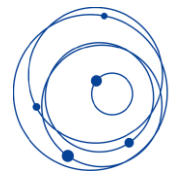


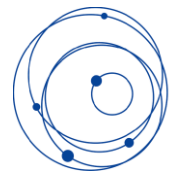
DRACO GLOBAL

The best mega-caps and micro-caps with tail risk strategy



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5. Micro-cap stocks.
6. Characteristics of the SICAV.
7. Current portfolio.



1. Profile: Portfolio manager.



Mr. Quim Abril is president and portfolio manager of DRACO GLOBAL SICAV since September 2020 and was the portfolio manager of Global Quality Edge Fund from June 2017 to August 2020.

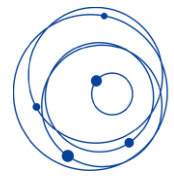
He worked at BMN Asset Management from 2004 to January 2015, being responsible for equities. He developed an investment philosophy focused on the quality of the companies.

At the end of 2012, he received the recognition of Citywire by including him in the list of the 1,000 best fund managers in the world. The study considered the five-year annualized and risk-adjusted return. Within this classification, there were 10 Spaniard, being the second a short distance from the first.



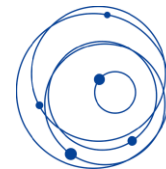
Mr. Abril participates actively with the Spanish economic press and has a YouTube channel

I have a Master in Business Research (previous doctorate) and a Master in Financial Auditing and Master in Finance. He studied Business Sciences.



1. Profile: Marketing resource.

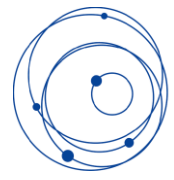
- On the DRACO GLOBAL website (<http://www.dracoglobal.es/en>).
- On social media like Twitter ([@AbrilQuim](#)) and YouTube [DRACO Investing TV](#).
- The objective of the DRACO Investing TV is twofold:
 - Promote DRACO GLOBAL SICAV, both to the retail and institutional investors.
 - Educate investors in themes related to fundamental analysis, accounting red flags, portfolio review, etc.



1. Profile: TR from june 17 to august 20.

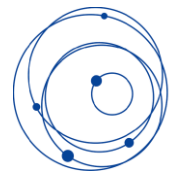
- Performance vs. best spanish global equity funds.

Fondos comparables activos de renta variable		YTD	From 01/06/2017
1	Algar Global Fund	-22,96%	-36,12%
2	Kersio LUX	-23,50%	-9,28%
3	True Value	-14,20%	-13,97%
4	Bestinver Internacional	-10,62%	-16,13%
5	Azvalor Internacional	-27,23%	-23,64%
6	Equam Global Value	-15,01%	-23,19%
7	Cobas Internacional	-49,46%	-38,51%
8	Lierde SICAV	-18,83%	-13,59%
9	Magallanes European	-16,54%	-20,27%
10	Magallanes Microcaps	-30,34%	-20,31%
AVERAGE PEERS		-22,87%	-21,50%
Global Quality Edge Fund - Net return		-8,31%	-12,41%
Global Quality Edge Fund - Constant TER at 2%		-6,66%	-3,41%



2. Strategy of DRACO GLOBAL SICAV.

- **Invest in the best of two worlds, mega-caps and micro-caps.** In mega-caps, when they have a temporary problem that does not invalidate their long-term competitive advantage and in micro-caps because they are unknown.
- Scalable business model, long-term secular growth, attractive sector structure and presence of recurring revenue
- Low or null accounting red flags.
- Good capital allocation.
- Concentrated portfolio of 25 stocks.
- **We use a tail risk strategy** only when there is a certain probability that the economy could enter a recession or depression.



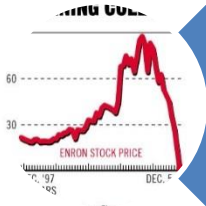
3. What is our competitive advantage?



1) Scalable business model, long-term secular growth, attractive sector structure and presence of recurring revenue.



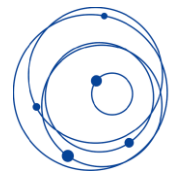
2) Only companies with sustainable competitive advantage.



3) Low or null accounting red flags.



4) Tail Risk Strategy.



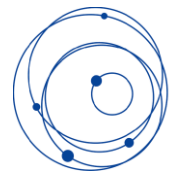
3.1 Scalable business model.

- It is one where a company can maintain sustained growth in sales ,with the potential market being sufficient to sustain continuous growth. This scalability can also found in niche markets with small market capitalization companies.

