YFS Argonaut Flexible Fund

Fund Commentary

"Most great investors stick to an approach through thick and thin, and yet every approach goes out of favour sometimes, which means that every investor has periods in the dog house. To be a great investor, you must have an approach, and you have to stick to it, despite the times when it's not working"
Howard Marks, Founder of OakTree Capital, 2017

The Fund returned -4.3% over June compared with the IA Flexible Investment sector return which was +0.3%. The correlation to the market* was 0.28 (0.17) whilst monthly annualised daily volatility was 7.4% (5.6%) vs. market 13.8% (7.3%).

The best performing longs were Austrian bank Raiffeisen (+17%), Hungarian bank OTP (+12%) and Suezmax oil tanker owner Nordic American (+12%). The worst performing long was food and renewable energy business Adecoagro (-24%).

Despite what was on paper the world's worst ever energy crisis during Q2 2026 (a subject we will no doubt return to in future commentaries) equity markets performed well at the headline level. Nearly all of the positive returns came from one theme, namely exposure to the AI Capex boom, yet low quality, high beta, and unprofitable speculative stocks also performed abnormally strongly. This created a challenging regime for our usually reliable investment process leading to the Fund giving-up its strong start to the year.

The key characteristics we believe are desirable in an attractive equity investment are: a cheap valuation; the prospect of the company earning more money than the market expects; a balance sheet able to fund value accretive growth and honest, aligned management.

This means the fund's aggregated equity exposure should be cheaper than the market, getting superior earnings upgrades, with healthy cash generation and a high or improving ROE, which because of a robust balance sheet can be used to reward shareholders.

Fig. 1 – WEIGHTED VALUATION METRICS OF AFF vs. MSCI WORLD, 30-Jun-26

NEXT 12M	AFF	MSCI WORLD INDEX
P/E	9.8	19.5
EV/EBIT	9.5	16.1
EV/Sales	2.5	3.1
P/S	2.5	2.8
P/BV	2.2	3.8
ROE	28.6	18.2
FCF Yield	11.4	3.7
Div Yield	5.6	1.7
% Change Cons. Est. EPS (Last 12m)	39.7%	-

Source: Argonaut Capital Partners, Bloomberg; All data as at 30-Jun-26.

If we look at the Flexible Fund's equity exposure at the end of June 2026, it continued to demonstrate these characteristics. In other words, our stock selection in Q2-26 continued to focus on attributes we deem valuable – and which have worked most of the time over my 28-year career – yet the market regime has recently decided not to reward them.

*MSCI World NR

Key Performance Numbers

-4.3 %	Monthly performance
-1.1 %	Year-to-date performance
24.5 %	Since inception CAGR (net of fees)

Data as at 30-Jun-26. Past performance is not a reliable indicator of future results.

Key Fund Details†

GBP I Acc	145.61
GBP I Inc	140.65
GBP A Acc	145.66
GBP A Inc	140.03
EUR I Acc	142.36

Fund AUM (£m)	£68m
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.

