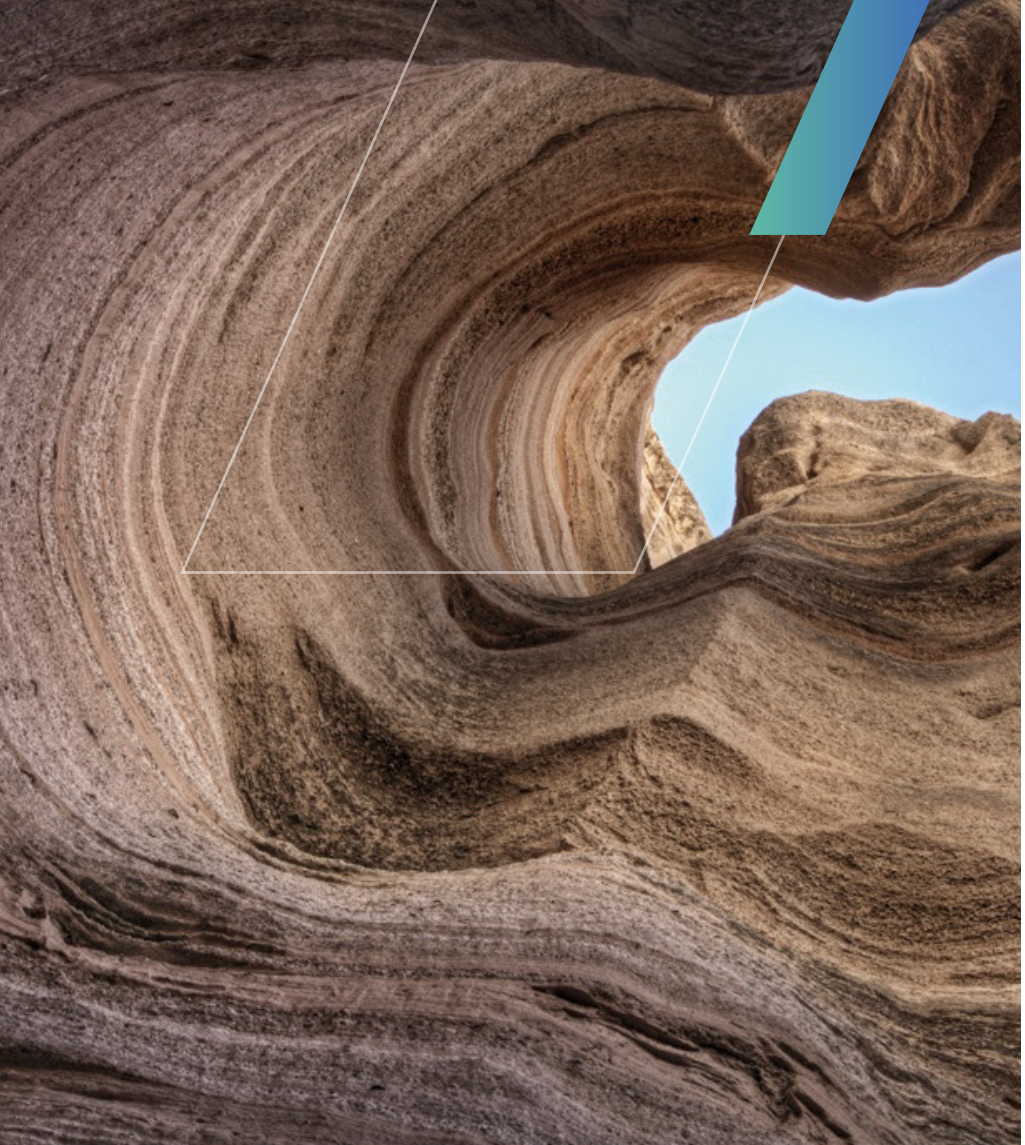
Evidika

Scientifically Enhanced Value
Global Equities High Conviction.