Example:



- The potential market about \$ 2bn in the medical coupon business. The digitization of prescriptions and medical records of patients (EHR) offers guaranteed long-term growth.



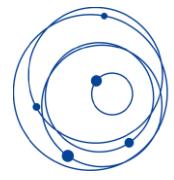
3.1 Long-term secular growth.

- A company should be present in an industry that offers long-term secular growth and will be the engine of future economic growth, such as demographics, digitization, or outsourcing. This investment strategy goes beyond specific companies and short-term cyclical economic factors.

Example:



- Digital transformation and outsourcing clearly benefit NRO. High exposure to SMACS sector growth.



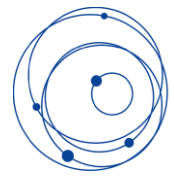
3.1 Attractive sector structure.

- Some sectors allow some companies to maintain high rates of return on capital. Still, all of them must have one of the following characteristics: monopoly, mini monopoly, local monopoly, oligopoly, or be leaders in a fragmented market.

Example:



- LOUP has a local poultry sector market share of over 40%, mainly thanks to its quality and brand recognition. In France, there is a clear preference for the consumption of local products, benefiting premium brands vs. the most economical.



3.2 Sustainable competitive advantages.

- Using Pat Dorsey's competitive advantage rankings, we could establish the following groups:

Intangible asset

- To sell products/services that differ from competitors.
- Types: Brands, patents and regulatory licenses.
- Hermés, Novo Nordisk, IEH Corp, Shanghai Airport.

Switching cost

- Difficult to switch to other product/services from customer perspective.
- Stryker, Neurones, Oracle, IEH Corp; Esker, Intuit, PaySign.

Network Effect

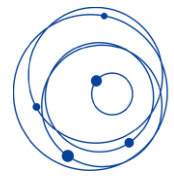
- The value of a product/service increase with the number of users.
- Google, Facebook, VISA, Microsoft, Booking, OptimizeRX.

Cost advantage

- To offer products/services at a lower cost than competitors.
- Types: Proces, localization, scale and unique assets.
- PAO Severstal, Southwest, Ryanair, Ciner Resources