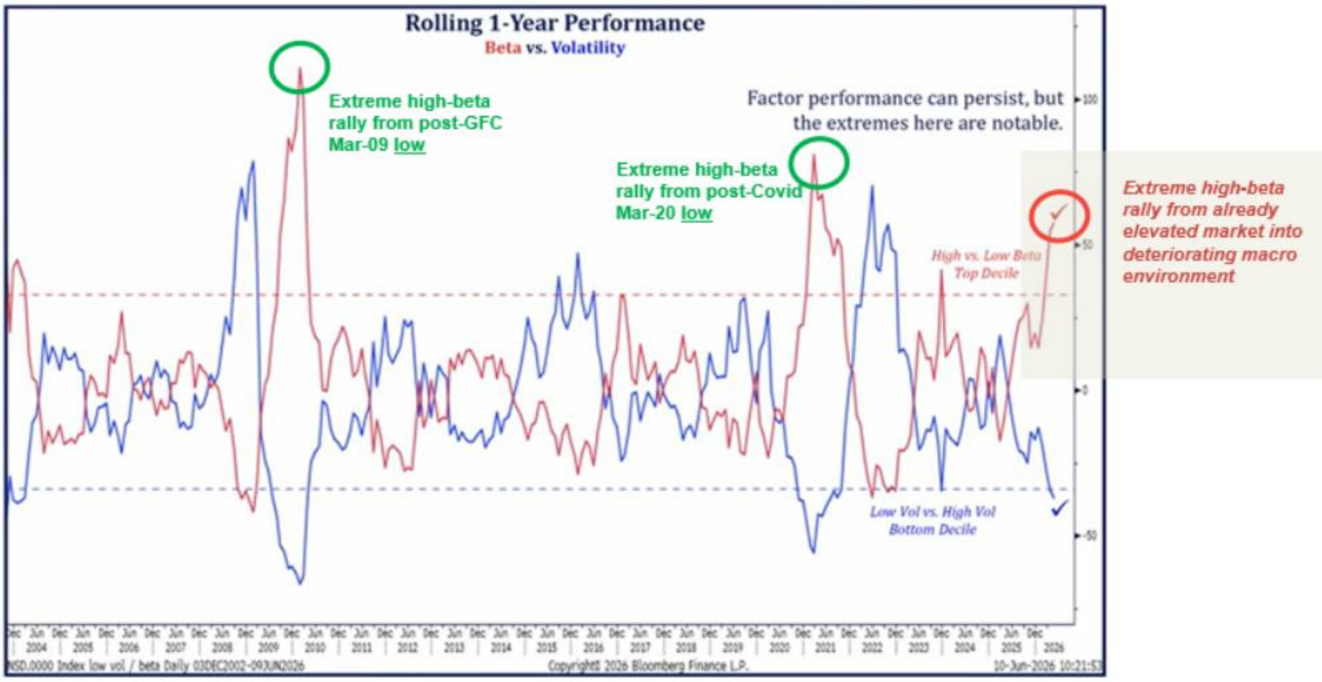
For more information see argonautcapital.co.uk

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 30 June 2026

Aside from earnings momentum, there is a style bias implicit in our stock selection process, namely that our equity long positions will typically be composed of higher quality and therefore lower volatility stocks. While this is deliberate – given lower quality companies tend to make better shorts – our awareness of factor risk has resulted in us placing much emphasis on understanding macro conditions, diversifying our portfolio and more recently developing our own in-house quantitative and risk management tools.

In this context, we have thought long and hard about the macro conditions which in our view naturally facilitate extreme high-beta rallies, such as that seen in Q2 2026.

Fig. 2 – LATE-CYCLE BID FOR RISK ASSETS IS UNUSUAL – S&P 500: HIGH BETA IN TOP DECILE, LOW BETA IN BOTTOM DECILE



Source: Strategas, Argonaut Capital

If I look back over my investment career (which began in 1998), excluding the current period there have been three high-beta macro regimes that have stood out (March 2003, March 2009 and April 2020). They share the following characteristics. First, they normally occur after periods of junk factor underperformance and market drawdowns. Second, the catalyst more often than not is policy panic at central banks (and also government). Third, they occur when overall investor risk appetite is low and positioning is bearish. Fourth, on the principle that the rising tide floats all boats, it is the most marginal bombed-out assets that lead the market. Fifth, they prove to also anticipate a cyclical earnings recovery (in other words they are a leading indicator of earnings momentum).