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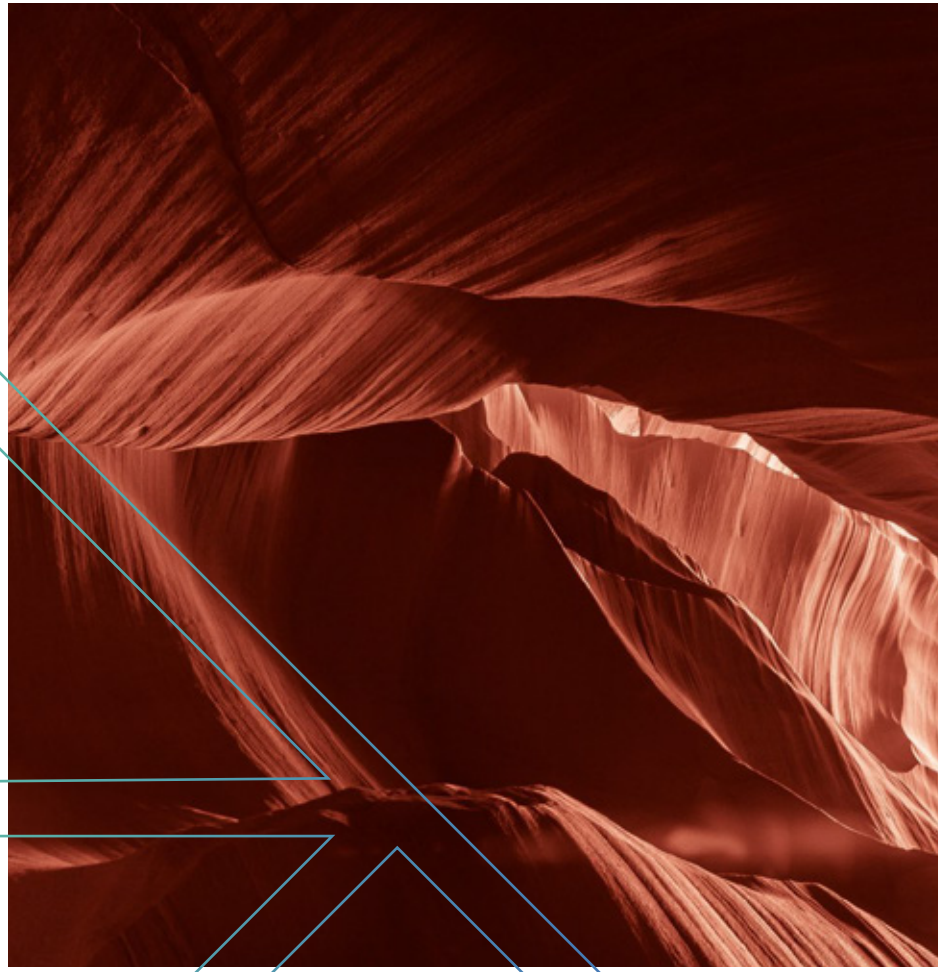
WHAT WE DO

We design and execute an investment strategy that takes advantage of large asymmetries in the public equity markets globally. We do so through an investment process based on the scientific method executed by a specialized team.

We are a registered investment advisor investing globally in the public equity markets. Our strategy is a high conviction one, meaning that we seek to have between 15 and 20 stocks in our portfolio.

INVESTMENT STRATEGY



Investment principles

According to Oxford's dictionary, a principle is a fundamental truth that serves as a foundation for a system of belief or a chain of reasoning [1]. They are of crucial relevance for the sciences as well as to any investment strategy, and that is why we carefully choose ours. After performing a study of the success of several investment philosophies, we decided our principles to be those of value investing. We chose them, both for the evidence of their success, as well as their consistency with other scientific disciplines as game theory and psychology.

The opportunities we look for

Consistent with our investment principles, we seek for opportunities which fulfill two requirements (1) they are priced substantially below what would be a fair price and (2) that we hold sufficient evidence to support the first. We seek for asymmetries in often unseen sets within the financial markets; as well in distressed and adverse situations at a company, industry or economic level. We not only seek for assumed asymmetries, but for asymmetries in which we hold factual evidence that such asymmetries do exist.