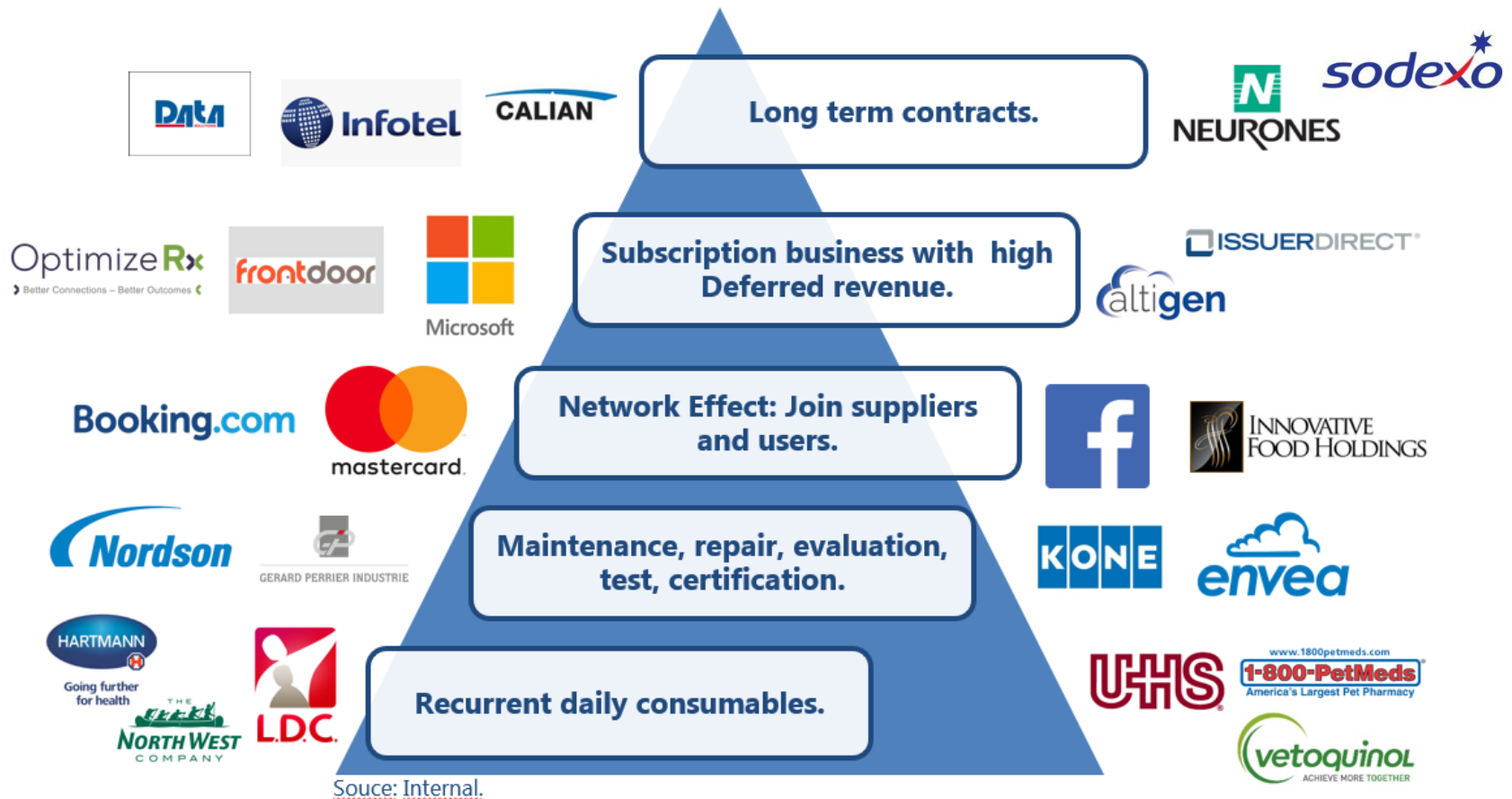
Size advantage

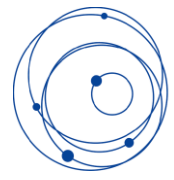
- A dominant player in a niche market.
- Higher variable cost vs. fix costs.
- Types: Distribution, manufacturer and niche market.
- Amazon, Water Intelligence, Coca-cola, Envea, IEH Corp, MSAB B.



3.2 High percentage of recurring revenue.

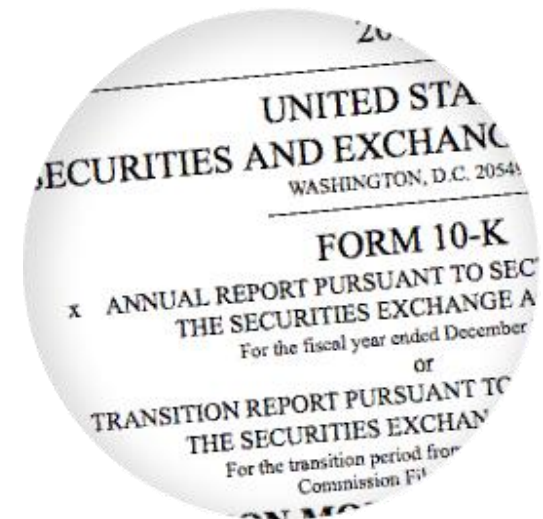
- Recurring revenue means greater predictability and stability in the financial statements:

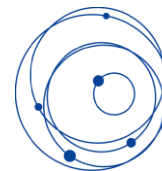




3.3 Low or null accounting red flags.

- History shows that a high operating margins and high stock valuations create the favorable conditions for aggressive accounting.
- Annual reports are becoming longer and more difficult to understand.
- It takes patience and talking to the management of the company.
- Reading the annual reports increases the possibility of generating alpha and reduce risk.





3.3 Low or null accounting red flags.

- At the end of the business cycle, with substantial macro risks and sales declining; a company's management may incentivize to apply aggressive accounting to meet demanding analyst consensus estimates.
- Link to articles related to accounting red flags.

➤ 2Q Shareholder letter of GQEFUND.

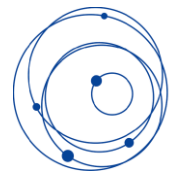
I. Contabilidad agresiva en operaciones de adquisiciones de empresas.

Cuando una empresa adquiere a otra, automáticamente la dirección de la empresa compradora tiene una presión añadida para mostrar una cuenta de resultados proforma que mejore el beneficio consolidado, justificando así el precio pagado en la transacción. La empresa debe hacer una valoración de todos los activos y pasivos a la fecha de la compra y por lo tanto existe riesgo de utilizar criterios y estimaciones contables que favorezcan la mejora de los resultados de dicha transacción.

