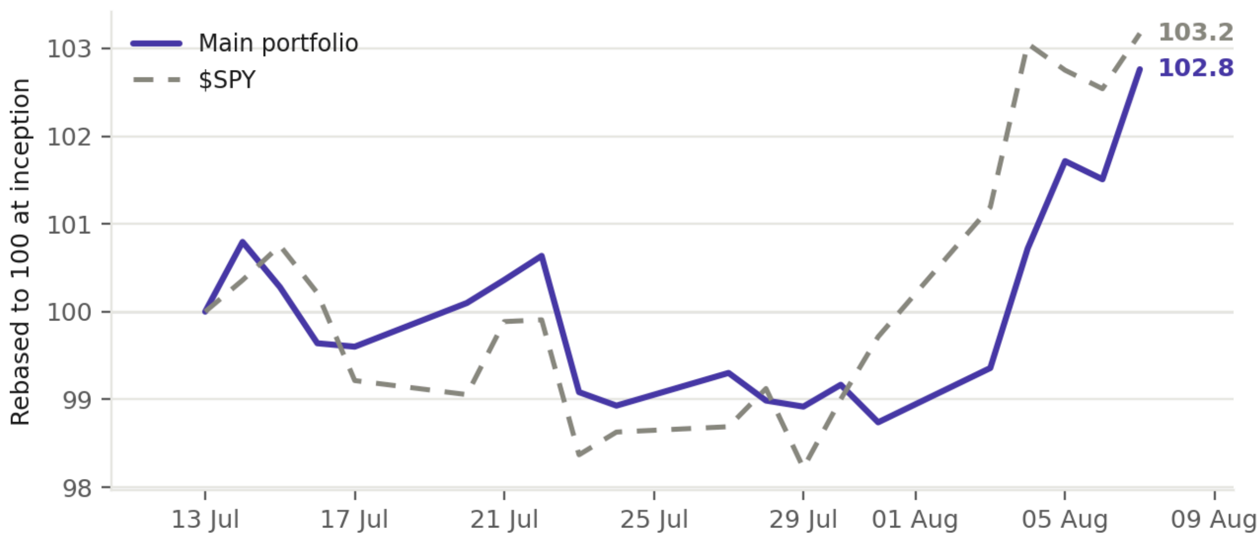
This is the first letter since the portfolio began trading with live capital, and the first in what will now be a monthly series. Each letter will follow the same structure: how the portfolio performed, what happened inside it and why, what risk it carried, and what we intend to do next. Where there is genuine news, it will appear as a dedicated section — as it does this month.

1. Performance Summary

PERIOD RETURN	$SPY	EXCESS	SESSIONS LIVE
+2.76%	**+3.17%**	**−0.41 pp**	**20**

Live account performance — inception 13 July 2026 to 7 August 2026

Period	Portfolio	$SPY	Excess
Since inception	+2.76%	+3.17%	−0.41 pp
Month to date (Aug)	+1.02%	+1.55%	−0.53 pp
Net asset value			**Rebased to 100.0 at inception → 102.8**



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

The portfolio trailed the benchmark by roughly four tenths of a percentage point over its first twenty sessions. We would rather state that plainly than frame it away. The system held its defensive posture for essentially the entire period, which is the behaviour we expect when markets grind upward without establishing the kind of confirmed trend the portfolio is built to hold. In that posture it carries materially less market exposure than $SPY, so modestly trailing a rising market is the cost of the protection — the same protection that limited the 2008 loss to 4.9% against the market's 36.8%.

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Twenty sessions carry no statistical meaning. We report them because we committed to transparency, not because they yet tell you anything.

2. Market Context

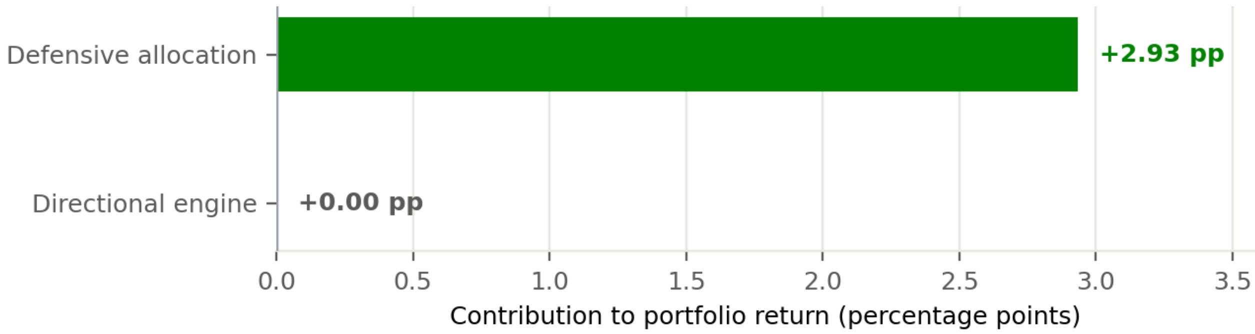
The period was characterised by a steady equity advance that never established a decisive directional trend, set against a firming rate outlook. For a system that requires confirmation before committing capital directionally, this is an environment that offers little to act on: index-level strength that is broad but shallow, and no sustained move of the kind the portfolio is designed to capture.

