YFS Argonaut Flexible Fund

Fund Commentary

"The issue never came up. People were totally happy with the amount they were spending. All of a sudden {AI costs} are a huge issue. It's kind of meme now: 'My company spent my entire 2026 budget in Q1, can you make this more efficient?' "

Sam Altman, Open AI CEO, Fello AI Conference, June 3rd, 2026

"In that part of the world a ceasefire is when you are firing in a more moderate manner"

President Trump, June 3rd, 2026

"The US is pouring more capital into AI data centers in 6 years (~$930B) than the inflation-adjusted cost of the Marshall Plan, Apollo, Manhattan Project, and the Interstate Highway System — combined. Meanwhile: AI ≈ 45% of the S&P. Energy ≈ 4%. Everyone is overweight the thing that needs power. Underweight the power."

@RonStoeferle, May 12th, 2026

The Fund returned -0.1% over May compared with the IA Flexible Return sector return which was +4.2%. The correlation to the market was 0.17 (0.02) whilst monthly annualised daily volatility was 5.6% (10.0%) vs. market 7.3% (7.7%).

The best performing stocks were Archer Daniels (+8%), Piraeus Bank (+14%) and Raiffeisen Bank (+14%). The worst performing was Adecoagro (-9%).

We have made two observations this year which have made us cautious (and recently wrong) on financial markets. First, given the lack of scalable profitable business models amongst the LLM's (notably Open AI and Anthropic) the AI Capex boom is more fragile than markets appreciate and therefore dangerous to extrapolate. Second, that in contrast to consensual expectations, which since the beginning of the Iran "ceasefire" on April 8th assumed that Hormuz trade flows would normalise "in a few weeks", Iran's leverage, its willingness to drag out the conflict indefinitely to achieve strategic dominance in the Gulf, continues to be underestimated. We would have done well to heed the warning of Edwin Lefevre in Reminiscences of a Stock Operator that "knowledge is the enemy of the speculator during a boom".

Curiously, in the middle of what is the world's worst ever energy crisis, there has been what can only be described as an investment "mania" in the most speculative stocks, with the SOX (Semiconductor) Index (the purest expression of enthusiasm for AI Capex) rising an astonishing 95% in just 65 days; with Non-Profitable Tech +67% and Most Shorted +42%. At its peak on June 3rd 2026, the deviation of the SOX Index from its 200-day moving average was an astonishing 76%, which according to BofA Hartnett's calculations of "past bubbles" compares with 73% at the height of John Law's Mississippi Bubble in 1720; 55% at the peak of Dotcom in 2000 and just 21% before the Wall St. Crash of 1929.

Fig. 1 – 2026 Rally vs Historical Manias

Index	Start	Peak	Return	Deviation vs 200DMA at Peak
SOX	30 Mar 2026	03 Jun 2026	95%	76%
GS Most Shorted	30 Mar 2026	01 Jun 2026	42%	28%
GS Non-Profitable Tech	30 Mar 2026	02 Jun 2026	67%	50%
Mississippi Company	31 Jul 1718	31 Jan 1720	-	73%
Roaring 20s	30 Mar 1926	03 Sep 1929	-	21%
Dotcom	26 Sep 1998	10 Mar 2000	-	55%

Source: Bank of America

*MSCI World NR

Key Performance Numbers

-0.1 %	Monthly performance
3.3 %	Year-to-date performance
29.3 %	Since inception CAGR (net of fees)

Data as at 31-May-26. Past performance is not a reliable indicator of future results.

Key Fund Details†

GBP I Acc	152.12
GBP I Inc	146.93
GBP A Acc	152.17
GBP A Inc	146.28
EUR I Acc	147.63

Fund AUM (£m)	75m
Fund Inception	11 Oct 2024
Fund Type	UCITS Long only
Fund Domicile	UK
Base Currency	GBP
Sector	IA Flexible Inv
Dealing Frequency	Daily

Strategy

Argonaut Flexible Fund

A long-only total return strategy combining a high conviction equity portfolio with discretionary asset allocation to fixed income, currencies, cash and commodities. The objective of the Fund is to deliver capital appreciation over the long term via an active, fundamental investment approach and a concentrated portfolio of equity investments whilst lowering the equity risk and enhancing return through a selection of non-equity investments.