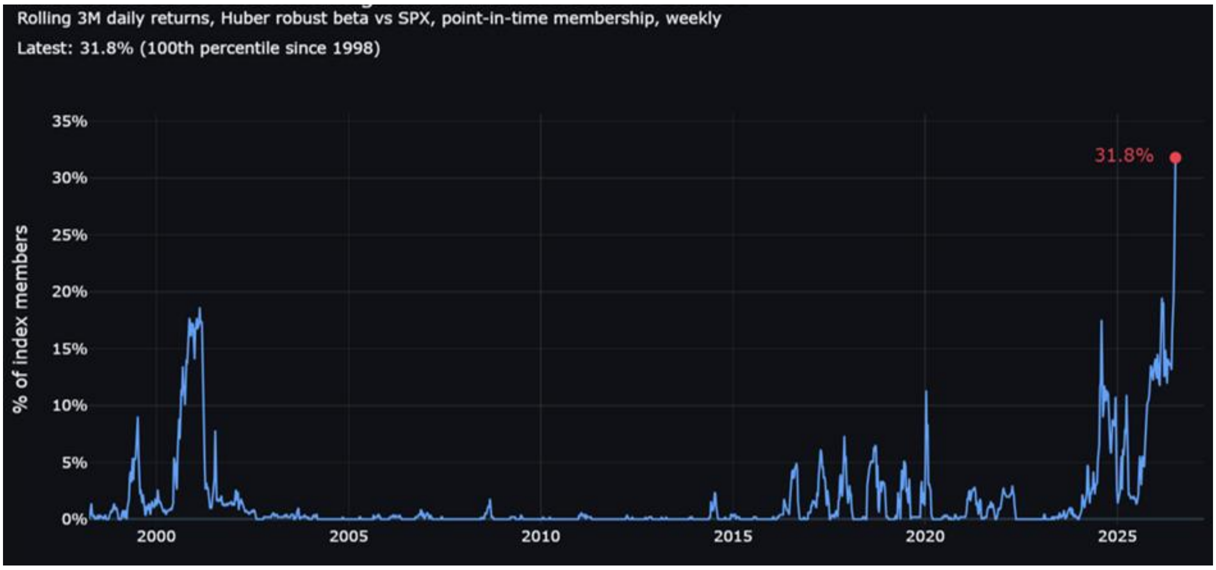
None of these dynamics existed in April 2026, whereby the performance of the high-beta factor was already elevated and the market leadership of AI Capex had already been well established since October 2022. Moreover, economic conditions had worsened (we can debate by how much and for how long) since the start of the year: an energy supply crisis through the SoH still we note not fully resolved, accelerating inflation and if not monetary tightening, then at least the prospect of rate cuts being taken away. The equity rally we witnessed in Q2 2026 has been the acceleration from elevated levels of an already well established high-beta factor despite a demonstrable worsening macro.

In this regard, the only historic analogue in our view is the end of cycle behaviour witnessed in the dot.com period (1999-2000) and to a lesser extent the GFC (2007-08) both of which (unlike 2003, 2009 and 2020 which were broad rallies) saw crowding into just a single dominant narrative (tech 1999-2000 and commodities 2007-2008). History therefore tells us to be especially wary of narrow high beta rallies from elevated levels on weak macro fundamentals.

According to Gavekal Research, global stock markets increased in value by $7 trillion since the start of the year, but only $500bn came from the performance of non-semiconductor stocks. It is precisely because the Q2 2026 equity rally was so narrow – in a theme our research indicates we should be wary of – that generating positive returns has been problematic. With the S&P reaching consecutive all-time highs with just 5% of individual stocks hitting all-time highs, investment performance in Q2 2026 was bifurcated between those who had semiconductors and those who did not. When “alpha generation” becomes crowded into one industry, diversification becomes less useful since outcomes are binary.

The narrow leadership of AI Capex and semiconductors also led to high levels of hedge fund leverage amongst believers and retail speculation in the sector, which further increased its volatility. Often this has been funded by selling everything else. To put this into perspective, over the last 3 months, 32% of the S&P 500 demonstrated rolling negative betas, which is higher than the 19% at the peak of the dot.com boom. In other words, in Q2 2026 the AI Capex boom sucked more capital out of the rest of the market than the dot.com bubble did at its peak.

Fig. 3 – % OF S&P 500 STOCKS WITH A NEGATIVE 3M BETA, 1998 TO 2026



Source: Argonaut Capital, 30-Jun-26

The curious bear markets in defence and gold (in the middle of a geopolitical crisis) that began in March is presumably because there has only been room for one winning narrative. The size of the AI theme in global stock markets (e.g. semiconductor (20% of S&P) and technology (50%+ of S&P)) increasingly means mainstream equity funds and technology funds are the same thing: good for them in Q2 2026 though systematically disastrous if and when the bubble bursts.