(1) https://en.oxforddictionaries.com/definition/principle

How we take these opportunities

The financial markets are continually evolving, and opportunities either disappear or change at a fast pace. That is why if a process is to take these opportunities must remain inflexible to the fundamental principles but flexible to the changing environment. This method, we believe is the scientific one and we seek to build our investment process over it. We strive for consistency in our analysis and research but flexibility with our scope and investment theses.

Focus on asymmetry

We do so with an investment process we designed based on the value investing principles and execute it with the scientific method.

INVESTMENT PROCESS

CHAOS NAVIGATION

It is through the execution of our proprietary quantitative and qualitative processes that we define the areas of focus on which to deploy or research resources. Some of them might share the following characteristics: underappreciated businesses with recognizable and understandable economic drivers; a prevailing negative market sentiment towards them; a detectable and substantial disconnection between market sentiment and factual evidence, business nature and fundamentals, management and most considerable shareholders expectations, or company history; and, critically, natural catalyzers in the near future. Naturally, prospects of this nature tend to be discarded among most investors. That is why, we think of this process as surfing through a chaotic, unquiet and disturbed environment where decisive factors about individual businesses are brutally questioned. We navigate across them by putting in severe interrogation what is currently thought and if it is as close to reality as its price reflects it.

Preliminary research

To be selective, we need to grasp a broad understanding of the primary variables of success and failure of each prospective investment as well as market's perception over it. On the one hand, we seek to understand the nature of value generation of the business under normal circumstances to know how extraordinary the current situation might be. And on the other hand, we seek to understand which is the market perspective over the businesses' future as implied by the stock price.

Potential assessment

We seek to compare both our understanding of the business under normal circumstances as well as the market's perspective over it. Not because we are already in a position to take an investment decision, but because it is our first pivot under which we decide to dive deep into the opportunity, disregard it or re-focus our research. In this process, is of crucial relevance to be objective with the assumptions we make, and in order to do so we formalize the assumptions through written language to build our investment process over it.

Deep research

We focus on what we think are the primary variables of success and risk of the investment at hand to avoid getting tangled in hyper-information. Generally, we seek to understand the causality between these variables and the level of confidence we have over its reality. Assumed causality helps us model future value generation and destruction and the level of confidence help us to make wise investment decisions. In the end, what matters is the level of confidence you hold on that causality. The determining factor is not our ability to argue for or against it but the factual information we hold to disprove it.

Thesis refutation

After we have a deep understanding of the main factors of success and failure of an investment, we seek to explicitly state the main scenarios that might be implied by the market to hold such a negative position and to refute them with factual evidence. We do not entertain ourselves with prophetical talking about the future of the company, but with the analysis of the available data to refute the market's negative position. This stage is of great importance because plenty of investment professionals get themselves into imaginary predictions into an uncertain futurE instead of taking care of reality.

Investment assessment

After the previous stage, we hold a general idea of the potential quality of the investment at hand. Nonetheless, we need to make a more rigorous analysis of the quantitative value of our investment thesis. This analysis is done through proprietary models that focus mainly on the downside of an investment because we think that it is better to be wrong about the upside than the downside of an investment. Also, we analyze probable catalysts for the materialization of the value we hold to be true because this has an impact on the overall profitability of our theses.

Introduction strategy

Depending on the specific qualities of the investment thesis at hand and the current positions within our portfolio, we decide the weight each position must have in our portfolio. Some of the variables considered are of course the expected return and risk, but others might be specific industry and economic exposure of the current portfolio. We do not hold a fixed introduction process because we think this would prevent us from taking advantage of the best opportunities while covering some specific risks through portfolio management.

Investment management

Our investment theses are never fixed, their quality evolves with time and when different market participants release new information. That is why active management and continuous research must be performed over the theses we hold. Depending on new information or movements in market prices, we might decide to enlarge positions, sell positions or hold our positions. As with our introduction strategy, we review every individual case and seek to make the most rational decision with the factual information available. We exit a position when we consider that the current market price reflects our understanding of the expected value. We do not speculate further but move on to more promising opportunities.