3. Portfolio Activity

The portfolio remained defensively positioned for the entirety of the period. Its directional engine initiated no position at any point, since no opportunity met the standard of confirmation the system requires before committing capital. Exposure was therefore carried by the defensive allocation alone.

One structural refinement was executed during the period, adjusting the internal composition of the defensive allocation. The motivation was scenario-specific. The portfolio's historically weakest environment is not an equity crash — those it has navigated well — but the rarer regime in which falling markets fail to produce the offsetting behaviour a diversified book normally relies on, as occurred in 2022. The refinement measurably improves resilience to a repeat of that regime while leaving the portfolio's behaviour in a conventional crash unchanged. We regard closing a known weakness as a better use of research effort than pursuing incremental return.

4. Attribution



Contribution to portfolio return by component, inception to 7 August 2026, in percentage points. Reported at component level; individual positions are not disclosed.

The attribution for this period is unusually simple, and worth dwelling on. The directional engine — the component that drives the portfolio's long-run return — contributed precisely nothing, because it never took a position. The entire result was produced by the defensive allocation. A reader should take two things from that. First, the portfolio can generate a positive return while its primary return engine is dormant, which is the diversification working as intended. Second, this period tells you almost nothing about the engine itself, since it was never engaged.

5. Risk & Exposure

Measure	Period	Comment
Posture	Defensive	100% of sessions
Directional positions taken	0	No confirmed trend available
Leverage employed	None	Disengaged in defensive posture
Peak-to-trough decline	−1.4%	Against $SPY −1.8%

6. Special Topic: Transition from Main to Updated_Main

A piece of research that began as an investigation into an unrelated question has produced a material improvement to the system. We refer to the two configurations as **Main**, the system as it has been running, and **Updated_Main**, the revision. We are deliberately not describing what distinguishes them; that distinction is the product.

The research did not set out to improve the portfolio. It set out to evaluate whether a particular class of instrument deserved a place in the portfolio's universe. The answer was an unambiguous no — but testing it properly required re-examining an assumption that had sat unquestioned since inception, and that assumption proved to be leaving meaningful performance on the table.

The more instructive part is why it went unnoticed. The assumption *had* been tested months earlier and recorded as a failure — but as part of a bundle of simultaneous changes, and the bundle failed for reasons unrelated to it. The negative result was then filed as settled, which is exactly what prevented anyone revisiting it. The lesson is clean: **a negative result on a combined change condemns the combination, not each of its parts.** We are re-examining several other items on that same list with equal suspicion.

Main versus Updated_Main — hypothetical backtest, Nov 2004 to Aug 2026, net of modelled costs

Metric	Main	Updated_Main	$SPY
Compound annual growth rate	14.81%	17.93%	11.06%
Annualised volatility	10.7%	11.2%	18.9%
Sharpe Ratio	**1.02**	**1.21**	**0.46**
Sortino Ratio	1.48	1.82	0.57
Calmar Ratio	0.77	0.92	0.20
Maximum drawdown	−19.31%	−19.40%	−55.19%
Beta to $SPY	0.334	0.366	1.000
Annualised alpha (vs $SPY)	**+9.48%**	**+11.87%**	**—**