We were early enthusiasts for AI Capex beneficiaries (we talked about this on the Merryn Talks Money Podcast in December 2024 and it is a fair point to ask why we sold out of our previous positions since AI "picks and shovels" have undoubtedly been the single biggest source of market earnings upgrades, and not every stock (though as a reminder more than half the S&P's total market capitalisation is concentrated in mostly technology stocks trading above 10x sales) are on nosebleed valuations.

We simply have become increasingly convinced that the AI Capex boom is more fragile and therefore more unsustainable than the market believes, not because we won't use AI but because the business models of the leading LLM's will never generate enough profit to pay for the Capex, inevitably in our view leading to a boom and bust cycle, irrespective of what happens over the longer-term.

The historic parallel is that most of the companies building the internet during the dot.com (98-00) proved to be appalling investments but this has not stopped the value of the internet accruing to the consumer, with it negatively impacting previously profitable industries or ultimately winners emerging from the economic wreckage during the long technology bear market (00-08).

Our confidence in the AI Capex boom was first undermined by the "sputnik moment" in January 2025 with the release of DeepSeek, which demonstrated the LLM business model could be both less capital and compute intensive and open-sourced. Although with a kind of patriotic amnesia the American AI industry ignored the Chinese threat, we think both cost-efficiency and the greater security of open-source will prove to be a competitive advantage for LLM's, irrespective of their nationality. As Gary Marcus has consistently argued the "scale is all you need" LLM business model should have already been consigned to the dustbin of economic history yet presumably hasn't because its stupidity is good for Nvidia (the Capex boom) and the circular funding ecosystem of US AI.

As we subsequently got to understand the business models of the leading American LLM's Open AI and Anthropic (the ultimate customer for more than 50% with some estimates of up to 80% of all US AI Capex) we became more concerned about their absence of gross margin and therefore the scalability in their business models, meaning they might not be able to pay even for existing data centre commitments unless investors with long time horizons were prepared to subsidise their cash-burn, which is now at an epic level. We also noted the common misconception that it was the "hyperscalers" with their previously pristine balance sheets who were funding the AI Capex boom, when in fact they were largely building datacentres to rent out to cash-burning LLM customers (Open AI's own projections have it losing a cumulative $115bn to projected break-even in 2029).

The problem with AI is not whether consumers or enterprises find it useful: it is the inability of the LLM business model to deliver the product at a low enough price to stimulate demand and for the LLM to make a profit, in the absence of an economic moat, generating enough cash-flow to pay for the Capex. This is not Anthropic and it is definitely not Open AI, which with its $1.1 trillion of spending commitments, slowing revenue growth and stalling customer growth, we believe could go bust without a US Federal government bailout (which is presumably why they are actively courting Trump to become an investor (even for free) in Open AI). The WSJ reported on June 10th that Open AI was considering “drastic” token price cuts to win back market share from Anthropic, demonstrating the absence of pricing power in the LLM industry.

Both Open AI and Anthropic have both filed “confidential” S-1 in recent weeks with the aim of raising capital at trillion dollar valuations to fund their cash burn. Presumably they were told that they must be able to demonstrate at least a path to profitability, which is why their revenue models have abruptly changed from “token maximisation” (funding explosive growth by giving the product away below cost) to charging per token.

Somewhat inevitably, there has been client pushback against the imposition of “metered access” at above cost when enterprises and consumers previously enjoyed “all you can eat” access at a fraction of compute (and training) cost. Many corporations (e.g. Microsoft, Uber) realising AI isn’t as cheap as they previously thought have reportedly moved workloads to Chinese LLM’s offering 90% of the capabilities for 10-20% of the cost. Data now suggests that US LLM token volume is flatlining with Chinese LLM’s growing very quickly, now accounting for more than 50% token market share. It seems to us that most enterprises and consumers do not need to pay 10x for the “frontier model” when the rest of the industry is only months behind and that in any commodity industry the lowest cost producer always wins.