Investment committee

We have a documentation process which makes the research process more transparent and subject to auditing. We built an investment committee whose reason to be is not to argue at the specifics of the investment theses and thus generating consensus mindset, but to control the quality of the execution of the process as well as the performance of the investment team.

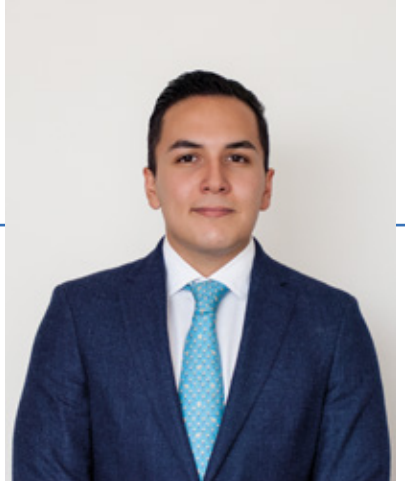
INVESTMENT TEAM

Our philosophy and team structure

No matter how well designed an investment strategy is, no matter how sophisticated technology might be, the people executing it ultimately determines the quality of an investment. Looking for great investment professionals is mainstream, the problem is that an objective evaluation of their capabilities is elusive. From our perspective, the essential characteristics of an investment professional are its scientific thinking, its learning appetite, character, and its drive to over-perform. There are three primary roles within the structure of our investment team: The team leader, the research specialist and the committee member. The team leader is the person in charge of defining the scope and making the decisions to allocate resources of the department toward prospective and current theses as well as the ultimate investment decisions. The research specialist is the person in charge of a specific thesis, he performs most of the investigation needed for the particular opportunity and pushes the argument forward. The committee members are external parties that audit the quality of the investment process followed by the investment team members and offer further unbiased perspective.

FRANCISCO CONDE

TEAM LEADER



Functions

Design and coordinate the investment process of the department, hire and train research specialists to perform the investment process, define the scope of the research efforts, audit and orient research specialist towards profitable research, and execute debate and critic to the current theses.

Qualifications

Francisco Conde is a self-taught investor. Even though he studied Finance in the Monterrey Institute of Technology and Higher Education, Francisco developed most of his expertise from reading and experience. Francisco has read over 100 investment books and attended to investment courses in Columbia University, NY. Most importantly, Francisco started out his fund at the age of 18, and since then he has achieved 92% of profitable investment positions. He has proven that he has the appetite to learn, the independent thinking to be contrarian and the drive to outperform with his past results. These results are rare to find even in Graduate students from the best universities.

Incentivest

He is a co-founder and major shareholder of our firm which makes him aligned toward the long-term value generation of all the parties involved. At the same time, he holds 70% of his incentives based on the long-term performance of the portfolio, which makes a perfect balance between the long and the short-term incentives. Most importantly, Francisco is young and he has the ambition to grow his name across one of the most competitive industries of the world: the investment one. This drive historically has been proven to be a critical characteristic for fund managers to outperform.

What is the key factor to perform your profession successfully?

“For me, the essential characteristic of a successful investment manager is his character. There is plenty of smart people around the world, and the strategies are usually not very complicated to understand. But often, the greatest enemy of the managers are themselves. Their lack of emotional control prevent them from taking or holding them to take contrarian positions during critical times. I think that character ultimately shapes success in an investment manager.”