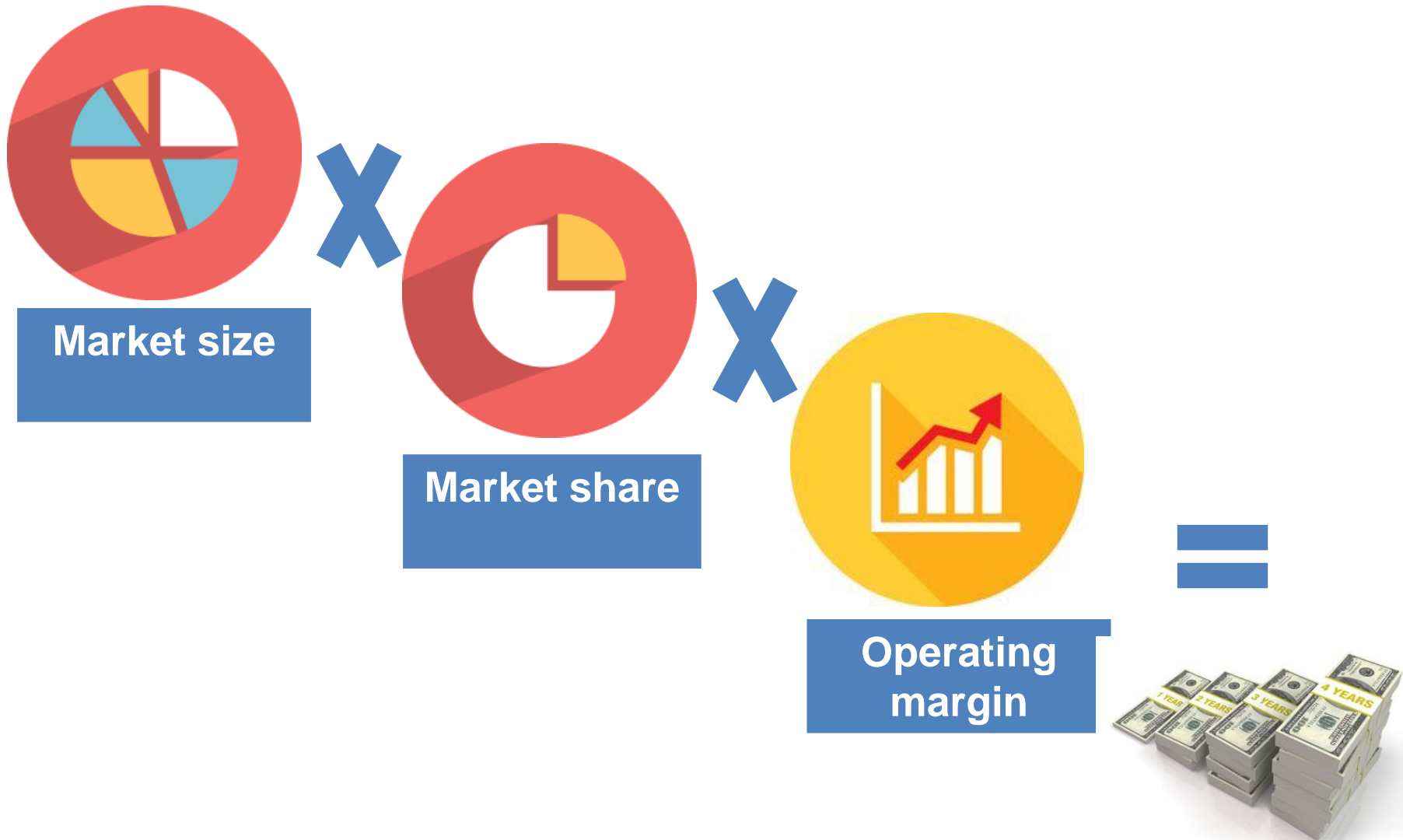
Algunos de los ajustes más comunes son, por ejemplo, asignar un fondo de comercio muy elevado respecto al precio de la transacción, restimar la vida útil de algunos activos para alargar la amortización contable, realizar ajustes contables posteriores a la fecha de la adquisición que acaban incrementando el precio de la transacción, reducir alguna partida del fondo de comercio para incrementar el flujo de caja consolidado, entre otros...

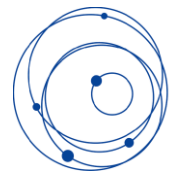
➤ Articles in economic press.