It is also clear that being “Open-Source” has also become more relevant as on June 13th the US Government shut down access with 90 minutes’ notice access to Anthropic’s latest Fable 5 and Mythos 5 models. French President Macron warned that if the US could “turn off the switch” unilaterally it represented a sovereign risk for allied nations. Enterprises are becoming increasingly aware of the risk of not being able to run models on their own servers and also the risk of sharing their data with LLM’s (recently highlighted by Palantir CEO Alex Karp on CNBC). We note that Nvidia is building its own open-source LLM for enterprises. This has the potential to be a formidable competitor to Open AI and Anthropic. Moreover, whilst “compute” is likely to be commoditised, we do not dismiss the potential for valuable monopolistic type businesses to be built in the future at the application layer.

We believe that the “trillion dollar” IPO’s of Anthropic and Open AI will be “open kimono” events for the market. We are told that Open AI and Anthropic have now pushed back their IPO’s to later in the year or 2027, presumably because if they were to publish a prospectus and subject their accounts and forecasts to the rigour of public scrutiny, it just wouldn’t fly. Anyone thinking they are investing in the next tech company about to make monopolistic profits will likely be very disappointed. As Gary Marcus recently wrote on his Substack:

“*Everybody is building essentially the same technical solution with essentially the same data, so there is no moat. If there is no moat, nobody is going to take 90% of the market. With no clear winners, nobody can charge monopoly prices: instead, you get price wars and commodity pricing*.”

We should also add that without the prospect of “monopolistic” profits, there is less incentive to spend more money on Capex and some risk of customer default. There is also an operational and execution problem, which comes from the likely over-ordering of “picks and shovels”, where there are some tentative signs of problems.

Given the previous “token maximisation” phase and the 2–3 years it takes to build an AI datacentre, it is not surprising that the AI industry has consistently complained about the “scarcity of compute” but we did wonder how quickly all of these semiconductors on order could be deployed, and queried whether customers were over-ordering at now much higher prices relative to actual demand. Some investors were puzzled that in such a scarce environment for compute, Space X had decided to rent out its Colossus I and II data centres to Anthropic. Meta subsequently announced that it would set up its own “neocloud” division, renting out its excess data centre capacity to third parties, with presumably Zuckerberg having changed his mind from his statement at its AGM in May that:

“*We haven’t done that yet because we think we have a use for the compute. But obviously if we get to a point where we feel that we have overbuilt, then that is an option that we have, and that is partially what gives us confidence in investing in building this out*.”

If data centre capacity has now caught up with demand and LLM market share is being taken by less compute intensive models, might the AI industry be about to get less rather than more capital intensive? Are Open AI and Anthropic who are losing market share and struggling to fund existing commitments going to ask hyperscalers to build even more data centre capacity for them? Concerned with their underperformance relative to AI Capex beneficiaries, will the management of hyperscalers be tempted to say they can get more out of existing capex commitments rather than continuing to destroy their own share prices? When the first hyperscaler to slow spending sees its share price rewarded, what happens to the share prices of semiconductor stocks?

We are well aware that managing risk in an investment mania is a different skill set from identifying an investment bubble. Being early in identifying an investment truth does not necessarily mean instant rewards. Indeed, in our long/short strategy, many of us identified Wirecard as a fraud years before it went bust, yet only a few had the position on at the end.

We also feel that just as investors crowded into AI Capex in Q2 2026, any broadening of the market – particularly if geopolitical risks continue to diminish – will see AI Capex plays being used as a source of funding.

Our investment process has delivered more often than not over the last 28 years and while we always continue to seek to improve, in looking to generate differentiated absolute returns to equity markets we also accept there can be bumps in the road.

We cannot guarantee to avoid drawdowns, nor predict when irrationality will end though we can be patient and exercise our judgement formed over 30 years of investing that the risk/reward in the AI trade is poor, certainly inferior to the rest of the market.

When things turn properly – rather than a mere momentum unwind that we've seen in recent days – particularly given the size of AI stocks on global stock markets, it will be a fantastic time for alpha generation and we believe that as in the 2000-2003 tech bear market, a value-orientation will be a great extra tailwind.