For full details see fund prospectus

Portfolio Manager

Barry Norris, CFA

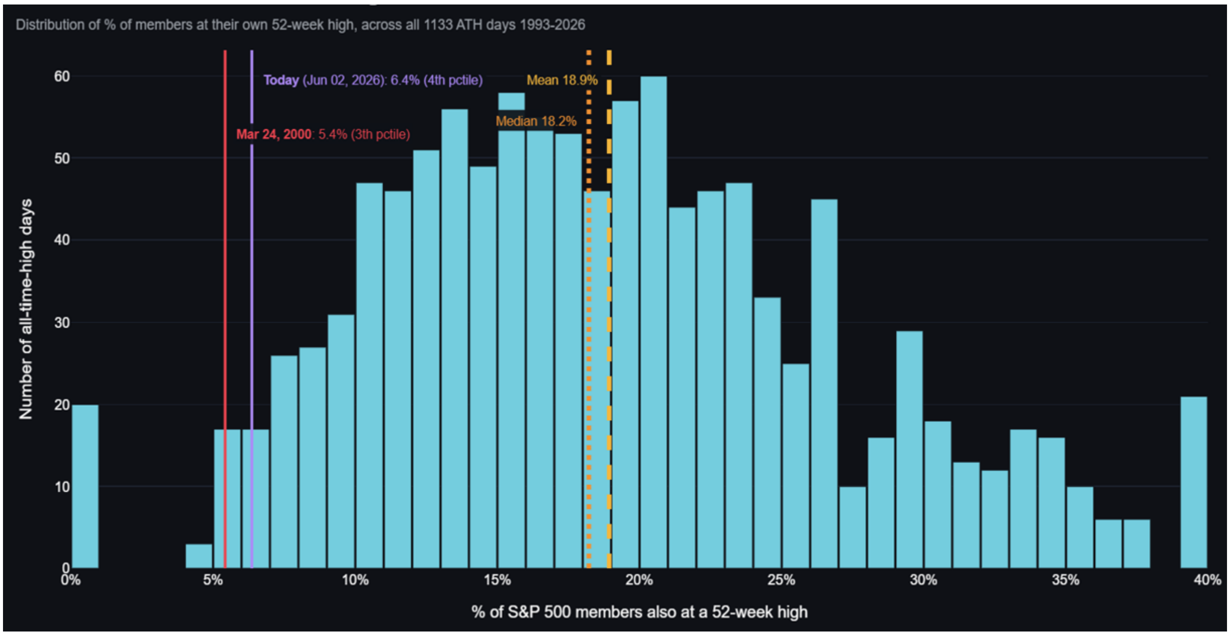
Barry began managing European equity portfolios at Neptune Investment Management in 2002 having begun his career at Baillie Gifford. He graduated from Cambridge University (MA History & MPhil International Relations) and holds the CFA. Barry founded Argonaut Capital Partners LLP in 2005.

For more information see argonautcapital.co.uk

Sources: Argonaut Capital Partners LLP internal unaudited data and refers to the £ I share class.
†Yealand, Bloomberg & Morningstar, calculation on a NAV basis with net income reinvested. All data shown as at 31 May 2026

As in the last few months of Dotcom, capital is being sucked out of the rest of the market to fund the concentrated mania in AI Capex. This has made it challenging to generate any meaningful positive investment performance in the short term without risk of being sucked into the mania. Nevertheless, this narrow breadth of the stock market is unhealthy and has historically been prone to disastrous reversals. Last week saw an all-time high for the S&P, with only 5% of individual stocks hitting new highs. It has been pointed out that this had only previously happened in 1929, 1973 and 2000. In Korea, where the KOSPI index rose 75% in just two months by virtue of its exposure to semiconductors, bank deposits have recently dropped by 12% and 16% of all life insurance policies have been surrendered as much of the financial system is rerouted into the likes of Samsung and SK Hynix.