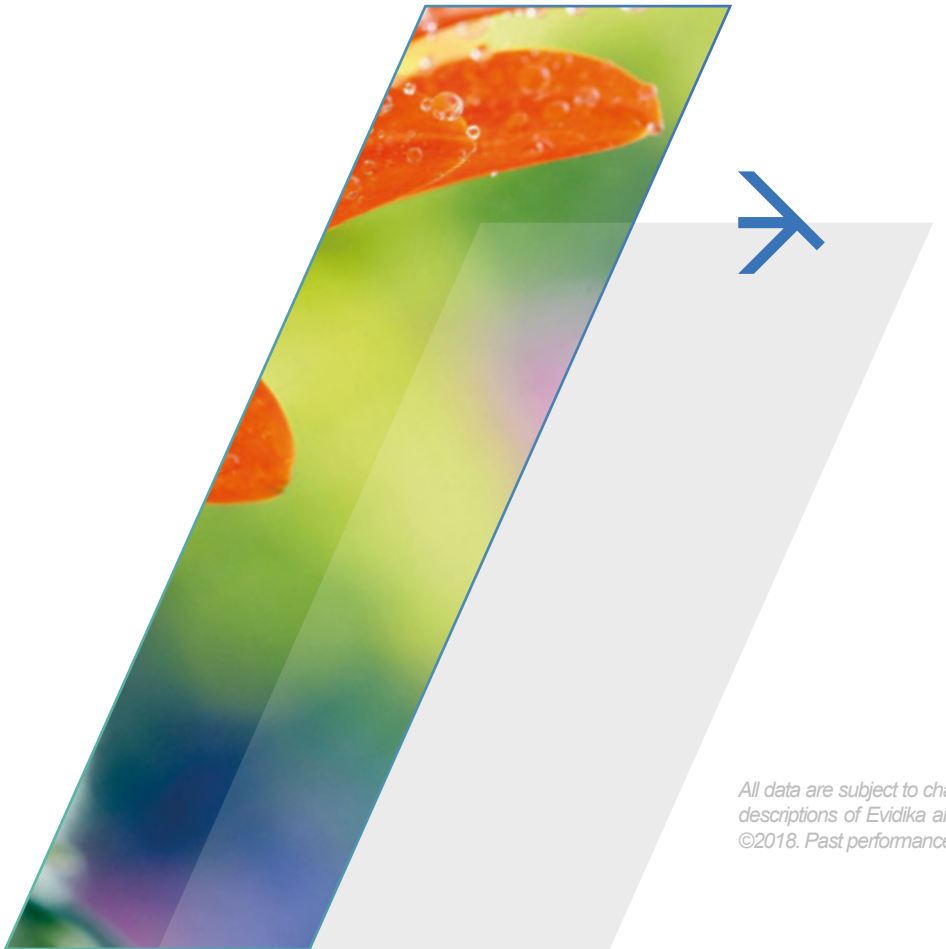
- Francisco Conde.

PAST
RESULTS

OUR PAST RESULTS

We know that past performance is no guarantee of future returns and that lack of data within a sample unable us to make meaningful conclusions. Nonetheless, performance is what every strategy ultimately aims to achieve, and we must provide some evidence regarding our previous five years of operations.

We split the information under two essential abilities that we consider are important to evaluate in an investment manager: stock picking and portfolio management. The former speaks about the capacity of the team to choose successful investment theses and the later shows its ability to manage a group of them wisely.



STOCK PICKING		
Position Exit	**Positive**	**Negative**
%	92 %	8 %
Avrg. Annual Return	249 %	-46.5 %
Std. Deviation	46 %	7. 55 %
Max	1,860 %	-70.21 %
Beta	0.75	1.38

Portfolio Management	
5 Annual Return	30.5%
Std. Deviation	18.5%
Beta vs MSCI	0.54
Net Exposure	0.74
Annualized Alpha	25.2%
Median Mkt. Cap.	402 Million USD

*All data are subject to change. The information shown is as of December 30, 2017, unless otherwise noted. To receive a list of composite descriptions of Evidika and/or a compliant presentation write to Evidika at contacto@evidika.com. *MSCI World Small Cap Value Index ©2018. Past performance is no guarantee of future results.*

FINAL WORDS

The most complicated factor about investments is their inherent uncertainty regarding the future. That is why it is very complicated to assess the quality of investments by looking just at their results. But at the same time, we cannot just trust an investment strategy by analyzing the consistency of its rhetorics for there are plenty of stories that might appeal attractive but inconsistent with reality.

We have made our best attempt to picture the rationale of our investment strategy and process, as well as the evidence of our ability to execute with factual results. Nonetheless, communication of an investment opportunity is often complicated just by looking at a presentation. That is why we encourage investors to ask for some of our current investment thesis and evaluate in a real-time example our ability to fulfill what was described in this document.

We appreciate that you took the time to read this document and look forward to hearing from you soon.

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By Inbest&Co.

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