Barry Norris
July 2026

ALPHA
MANAGER 2026
Barry Norris

YFS Argonaut Flexible Fund

PERFORMANCE (%)

	1M	3M	1YR	3YR	5YR	YTD	ITD	ITD CAGR
Argonaut Flexible Fund	-4.3	-6.0	21.4	n/a	n/a	-1.1	45.6	24.5
IA Flexible Investment	0.3	9.7	18.5	n/a	n/a	8.1	22.3	12.5

DISCRETE YEARLY PERFORMANCE (%)

1-year to	30 Jun 22	30 Jun 23	30 Jun 24	30 Jun 25	30 Jun 26
Argonaut Flexible Fund	n/a	n/a	n/a	n/a	21.4
IA Flexible Investment	n/a	n/a	n/a	n/a	18.5

KEY STATISTICS SINCE INCEPTION

Annualised Net Return	24.5
Annualised Volatility	10.9
Sharpe Ratio	1.7
Correlation vs. Global Equities*	0.1
Sortino Ratio	2.0
Max Drawdown	-12.4
Upside Capture	25.4
Downside Capture	-2.0

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	-4.3							-1.1	8.1
												CAGR Since Inception	**24.5**	**12.5**

Source: Argonaut Capital & Bloomberg as at 30-Jun-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	21.6
Denmark	7.1
Hungary	6.6
Norway	6.5
Greece	5.9
United Kingdom	5.0
Austria	4.3
Ireland	3.8
Other	9.4
Total	**70.2**

Source: Argonaut Capital & Bloomberg.

EQUITY EXPOSURE BY SECTOR (%)

Country	% NAV
Energy	20.8
Financials	18.1
Consumer Staples	12.0
Industrials	10.0
Consumer Discretionary	8.2
Materials	1.1
Telecommunications	0.0
Information Technology	0.0
Other	0.0
Total	**70.2**

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

TOP 5 EQUITY POSITIONS

	% NAV
OTP Bank	6.6%
Frontline Plc	5.4%
Archer-Daniels-Midland Co	4.7%
Raiffeisen Bank	4.3%
Pandora A/S	3.9%

TOP 5 NON-EQUITY POSITIONS

	% NAV
US Treasury Bill	14.4%
Cash	9.1%
US Treasury Bill	6.3%

MARKET CAP BREAKDOWN

	% NAV
>$50bn	0.0%
$20-50bn	28.8%
$5-20bn	23.7%
$1-5bn	17.6%
<$1bn	0.0%

DAYS TO LIQUIDATE

	% PORTFOLIO
Less than 1 day	99.8%
1-5 days	0.2%
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	70.2%
Government Bonds	20.7%
Commodities	0.0%
Cash	9.1%
Other	0.0%

FX EXPOSURE

USD	45.6%
EUR	21.1%
GBP	17.7%
Other	15.6%

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

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ALPHA MANAGER 2026
Barry Norris

SHARE CLASS INFORMATION

Share Class	GBP A Acc	GBP A Inc	GBP I Acc	GBP I Inc	EUR I Acc	GBP LI	EUR LI	USD LI
SEDOL	BTCLCP2	BTCLCQ3	BTCLCR4	BTCLCS5	BTCLCT6	BN6RZX3	BN6S019	BN6S020
ISIN	GB00BTCLCP27	GB00BTCLCQ34	GB00BTCLCR41	GB00BTCLCS57	GB00BTCLCT64	GB00BN6RZX39	GB00BN6S0194	GB00BN6S0202
Front End Fee	0%	0%	0%	0%	0%	0%	0%	0%
Management Fee	0.75%	0.75%	0.75%	0.75%	0.75%	0.60%	0.60%	0.60%
Ongoing Charge	0.91%	0.91%	0.91%	0.91%	0.91%	0.86%	0.86%	0.86%
Performance Fee	No							
Hurdle	No							
High Water Mark	No							
Anti-Dilution Levy	No							
Minimum Investment	£500	£500	£3,000,000	£3,000,000	£3,000,000	£25m (within 6 months of initial purchase)		
Minimum Top Up	£250	£250	£1,000	£1,000	£1,000			
Regular Savings Scheme	Yes	Yes	--	--	--	--		
ISA available	Yes	Yes	--	--	--	--		

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