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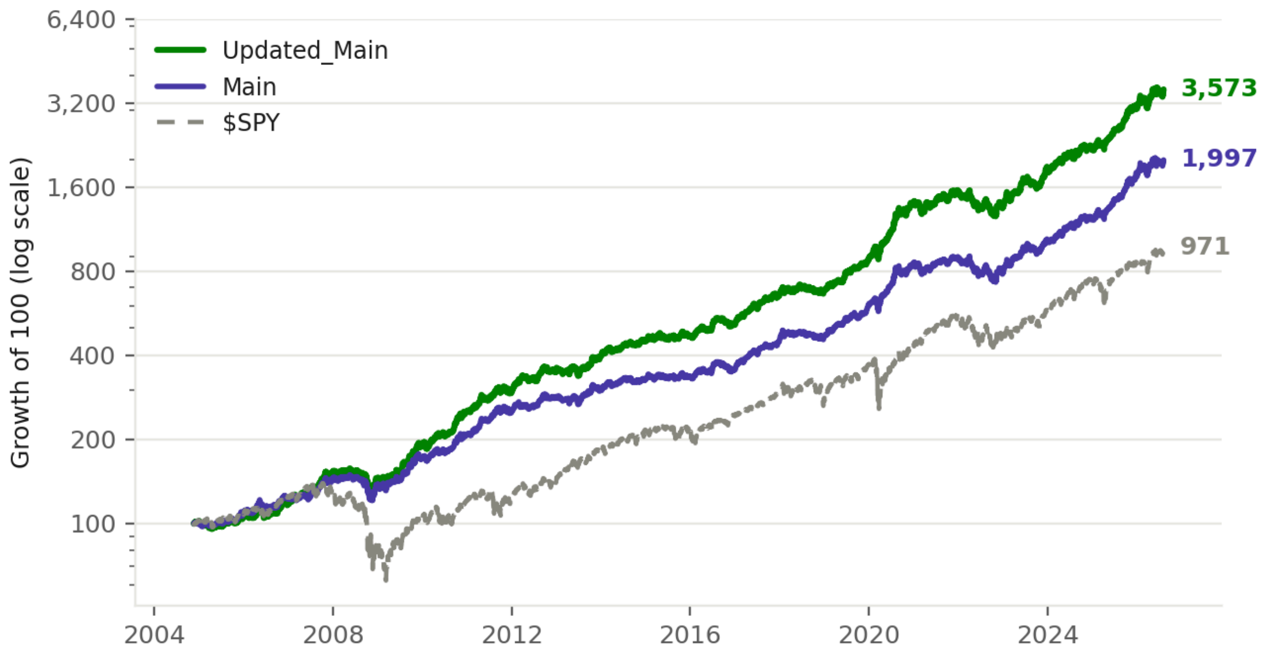
The line that matters most is not the return — it is the drawdown. Updated_Main produces roughly three additional percentage points of annual compounding while its worst peak-to-trough decline moves by nine *hundredths* of a point, from −19.31% to −19.40%. In 2008 both configurations finished at −4.9%; in 2022 both finished within a tenth of one another. The improvement is not being purchased with risk, which was the first thing we checked and the reason we consider it credible.



Hypothetical backtested growth of 100, November 2004 to August 2026, logarithmic scale. Net of modelled costs. Past performance is not indicative of future results.

Durability of the result

We treated our own finding as a suspect rather than a discovery, and required three tests before acting.

Does it survive outside its own data? The revision was measured across four independent slices of history, including one deliberately withheld from every design decision. It improved in all four by a similar magnitude. A result appearing in one period is a coincidence; one appearing in every period is a property.

Is the gain merely additional risk? No. Volatility rises half a point, beta by three hundredths, and the maximum drawdown is unchanged.

Does it survive costs? The revision transacts appreciably more often, making it more sensitive to execution quality. Here our own accounting initially flattered it: on re-examination we found we had been under-charging one category of cost, and corrected it. Every figure in this letter reflects the corrected treatment. We then measured what we actually pay to trade, instrument by instrument, against the point where the advantage would vanish; the margin is roughly twentyfold. We would rather tell you we found an error in our own favour and fixed it than have you discover we had not looked.

7. Outlook & Next Steps

We are not switching configurations today. The two do not always hold the same book, and moving between them while they disagree would mean paying to change posture on a discretionary judgement rather than a systematic one — the precise behaviour this enterprise exists to eliminate. On a substantial share of days the two hold identical positions; on such a day the transition costs nothing, and that is when we intend to make it. Until then both are computed and recorded every session, so the comparison accumulates in public rather than in hindsight.

One caution, stated plainly because it will be visible before the benefit is: Updated_Main is not superior in every year. Across the backtested history it trails its predecessor in five of twenty-one calendar years, and it has trailed over the brief live window to date. Its advantage is an average across many years, not a promise about any one of them. If a run of underperformance would cause us to abandon it, we should not adopt it at all. We have adopted it in full knowledge of that, and ask you to hold it to the same standard of patience.

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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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