Fig. 2 – Bad breadth of S&P500 at new all-time highs, 1993-2026



Source: Bloomberg

This AI mania will now see the astonishing sight of three loss-making companies attempt IPO's at trillion dollar plus valuations. Space X – which has accumulated $37bn of losses to date, as much as the next 10 most loss-making companies prior to IPO – is due to raise $75bn (the previous largest raise was Aramco at $29bn) at a $1.8 trillion valuation (which works out at 94x sales). According to Nvidia's Jensen Huang, the IPO's of Space X, Anthropic and Open AI are equivalent opportunities for retail investors to become "early stage investors in Google, Amazon and Meta", despite their trillion dollar valuations not seeming particularly "early stage" and as Jim Chanos has pointed out, those now established companies coming to market on 7x, 3x and 20x revenues respectively (rather than 94x).

Most private equity Space X investors probably believed they were funding a promising mobile internet and satellite business, yet the Space X S-1 document (aka its IPO prospectus) makes it clear that it has now diworsified into a vehicle for Elon Musk's AI ambitions, with $22.7 trillion (80%) of its somewhat unlikely $28.5 trillion future total addressable market in AI, with the tenuous promise of operational synergies through the again somewhat unlikely prospect of building data centres in space (the S-1 admits that "we have not, and no one else has, previously operated or attempted to operate orbital AI compute, and the conditions of space on such AI infrastructure have not been tested.")

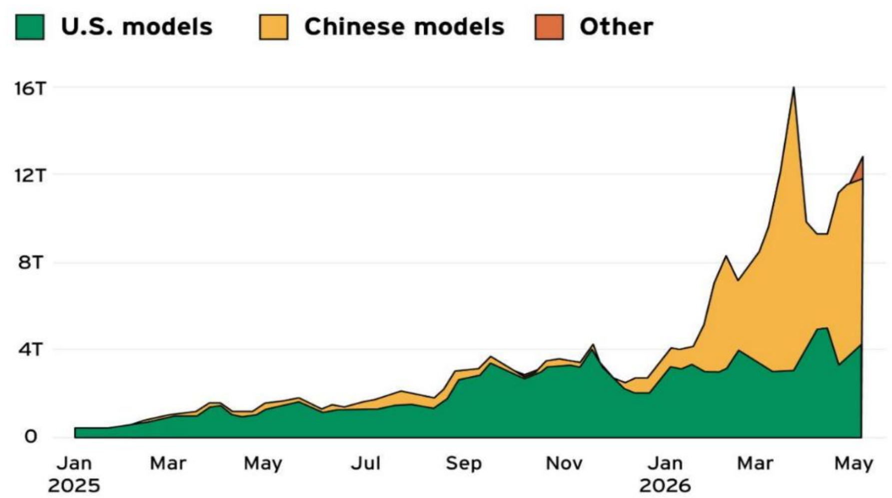
Space X will use its IPO to pay $60bn (in stock and cash) for Cursor (the third biggest native LLM, apparently used by Space X engineers instead of Grok, with annualised revenues of $500m yet negative gross margins of 23%). Its growth prospects centre around its unquantified claim of competitive advantage in building data centres efficiently. The combined Space X and X AI lost $5bn in 2025 on $18bn of revenue, whilst X AI spent $13bn on building data centres (50% more Capex than Space X). We are left with the impression that the Space X IPO has very little to do with space, but is absolutely necessary for Musk to fund his money pit AI ambitions of competing with Open AI, Anthropic and Gemini, yet from a tiny current market share (c. 2-3%) with no competitive advantage, nosebleed capital commitments and low or no gross margin, making scaling the business at best uncertain.

