YFS Argonaut Flexible Fund

Fund Commentary

"People have bad information. I have asymmetric information."
Treasury Secretary Scott Bessent, CNBC, Aug 20th

The Fund returned +1.1% over August compared with the IA Flexible Return sector return which was +2.1%. The correlation to the market was -0.03 (0.27) whilst monthly annualised daily volatility was 9.1% (8.8%) vs. market 9.0% (8.7%).

The best performing stocks were gold miner Newmont (+33%), Austrian bank Raiffeisen (+8%) and VLCC owner Frontline (+12%). The worst performing stock was Coca-Cola Hellenic (-10%).

"Let the bond market speak"

Perhaps the most significant event of the month was the move in global government bond yields, which saw long-term interest rates rise to multi-decade highs.

Fig. 1 – 30Y Government Bond Yields: UK, Germany, France, Japan & US, Sep-06 to Sep-26

Source: Bloomberg.

This "bear steepener" yield curve move is best explained by a concatenation of factors: governments continuing to run unprecedented peacetime fiscal deficits at a time of full employment; a lack of trust in the willingness of central banks to engage in trade-offs to fight inflation; geopolitical risk in owning an asset where the terms of ownership might be changed; and the prolongation of the conflict in the Gulf, which highlights the lack of recent investment in commodity assets and economic vulnerability of economies to supply crises. In other words, a replay of the 1970s Redux we have been highlighting for many years, except this time with even more irresponsible government.

On August 28th, at the Jackson Hole Symposium, new Fed Chairman Warsh gave another hawkish speech, noting that: *"The responsibility for 65 months of sustained, elevated inflation sits squarely with the central bank."* Interest rate futures immediately moved from pricing in a 35% probability of a hike at the next FOMC on September 16th to 60%. However, doves such as Governor Waller subsequently suggested that the Fed should "give disinflation a chance", somewhat bizarrely ignoring the highest prices paid ISM since 2022 and focusing on backward-looking inflation measures. Particularly in view of his July "all hat and no

Key Performance Numbers

1.1 %	Monthly performance
3.8 %	Year-to-date performance
25.3 %	Since inception CAGR (net of fees)

Data as at 28-Aug-26. Past performance is not a reliable indicator of future results.

Key Fund Details†

GBP I Acc	152.75
GBP I Inc	145.90
GBP A Acc	152.81
GBP A Inc	145.26
EUR I Acc	150.09

Fund AUM (£m)	£70m
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

*MSCI World NR

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 28 August 2026

cattle" FOMC performance, we think Warsh has to hike this month to regain credibility and regain some control of longer-term interest rates.

Warsh's strongest regime change message is his belief that the market should set interest rates without the distorting signal of Fed "forward guidance". We think this implies that too much Fed talk lulls the market into complacency on the future path of interest rates, presumably leading market participants to take more risk. So if the Fed talked less, perhaps there would be a bigger risk premium in risk assets and lower asset prices.

We are struck by the contrast between Chairman Warsh and Treasury Secretary Bessent, who during the month intervened in FX and rates markets, supporting both the Japanese Yen (Aug 2nd) and the long-end of the Treasury yield curve (Aug 19th), with the justification that he had "asymmetrical information", the same bluff that the Trump administration has used relatively successfully in managing the price of crude oil since April.

On August 26th, Bessent's former hedge fund mentor, Stanley Druckenmiller, published a WSJ opinion entitled "Let the Bond Market Speak" in which he noted that: *"the long-term Treasury yield is the most important price in the world. It is also the only fiscal disciplinarian the US has left"*. He criticised Treasury intervention on the basis that: *"Yield management always begins as a technical operation and ends as a policy commitment…You can't buy your way out of a solvency conversation with liquidity tools. You can only postpone the conversation and raise the eventual price. Debt management that even appears to follow the political calendar spends the one asset that took two centuries to accumulate: the credibility of the Treasury market".*

"You cannot square a $2 trillion valuation with all the reports like these."

During the month BOE Governor Andrew Bailey, writing a letter to G20 Finance Ministers in his capacity as Chairman of the Financial Stability Board warned about *"stretched asset valuations"* in AI and *"greater use of leveraged exchange-traded funds (ETFs) and correlated momentum-driven strategies"*. Perhaps he should have warned Leopold and the Korean Ants in June. By contrast, Nvidia reported Q2 results widely regarded as bullish for AI given increased revenue forecasts.

