*This letter explains why **Darwinex** exists and how its long-term path to investor capital —as opposed to Prop capital— works. Our hope is that this will make the healthy alignment and the coherence in the inner mechanics of the Trader-Investor Exchange clear.*

# A letter from Darwinex Founders

## Why Darwinex?

Back in 2011, Javi - our trader Founder - had worked for years to come up with a winning strategy, but when he approached investors for capital, he realized it was an impossible task, and thought — am I the only one?

And he wasn't. Many, many independent traders around the world have great strategies, but no access to capital, because fund-raising is not their game. That's why he founded Darwinex in 2012 - to provide them with **access to capital, on merit.**

Darwinex has since grown to 75 employees. We're now regulated by the FCA in the UK and by the CNMV in Europe, and proudly source capital for thousands of traders around the world.

## How does Darwinex work?

You trade personal capital as best as you can and receive performance fees on the upside generated for seed and third-party capital. How you trade is up to you —it's **your track record**, and therefore your call.

We, for our part, **pay our best traders from fees that we collect from investors** who demand risk-adjusted returns. For this reason we sponsor and reward risk-adjusted returns. **The longer and the more profitable your track record, the greater the chance of attracting investor capital and generating performance fees.** There are no profit targets or drawdown limits or indeed any other prescriptions as to how to trade.

We pay for track records in single stocks, ETFs, Futures, FX, commodities and Indices. You can produce them trading i) virtual capital, ii) cash and futures with Interactive Brokers or iii) CFDs with our broker.

We handle all that comes with investors so you needn't worry about selling, regulation, legal, technology, payments etc. We provide further details —and there's a lot of detail— further down. and also in our FAQ section.

For now just stay with this. **Our investors love long, investable track records and so do we.** This puts us in your boat - the more our traders succeed, the more investors we get and the more we profit. Trader success is the engine to our success.

## How much does it cost? And what are my risks?

**It costs nothing**, if you trade live capital with our broker or Interactive Brokers - whom you pay their FIXED rates without mark-ups.

To those lacking either confidence or capital we offer Darwinex Zero, a solution to build a track record trading virtual capital. D-Zero track records receive the same seed capital allocations, and the service costs €38 per month (there is a €95 sign-up fee). D-Zero users may upgrade to live trading in Darwinex at any point to **save the subscription** whilst keeping any track record and allocations accrued prior to the upgrade.

We offer the service for free (for live trading) or for a modest subscription to make our offering a no-brainer for long-term traders. We need good traders, and putting up costs is not in our interests.

Our payments are risk-free: **we pay when you win, and you owe us nothing when you lose.** We carry all the costs to handle capital - and the necessary regulatory permissions. We want —we need— your **focus squarely on building an investable track record**.

## How much and how does it pay?

### We pay you like investors pay a Hedge Fund manager.

Hedge Funds charge investors 15% to 30% performance fee and 1-2% of management fee. Out of gross revenue, they then pay staff and providers to attract and service investors, handle operations, back-office, compliance/legal etc. before even approaching the first investor.

The costs to run a hedge-fund are high and rising. It costs hundreds of thousands to start one - and by most estimates it's impossible to keep a profitable hedge fund, even with a winning strategy, with less than 50MM of investor assets under management.

With us, **you trade, we get the investors and pay for all that goes with it.** We charge investors 20% performance fee and 1.2% management fee and pay you 15% success NET from the first investor Euro. **And you have no upfront payment to get started.**

### What does 15% mean in numbers?

To put numbers in context, our best current traders have posted 10-20% yearly risk-adjusted returns for 5+ years. With $1M of investor capital, this pays $15,000 and $30,000 per year. €10M thus pays $150,000 to

$300,000. $30 million, which is the highest current allocation in the platform fetch $450,000 and $900,000 on a 10-15% return year.

Remember -all the above is "icing on the cake" on top of trading as you see fit with us or with Interactive Brokers —or for €38/month via Darwinex Zero.

## We sponsor junior track records

**Unfortunately, investors don't happen overnight.**

It may well take 2-3 years to attract meaningful investor capital, because **investors rarely trust short track records.** Unfortunately, many traders don't want to wait that long and over-risk to "shortcut" revenues, ruining their finances and their track record... and our long term fees, commissions and trader success stories.

That is why **we sponsor healthy trading as you "incubate" your track record** — we pay you out of our pocket. We pay you more, the closer you trade to a long-term investable Hedge Fund. We sponsor not because we're an NGO, but **to obtain return on our investment once you receive investor attention**.

Our sponsor payments work as if there was investor capital at stake, even though there isn't - allocations are virtual. Aside from the fact that the capital isn't really invested, everything else mimics investor payments as realistically as possible. The more investable your track record progresses, the more success fees we pay you.