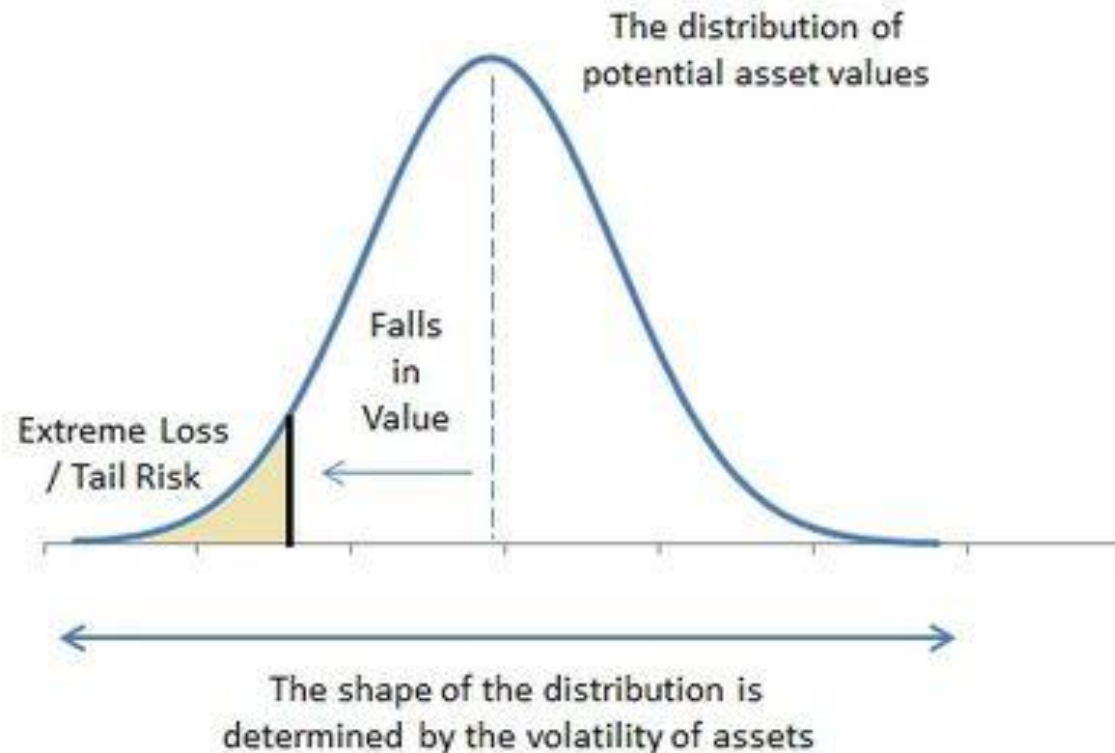
3. Competitive Advantages - Conclusion.

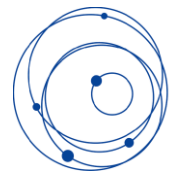




3.4 Tail risk strategy.

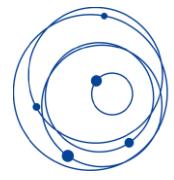
- What is Tail Risk Strategy? Seeks to protect only major market downturns, as happened in 2000, financial crisis of 2008 or Covid-19.