It seems to us that both of these datapoints are largely irrelevant to the debate: the problem with AI stocks is not valuations *per se* but an unsustainable earnings bubble, given only the picks and shovels companies are making any money; the problem with Nvidia is that it creates its own demand through "balance sheet as a service" (vendor financing) which itself is a warning sign over the end customer's ability to pay and the sustainability of the boom.

The key question on which the sustainability of the AI boom rests is whether the LLM business model will ever be profitable enough to pay for the compute already contracted (via the hyperscalers and the neoclouds) and expected to continue to grow at elevated levels into the future. It is not a question of whether there is demand for AI. Rather, it is a question of whether there is an economic moat in the LLM business model.

The biggest problem for AI is that all of the frontier models (produced by Anthropic and Open AI) have no economic moat since they can be replicated to within 95% accuracy at 5% of their cost within months. Moreover, since the era of "token maxing" whereby frontier models were given away below cost ended in Q2 2026, customers have switched to cheaper open-source models, meaning that cost rather than performance now determines market share.

Deepseek's latest model V4-Pro, for example, achieves a benchmark score at 95% of leading US frontier models for 4.4% of the cost. This means that Open AI and Anthropic are haemorrhaging market share. According to Vercel AI Gateway, open-weight models now account for 62% of tokens (from 28% on June 24th). It also means that the average cost of tokens has collapsed, with the Silicon Data Token Expenditure Index falling 44%, from 2.0 in June to 1.2 in August. There is also the security of IP to consider with frontier closed models. Thomson Reuters has built its own model on Qwen rather than Claude, its CTO likening reliance on frontier labs to "renting a house."

Fig. 2 – Silicon Data LLM Token Expenditure

Source: Silicon Data

Anthropic is slated to release its IPO prospectus (S-1) in September. We must prepare for a month of absurd AI hyperbole. We understand Anthropic is telling its investors its total addressable market is more than $30 trillion (source: Reuters) ($1.5 trillion more than SpaceX). Its latest model Claude Fable 5 has not generated the same surge in user adoption as previous launches. Its S-1 will be based on rear-view mirror "token maxing" numbers and its inference costs on a one-off Space X Colossus data centre deal; its projected annual revenues off extrapolation of its best ever month multiplied by twelve; with projections of profit based on multiple adjustments, excluding training costs as if they were one-off. Customer concentration – with 80% of revenues coming from just 1% of customers (source: Ramp) – will be papered over. As previously stated, we believe that the IPO will be an "open-kimono" moment when the market begins to wake up to the problem. As Gary Marcus recently concluded: *"You cannot square a $2 trillion valuation with all the reports like these. You just can't".*

Open AI is in our view in such a distressed state that a successful IPO is not currently feasible. The WSJ disclosed (August 18th) that revenues for Q2 2026 were $6.7 billion, up just 18% from Q1; losses were $12.3 billion, up $3 billion on Q1; a net $1 billion of incremental revenue against $3 billion of incremental loss. Meanwhile its obligations to pay for data centre compute is estimated at $750-800bn through 2030. On 18th August, CEO Sam Altman announced a suspension of training costs *"to ensure that we can meet the appropriate alignment, security and monitoring standards,"* in other words to mitigate the cash-burn before an attempted IPO. Open AI continues to haemorrhage senior management. We believe that Open AI will eventually fail, which given its size in the AI ecosystem will have very negative implications. Other investors are waking up to the risk. Steve Eisman recently commented on his podcast that: *"If tomorrow OpenAI failed, the US economy, I think, would go into an immediate recession and the market would have a massive correction."*

"Economic D-Day"

The 60-day MOU between Iran and the US expired Aug 18th without agreement. On August 24th, Treasury Secretary Bessent announced, "Economic D-Day" *"the toughest sanctions in history"*, with the stated goal not of bringing the Iranians to the negotiating table but collapsing the Iranian government. When asked why he had not yet subjected China to sanctions since it bought 80% of Iranian oil, Bessent replied, *"Why would I want to blow up the global financial system?"*

We discussed last month that Houthi attacks on Saudi tankers had collapsed the southbound route from Yanbu through the Red Sea, with loadings falling to 1.5mbd from 5mbd, but with an additional 2mbd now classified as Egyptian exports via SUMED. Subsequently, the Saudis were forced to reconcentrate loadings at Ras Tanura in the Gulf and to risk their tankers run the Strait to perform ship-to-ship transfers to third party tankers off Fujairah in the Gulf of Oman.