We pay success fees on the virtual allocations in cash, which you're free to take as you see fit.

## Our virtual capital sponsorship programme: DarwinIA

The mantra is: **act like a Hedge Fund manager and you'll become one.** Hedge Fund managers attract capital by outperforming their peers, and monetise capital by generating profits. Their game is i) beat the peers to get the capital, ii) beat the market to get paid, and iii) repeat.

This is just what our sponsor programme (DarwinIA) mimics.

**To land the virtual allocations, you must outperform peers at similar stages** in their journey**.** We allocate to outperformers every month, and **commit the virtual capital for 3 to 6 months**. At the end of each committed period, **we pay you 15% of the upside**. There are fresh allocations every month - so the more

months you achieve the higher risk-adjusted returns (more on why we "risk-adjust" below), the more virtual seed capital and the more payouts.

Plus —of course— the better your track record.

For now, remember this. **We pay beginners to think like Hedge Fund managers before they're actually worthy of investment**. Our sponsor payments come out of our pockets. They're designed to reward traders growing "virtual" capital as professionally as possible. We don't invest real capital because we're not a prop, and because the numbers don't add up given most short track records inevitably fail.

Sponsoring junior traders is our best investment: **the more emerging talent we seed today, the more investor capital we raise tomorrow**. Feel free to visit our dedicated page for more details on our sponsorship programme.

## Darwinex is a level playing Meritocracy

Say you're early into your track record and competing for the virtual allocations.

You trade away —it's month 0 in your 5 year Hedge Fund dream, and you size positions responsibly. Next to you is this guy trading huge positions / thousands of trades —runs high risk.

Let's say we ranked by raw returns. He gets lucky this month and steals this month's virtual allocation. Next month, he blows up, but the next kamikaze steals next. You get the picture. That's why with us "beating the peers/benchmark" means risk-adjusted instead of raw return.

There's lots to the inner mechanics of the risk-adjustment, but for now stay with this: we scale all positions for high-risk guys down and all positions for low-risk guys up to "level Risk". The result is a "fair", risk-adjusted leaderboard, which creates a transparent track record of meritocracy.

## The risk engine

We've said it before —you needn't do anything to attract investors— **raising capital is on us**.

That said, put yourself in investor shoes. What if a trader managing outside investor capital suddenly or gradually increased risk by trading more often, or holding positions for longer, or by placing larger size than up to that point in their track record? Investors would take more risk than they signed up for.

This would not only distort the level playing field —but also spook investors. Put yourself in the investor's shoes: you invest in a guy, he suddenly trades 1,000 times his normal size and blows up. You'd rightly get very spooked, and pull the plug —not just on the guy, but on the entire platform. (By the way, this could include **you**, because many of our traders also invest in other traders!)

That's why, in addition to scaling all positions to level the playing field, there's an algorithm —we call it the risk engine— that **adjusts any positions out of whack with the previous track record**. Without this protection, a single kamikaze could blow both our platform and your dreams.

## Index

Many describe Darwinex as a copy-trading site, and this is only half-right. It's right in that there are "lead" traders and "followers", but wrong in that there's no copying.

To see why we don't support copying, fast forward to when you become the world's best Hedge Fund Manager. Would you publish your positions, knowing that everybody could:

- Openly back you for €1,000, paying him 20% success on €1,000, then trade €1,000,000 behind your back, paying you nothing for the real profit?
- Couldn't he go one step further, starting his hedge fund with your trades?

That's why we keep followers "blind". They **replicate leader trades on an automated basis, without ever getting to see them**. This way, followers must pay for all success.

We hide the trades by listing an "index" value that followers "purchase". As you trade, the index moves, and the followers follow tracking your positions —it's an "ETF" whose investors place "your" trades without seeing them, paying you **full 15% fare** on all profits.

We call the index with the hidden & scaled positions a "**DARWIN**". The DARWIN index is public and open for anyone to invest.

## The trader-investor Exchange

Investors pick DARWINs from the level playing field —safe in the knowledge that a regulated asset manager scales their positions if and when traders misbehave.

This builds and preserves trader credibility, including yours. In the process it complies with regulation so you needn't worry about anything other than trading. As a bonus **the DARWIN certifies your progression** —your track record—as a trader. All this in a level playing field where investors can not only compare you with other traders, but with alternative investment opportunities.

If you think of it, our role is not unlike a stock exchange. The NYSE collects and standardises investor disclosure for all listed companies, and lets investors buy company shares for a fair market price. We do the same, for investable traders/DARWINs —and we think of ourselves as a Trader-Investor Exchange. **The DARWIN Exchange.**

Feel free to share this as you see fit, or reach out to us via email if you have any questions —or indeed any suggestions as to how to explain all this more clearly.

Sincerely yours,

Javi, Juan and Miguel,

**Darwinex Founders.**