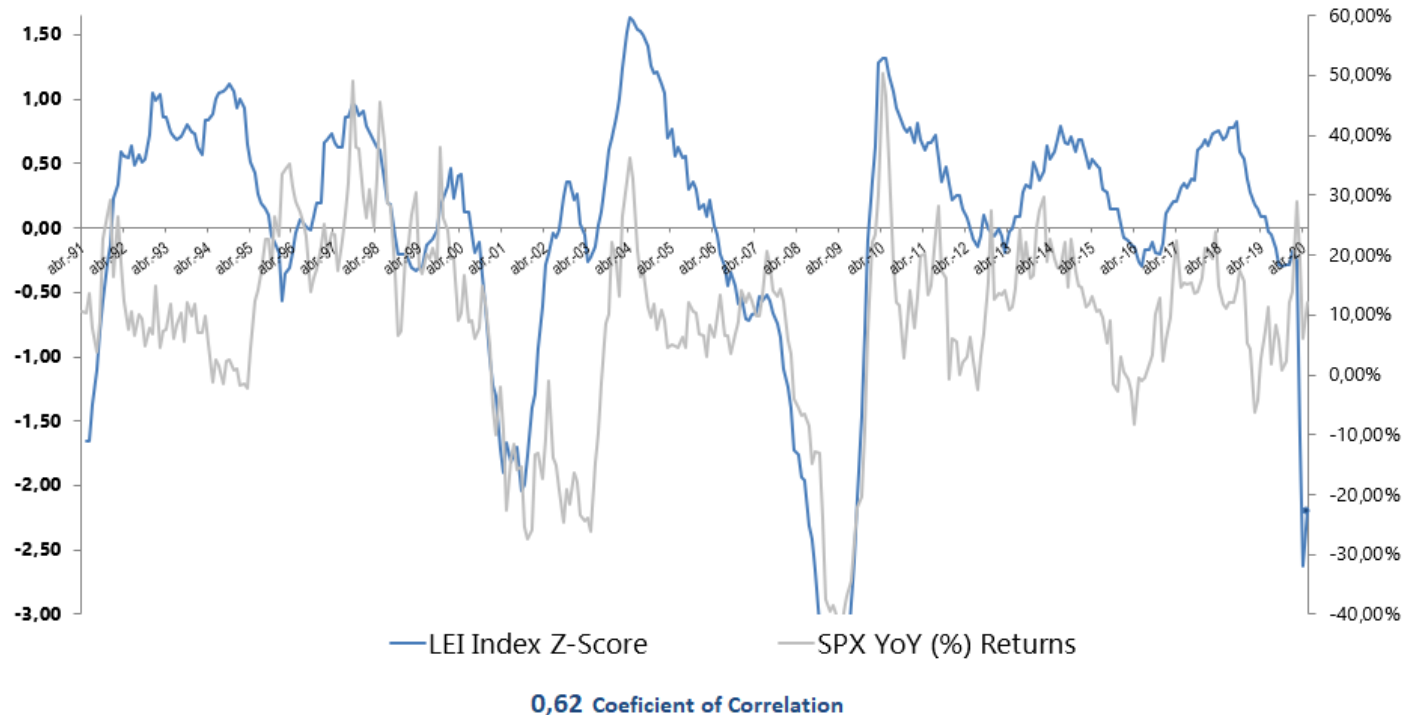
3.4 Tail risk strategy.

- How do we build our tail risk strategy?
 - 1) We bought a database with all prices of all S&P 500 options from 1994 to 2018.
 - 2) Agreement with US Tail risk advisor to create a backtest for the last 25 years.
 - 3) The goal is to find the best combination of strike price, expiration, and rollover on all possible strategies.
 - 4) We only buy index PUT options when the LEI index (Leading economic indicator from the US Conference Board) indicates that there is a high probability of going to recesión in the next following quarters.

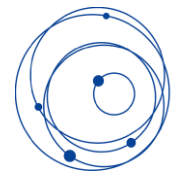


3.4 Tail risk strategy.

- What does the LEI leading indicator tell us today Index?



- The LEI indicator was anticipating a substantial slowdown or recession throughout 2019 and part of 2020. Finally, Covid-19 has accelerated the entry into a recession of the economy.

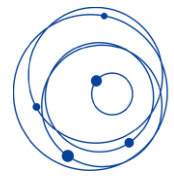


3.4 Tail risk strategy.

- What is our historical track record with Global Quality Edge Fund ?

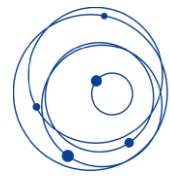
Fondos comparables		Covid-19 drawdown	Índices equity	Covid-19 drawdown	
1	Algar Global Fund	-39,45%	1	MSCI ACWI IMI	-33,61%
2	Kersio LUX	-39,90%	2	MSCI Europe	-34,96%
3	True Value	-43,76%	3	SPX Index	-33,79%
4	Bestinver Internacional	-37,21%	4	Nasdaq 100	-27,84%
5	Azvalor Internacional	-40,61%	5	SX5E Index	-35,65%
6	Equam Global Value	-37,95%			
7	Cobas Internacional	-49,46%			
8	Lierde SICAV	-37,02%			
9	Magallanes European	-37,00%			
10	Magallanes Microcaps	-35,36%			
Promedio comparables		-39,77%	Average índices		-33,17%
Global Quality Edge Fund		-26,99%			-26,99%

- The purchase of PUT options allowed us to minimize the drawdown below a 20% drop. If the market had continued to fall, the fund would not have done so anymore..