Anthropic and Open AI – which according to The Information account for 89% of all AI native revenues of $6.6bn per month – have also filed "confidential" S-1's with the SEC. As previously discussed, these two companies are ultimately paying for 50-80% of all AI Capex, with combined obligations of $1.3trillion. The IPO process will subject the business models of both companies to greater scrutiny and the public markets will be able to see audited figures subject to accounting standards for the first time. This may inject a welcome dose of realism into the AI investment story.

The LLM IPO process has coincided with the LLM's moving from token maximisation to token-based billing, in contrast with the Dotcom era, where telcos began with metered internet and then moved to "all you can eat" tariffs. In other words, the LLM's have stimulated usage below cost (hence the negative gross margins yet spectacular volume growth) but presumably realise they need to show at least a path to profitability in the IPO process.

This move to token-based pricing immediately before the IPO has received pushback from corporate customers, who having assumed that token costs would keep falling are now seeing their AI bills dramatically increase. It was reported that one US company had burned through $500m of Claude tokens with no usage limits in a single month. Uber said that it had used its entire AI budget in just 4 months and that it was getting "harder to justify" its AI costs because there was not a clear demonstration between AI spend and productivity. All of this is leading to a reassessment of whether corporates want to be in hock to their new AI "workforce" but also questioning whether most tasks couldn't be done on Chinese opensource models which are 80% cheaper. Indeed, Chinese models have surpassed the US in weekly usage with DeepSeek-V4-Flash currently the world's most popular LLM. At the Fello AI Conference on June 3rd, Sam Altman, admitted that "All of a sudden [AI costs] are a huge issue". It is not difficult to work out why.

Fig. 3 – Weekly Token Consumption of Top 9 Models Through OpenRouter API Calls



Source: OpenRouter LLM Ranking Leaderboard. Note: Token consumption refers to the amount of text an AI model reads and generates, and OpenRouter is a platform that lets developers connect different AI models into their apps.

There is an assumption that AI will see a "winner takes all" LLM, yet as Gary Marcus has pointed out, everyone is building the same type of model with the same data, meaning that the only "moat" is the quantum of compute, which is not resulting in linear improvements in the efficiency of the model. In contrast to the previous trillion-dollar Technology winners, the result is a highly capital-intensive industry with competitive pricing and modest profits.

We are licking our lips at the prospect of the publication of the S-1's for Open AI and Anthropic, which we suspect will make Space X look, by comparison, like a Buffett stock. The Information reported that Open AI's EBIT margin was -122% in Q1 and that chatbot subscriptions had stalled. It was also reported that Anthropic was "profitable" in Q2, though it seems this was based on Space X giving them a sweetheart price (temporary cost reduction for inference) for the first couple of months of renting out its Colossus data centres. There is also speculation that Anthropic is recognising upfront payments of tokens which may be used over a year as monthly revenue, then annualising them to juice its revenue growth. Open AI has renegotiated its revenue share deal with Microsoft, with the latter giving up exclusive IP rights in return for faster payments of revenue share, which will accelerate the already nose-bleed cash-burn of $27bn this year, $63bn next and an astonishing $219bn before 2029. Is it any wonder that the Federal bail-out rumours for Open AI have resurfaced?

It is also not clear that data centres are being built at a pace that can absorb all of the semiconductors currently being ordered, which may in any case reflect hyperscalers "stocking up before the hoarders get here". According to JPMorgan "The latest analysis based on satellite images shows that over 60% of data centre capacity planned for completion in 2027 has not begun construction with another 7% delayed." The build-out costs for data centres are also reported to have doubled in the last few months, leading to credit providers getting cold feet about financing projects. This could be a reason why Alphabet decided to raise $85bn of fresh equity, with Meta rumoured to be next inline. Or alternatively it could be that by draining liquidity from the equity market they are making it more difficult for their competitors to secure funding via IPO.

