

NATURE-SPECIFIC SHORT-SIDE RESEARCH PROCESS

We have created a unique framework for identifying short candidates.

We require every short to fall into at least one of the following four exhaustive categories.

	Drivers	Evidence
1. Thematics/ Structural Declines	<ul style="list-style-type: none"> • Structural overcapacity/ demand destruction • Technological obsolescence • Major deleveragings 	<ul style="list-style-type: none"> • Industry supply growth vs demand growth • Technological disruptions • Major shifts in market share • Credit-growth vs debt-service growth
2. Divergent Expectations	<ul style="list-style-type: none"> • Broken business model • Fads/ broken brand • Cyclical downturn • Ex-growth 	<ul style="list-style-type: none"> • Material reductions in top-line growth • Consensus expectations and market valuations slow to react to new-normal • Turning point in industry cycle
3. Asymmetries	<ul style="list-style-type: none"> • Balance sheet risk • Regulatory risk • Transactional risk 	<ul style="list-style-type: none"> • Excessive financial leverage; off-balance-sheet guarantees • Punitive changes in regulation • Deals at risk of failure
4. Misperceptions	<ul style="list-style-type: none"> • Aggressive accounting/ poor earnings quality • Fraud 	<ul style="list-style-type: none"> • Accounting red flags: accruals, misclassifications, one-time items, aggressive acquisition accounting • Inconsistencies between management statements and reality