4. Why a concentrated fund?

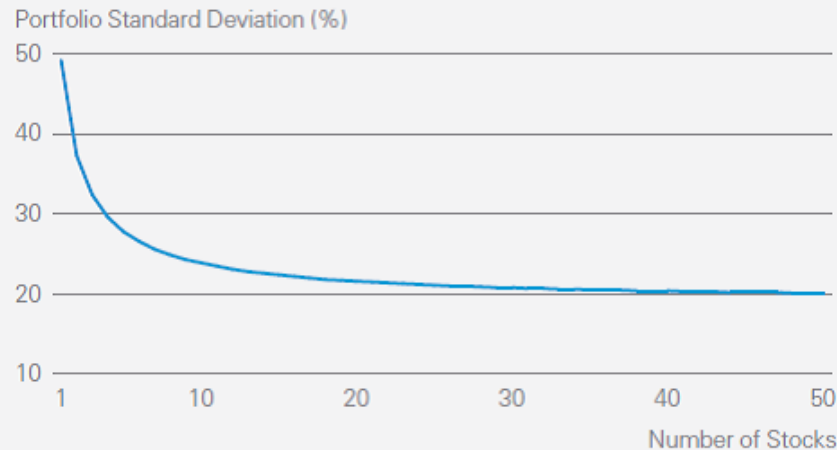
- **“Wide diversification is only required when investors do not understand que they are doing”. WarrenBuffett.**
- We only invest in business than we can understand well.
- A few business help to a better business understanding.
- A high margin of safety reduce the total portfolio risk.



4. ¿Why a concentrated portfolio?

• How many stocks are required in an equity portfolio?

Exhibit 6
Risk Reduction Rate Slows with More Stocks



This information is for illustrative purposes only and does not represent any product or strategy managed by Lazard.

Exhibit 1
Concentrated Portfolios Outperform the Diversified Portfolios from Which They Were Derived

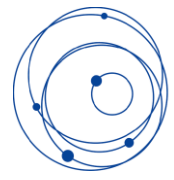
Portfolios	Total Returns (Annualized; %)	Standard Deviation (Annualized; %)	Sharpe Ratio
Top 5	10.77	26.33	0.277
Top 10	9.39	23.40	0.255
Top 15	8.67	21.83	0.239
Top 20	8.12	20.65	0.228
Top 25	7.78	19.79	0.219
Top 30	7.44	19.13	0.210
All Funds	6.30	19.51	0.169
Own Index	5.05	19.96	0.080

For the period 1999 to 2009

Past performance is not a reliable indicator of future results. This information is for illustrative purposes only and does not represent any product or strategy managed by Lazard.

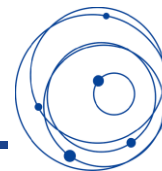
Source: Yeung et al. (2012)

- With 25 stock, the portfolio is correctly diversified.
- Over-diversification produces worse investments.



5. Micro-cap stocks.

- **It is easier for a company with a € 100m market capitalization to double than a € 1bn company.**
- The main reason to invest in micro-caps is higher revenue and earnings growth.
- Higher long-term returns with greater volatility.
- They make it possible to better exploit market inefficiencies.
- The lower analyst coverage, the greater the probability of big returns.
- Higher percentage of insiders implies greater alignment of interests.

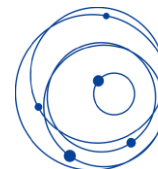


6. Characteristics of DRACO GLOBAL SICAV.

Características

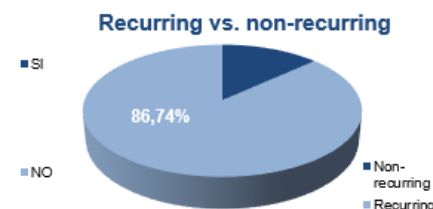
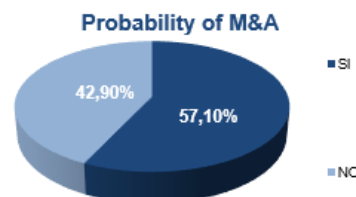
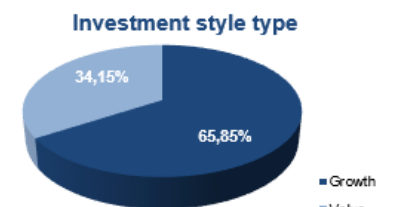
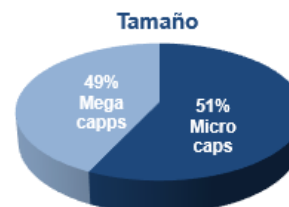
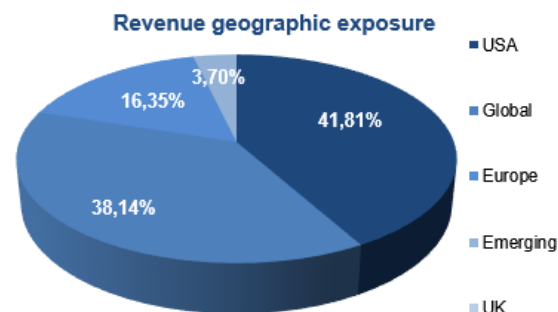
Nombre	DRACO GLOBAL SICAV
Moneda	EUR
Subscripción	Diaria
Reembolso	Diaria
Valor liquidativo	Diario
Inversión mínima	El valor de una acción
Comisión de gestión	1,50%
Comisión variable	10%
Hardle Rate	5%
High Water Mark (HWM)	SI
Gestora	Gesiuris Asset Management SGIC SA
Gestor	Quim Abril
Administrador	Gesiuris Asset Management SGIC SA
Auditor	PRICEWATERHOUSECOOPERS AUDITORES, S. L.
Depositorio	BNP PARIBAS SECURITIES SERVICES
Cambio de gestión	29/01/2020