The disruption from the closure of the Strait of Hormuz is playing out more slowly than anyone could have originally envisaged, through use of strategic inventory that didn't exist in the 1970s. China has slashed its crude oil imports by 5mbd (40%), whilst the US has increased its oil exports by 2mbd, largely funded by inventory release from the Strategic Reserve. No one really knows at what point inventory releases can no longer compensate for the lost 12-13mbd through Hormuz, as the amount of Chinese inventory is unknown, as is what exact minimum tank bottoms are in the US. However, the oil market has already lost over 1 billion barrels of oil with the inventory situation likely to become critical over the next 1-4 months, coinciding with the summer period of peak demand. JPMorgan says we reach critical levels by the end of June and tank bottoms by September. It is also important to point out that oil at $90 is not expensive adjusted for inflation on a historical basis and outside some emerging markets there is little evidence yet of demand destruction. This means once the inventory situation becomes critical, the physical shortages will be immediate and profound. Rather perversely, oil speculators have now cut net long positions to the lowest level in over three months (with a net bullish position of only 253mb, 64th percentile since 2011). Goldman data shows institutional investors are currently more bearish on oil than at any point in the last 10 years.

We all know (albeit apparently the trading algos do not) that President Trump has now negotiated a peace settlement 12 times, won the war 7 times and reopened Hormuz 4 times. It has become obvious not only that Trump is desperate for a deal but that Iran knows this and keeps increasing its demands, which now include an end to Israeli incursions into Lebanon and Gaza, official control over Hormuz including tolls, and ending of the blockade and a return of all frozen funds, knowing that its economic leverage increases as global inventories get drawn down, whilst they remain the most strategically consequential nation on earth. In other words, instead of the generalist anticipation that Hormuz will "open next week", we think it might stay shut at least until the mid-term elections in November and perhaps longer.

As long-term investors in the oil tanker industry, on which we remain bullish with or without Hormuz being opened, in contrast to the prevailing generalist consensus, we have witnessed how bottlenecks do not quickly normalise after disruptions. Houthi attacks in the Bab-el-Mandeb have disrupted Red Sea flows indefinitely. Tanker owners will be generally cautious about putting their crew and assets in harm's way irrespective of insurance or political or military assurance. Tankers travelling at 20 knots now working in the Atlantic basin will take weeks and months to arrive in the Gulf. It is also not clear whether ships stranded in the Gulf remain seaworthy. A return to pre-war 70-80 tankers per day through Hormuz which the market still thinks the most likely outcome seems unlikely to us.

Furthermore, it seems to us that Hormuz is now under Iranian control indefinitely, with or without a deal, and that markets haven't really begun to think about the implications of this. Global strategic reserves will be exhausted and refilling them will add significantly to demand for 2-4 years, with more countries likely to build additional storage capacity (good for our long position in Vopak). Until new pipelines are built, Iraq, Kuwait, Bahrain and Qatar will be forced to pay Iranian tolls, whilst Saudi and UAE will continue to export lower volumes, initially via pipelines, for higher prices. Iran will extend its influence over the region with the Gulf becoming an Iranian lake, allowing the regime to support regional proxies which may agitate for regime change amongst the Gulf monarchies (as well as continue to attack Israel). All of this will lead to more instability in the region and a higher floor on oil globally, which will be needed to support new exploration elsewhere. Market consensus is expecting a return to plenty though we expect the exact opposite. And with Energy at a record low of 4% of the S&P market capitalisation, despite it being needed to power AI, compared to technology over 50% (including Meta, Amazon, Space X, Anthropic and Open AI), we see abundant energy investment opportunities ahead, yet perhaps this will only be rewarded post-mania, when rationality reasserts itself.