Bloomberg NAV link - <https://www.bloomberg.com/quote/S2239:SM>



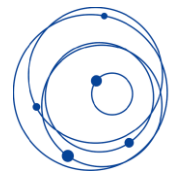
7. Portfolio as of September 1, 2020.

Holdings en cartera	(%) AuM	(%) RV
1 Facebook, Inc.	1,26%	5,69%
2 L.D.C. S.A.	1,04%	4,72%
3 Altigen Communications, Inc.	1,01%	4,58%
4 PaySign, Inc.	0,97%	4,40%
5 SAP SE	0,92%	4,16%
6 Amazon.com, Inc.	0,97%	4,39%
7 Alibaba Group Holding Limited	0,94%	4,25%
8 Alphabet Inc.	0,93%	4,19%
9 Gérard Perrier Industrie S.A.	0,89%	4,01%
10 Water Intelligence plc	0,90%	4,06%
11 Visa Inc.	0,85%	3,86%
12 Gaztransport & Techniqaz SA	0,84%	3,80%
13 OptimizeRx Corporation	0,85%	3,83%
14 Check Point Software Technologies	0,86%	3,87%
15 frontdoor, inc.	0,84%	3,80%
16 Universal Health Services, Inc.	0,77%	3,46%
17 Stryker Corporation	0,75%	3,40%
18 Novo Nordisk A/S	0,75%	3,39%
19 Infotel SA	0,75%	3,39%
20 Neurones S.A.	0,74%	3,34%
21 LVMH Moët Hennessy - Louis Vuitt	0,70%	3,17%
22 Armanino Foods of Distinction, Inc.	0,69%	3,11%
23 IEH Corporation	0,78%	3,52%
24 ATEME SA	0,62%	2,78%
25 Starbucks Corporation	0,70%	3,14%
26 Amadeus IT Group, S.A.	0,50%	2,26%
27 Micro Systemation AB (publ)	0,31%	1,42%
Total holdings	22,11%	100,00%
Total 10 holdings	44,45%	
Total 20 holdings	74,89%	



Holdings en cartera	(%) AuM
1 Facebook, Inc.	1,26%
2 L.D.C. S.A.	1,04%
3 Altigen Communications, Inc.	1,01%
4 PaySign, Inc.	0,97%
5 SAP SE	0,92%
6 Amazon.com, Inc.	0,97%
7 Alibaba Group Holding Limited	0,94%
8 Alphabet Inc.	0,93%
9 Gérard Perrier Industrie S.A.	0,89%
10 Water Intelligence plc	0,90%
11 Visa Inc.	0,85%
12 Gaztransport & Techniqaz SA	0,84%
13 OptimizeRx Corporation	0,85%
14 Check Point Software Technologies	0,86%
15 frontdoor, inc.	0,84%
16 Universal Health Services, Inc.	0,77%
17 Stryker Corporation	0,75%
18 Novo Nordisk A/S	0,75%
19 Infotel SA	0,75%
20 Neurones S.A.	0,74%
21 LVMH Moët Hennessy - Louis Vuitt	0,70%
22 Armanino Foods of Distinction, Inc.	0,69%
23 IEH Corporation	0,78%
24 ATEME SA	0,62%
25 Starbucks Corporation	0,70%
26 Amadeus IT Group, S.A.	0,50%
27 Micro Systemation AB (publ)	0,31%
Total holdings	22,11%
Total 10 holdings	44,45%
Total 20 holdings	74,89%





Disclaimer.

IMPORTANT INFORMATION REGARDING THIS DOCUMENT.

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