In our view, the best analogy for global financial markets presently is that of the frog being slowly boiled, that has become desensitised to danger. Hormuz disruption has already gone on longer than anyone originally forecast yet the market has become numb to the energy supply risks through unsustainable inventory releases and Trump jawboning about unrealistic peace deals. Similarly, the share price mania around frenzied AI Capex has dulled enquiry into the sustainability of the unprofitable and non-scalable LLM business model which ultimately must pay for the investment and will soon be subject to public scrutiny.

The global economy is slowly overheating with headline inflation prints forcing central banks to tighten policy in the months ahead, whilst equity market liquidity will be drained by an unprecedented quantum of capital raised. The probability of a significant reset or a prolonged bear market during which leadership will inevitably change are in our opinion high, yet we are also aware that markets can remain irrational for a long time and that more patience may be required, hence the funds equity exposure remains at the lower end of its typical range.

Barry Norris
June 2026

YFS Argonaut Flexible Fund

PERFORMANCE (%)

	1M	3M	1YR	3YR	5YR	YTD	ITD	ITD CAGR
Argonaut Flexible Fund	-0.1	-8.3	28.0	n/a	n/a	3.3	52.1	29.3
IA Flexible Investment	4.2	2.7	20.1	n/a	n/a	7.7	21.9	12.9

DISCRETE YEARLY PERFORMANCE (%)

1-year to	31 May 22	31 May 23	31 May 24	31 May 25	31 May 26
Argonaut Flexible Fund	n/a	n/a	n/a	n/a	28.0
IA Flexible Investment	n/a	n/a	n/a	n/a	20.1

KEY STATISTICS SINCE INCEPTION

Annualised Net Return	29.3
Annualised Volatility	11.0
Sharpe Ratio	2.1
Correlation vs. Global Equities*	0.1
Sortino Ratio	2.5
Max Drawdown	-10.3
Upside Capture	27.5
Downside Capture	-5.5

Source: Argonaut Capital, Bloomberg, *MSCI World.

MONTHLY & CALENDAR YEAR PERFORMANCE (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	Index
2024										-1.8	8.0	1.4	7.5	1.0
2025	6.6	-0.7	-0.9	0.1	5.3	1.0	4.9	5.0	6.1	2.7	1.3	1.0	36.9	12.1
2026	7.5	4.8	-6.6	-1.6	-0.1								3.3	7.7
												CAGR Since Inception	**29.3**	**12.9**

Source: Argonaut Capital & Bloomberg as at 31-May-26. Performance data refers to GBP I Acc share class and is net of fees. **Benchmark:** AFF is not managed to any formal benchmark.
Past performance does not guarantee future results and the value of investments and the income derived therefrom can decrease as well as increase.

EQUITY EXPOSURE BY GEOGRAPHY (%)

Country	% NAV
United States	25.7
Greece	5.3
United Kingdom	3.8
Norway	3.1
Finland	3.0
Ireland	2.9
Austria	2.3
Germany	2.3
Other	4.0
Total	**52.4**

Source: Argonaut Capital & Bloomberg.

EQUITY EXPOSURE BY SECTOR (%)

Country	% NAV
Consumer Staples	13.6
Energy	12.0
Financials	10.7
Materials	10.3
Industrials	4.0
Information Technology	1.0
Telecommunications	0.8
Consumer Discretionary	0.0
Other	0.0
Total	**52.4**

Source: Argonaut Capital & Bloomberg. Equity sector exposure as classified by GICS.

TOP 5 EQUITY POSITIONS

	% NAV
Archer-Daniels-Midland Co	4.4%
Darling Ingredients	4.1%
Bunge Global	3.7%
Newmont Corp	3.3%
Frontline Plc	3.1%

TOP 5 NON-EQUITY POSITIONS

	% NAV
Cash	24.6%
UK Treasury Bill	23.0%

MARKET CAP BREAKDOWN

	% NAV
>$50bn	5.2%
$20-50bn	17.5%
$5-20bn	16.0%
$1-5bn	13.7%
<$1bn	0.0%

DAYS TO LIQUIDATE

	% PORTFOLIO
Less than 1 day	98.4%
1-5 days	1.6%
More than 5 days	0.0%

Days to liquidate positions in the portfolio using 20% of the 90-day average daily trading volume.

FUND EXPOSURES

	% NAV
Equities	52.4%
Government Bonds	23.0%
Commodities	0.0%
Cash	24.6%
Other	0.0%

FX EXPOSURE

GBP	49.8%
USD	27.0%
EUR	18.9%
Other	4.3%

IMPORTANT INFORMATION

These figures refer to the past. Past performance is not a reliable indicator of future results.

This document is a marketing communication. Before subscribing, please read the prospectus and the KIID, available at www.argonautcapital.co.uk. The performance calculation shown is based on the GBP I share class. If the past performance is shown in a currency which differs from the currency of the country in which you reside, then you should be aware that your performance may increase or decrease as a result of currency fluctuations.

PORTFOLIO MANAGER & CONTACT DETAILS

PORTFOLIO MANAGER

Barry Norris, CFA

20 North Audley St, W1K 6LX
London

ENQUIRIES

T: +44 (0)203 875 7809
F: +44 (0)1343 880 267
E: ir@argocap.co.uk
W: argonautcapital.co.uk

SHARE CLASS INFORMATION

Share Class	GBP O (Acc)	EUR O (Acc)	USD O (Acc)
SEDOL	BW5T0N8	BW5T113	BW5T124
ISIN	GB00BW5T0N82	GB00BW5T1136	GB00BW5T1243
Bloomberg	VTARGFO LN	VTAGFX0 LN	VTARGXO LN
Front End Fee	5%	5%	5%
Management Fee	1.5%	1.5%	1.5%
Ongoing Charge	1.66%	1.66%	1.66%
Performance Fee	N/A		
Hurdle	N/A		
High Water Mark	N/A		
Anti-Dilution Levy	A dilution levy may be applied if net inflows/outflows are 2.5% or over on one day		
Minimum Investment	£2,500	€2,500	$2,500
Minimum Top Up	£1,000	€1,000	$1,000
Regular Savings Scheme	N/A	N/A	N/A
ISA available	Yes	N/A	N/A

Source: Argonaut Capital Partners. See Prospectus for more detail.

INVESTOR INFORMATION

Dealing Frequency	Daily
Dealing Time	12pm
Valuation	Daily
Settlement	T+4
Income Distribution Dates	Feb, May, Aug, Nov
Price Reporting	Prices published daily

SERVICE PROVIDERS

Authorised Corporate Director (ACD)	Yealand Fund Services
Auditor	Moore Kingston Smith LLP
Custodian	Caceis
Depository	NatWest Trustee & Depository Services
Accountant	Yealand Fund Services
Legal Council	CMS

FUND OVERVIEW

Objective: The YFS Argonaut Flexible Fund ('The Fund') aims to provide capital appreciation over the long term by holding a concentrated portfolio of equities whilst lowering the overall risk of the portfolio and enhancing returns through a selection of non-equity investments. The fund is not managed against any formal benchmark. Capital is at risk and there is no guarantee that a positive return will be delivered over any given time period.

Investment Approach: The fund deploys a long-only total return strategy focused on mainly developed market equities and is dedicated to seeking absolute returns via an active, fundamental investment approach and a concentrated portfolio of investments. The fund typically holds 30-50 long equity positions alongside a mix of non-equity investments.

Risk Considerations: The Fund has considerable latitude over its equity and non-equity allocation and may also hold a large weighting in a small number of investments and may therefore be subject to larger than normal swings in its value. The performance stream is likely to be volatile and the Fund is suitable only for investors who have a long-time horizon (>5 years) and can tolerate high risk. Investors may not get back all the money invested and an investment in this Fund should only form part of an investor's total portfolio. Investors should discuss the suitability of this Fund with their professional adviser.

IMPORTANT INFORMATION