US Energy Secretary Chris Wright claimed that "almost 9 mb/d" were leaving Hormuz, but most other experts put the figure at 4.5-6mbd. US action against Larak island seemed designed to keep the Omani channel open, but in contrast to the widespread belief that Iran will fold under pressure, we believe that Iran is incentivised to escalate, not only to maintain control of Hormuz but also to pursue its own "regime change" at the mid-term elections in the US in November. According to Iran's Ghalibaf (Speaker of Iran's Parliament): *"The Americans must have understood that the era of "proportional responses" is over. Our strikes on the aggressor bases were only a beginning. The rules of the game have changed. From now on, any aggression against Iran's interests will receive a faster, heavier, and more painful response."*

The US announced a deal with Venezuela, with a new entity (North American Blue Energy Partners) taking control of one fifth of the country's oil reserves. Chevron also announced it will invest $7bn over the next 5 years for two fields in the Venezuelan Orinoco belt. If, as seems likely, this has established a more secure framework for external investment now established it is not unreasonable to expect with c. $10-20bn of investment per annum, Venezuelan oil output could double over the next few years to 2.5mbd (peak was 3.5mbd in 1998). The Fund has taken a position in US oil services company Weatherford International which we believe is uniquely positioned to benefit from the investments in Venezuela.

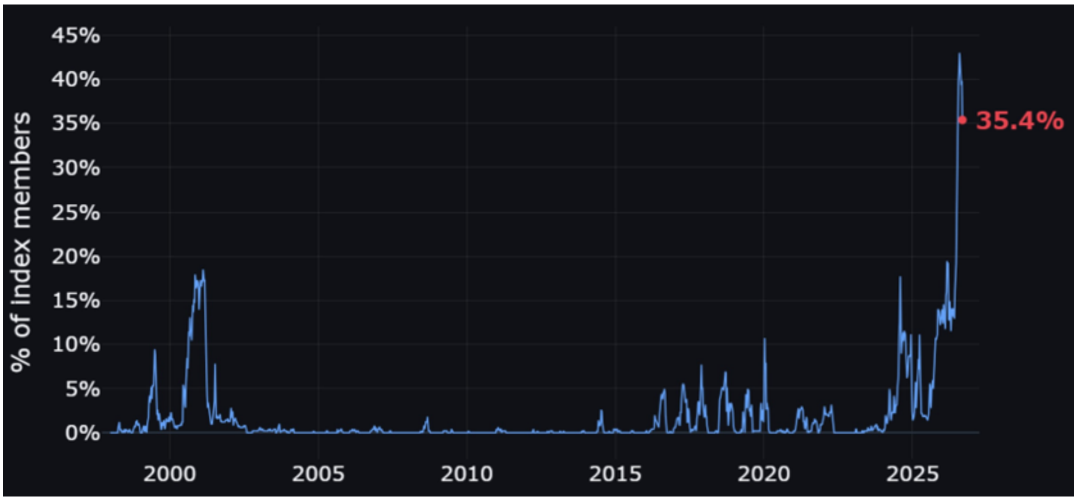
Record number of US stocks with negative betas

A little known but important fact that has so far generated little discussion is that a record number of US stocks (currently an astonishing one third using 3M betas) now have negative market betas. This is a much larger proportion than in the dot.com boom at the end of the 1990's, as the chart on the next page highlights.

Breaking this down, technology stocks now have very high betas, particularly those geared to AI. Goldman Sachs noted on August 19th that the correlation between AI beneficiaries and the S&P ex AI was at a record low and "most negative reading on record". This kind of concentration of beta in a single theme is unhealthy and historically has been a warning of poor future returns.

This presents challenges with portfolio management, particularly in the US market, in the sense that if like us you are sceptical on AI, it is difficult to construct a conviction portfolio with a healthy market beta. We therefore find ourselves with 80% in equities (the higher end of our historic range) yet with a very low predicted correlation to the market.

Fig. 3 – Percentage of S&P500 stocks with Negative 3M Beta to S&P500, 1998-2026

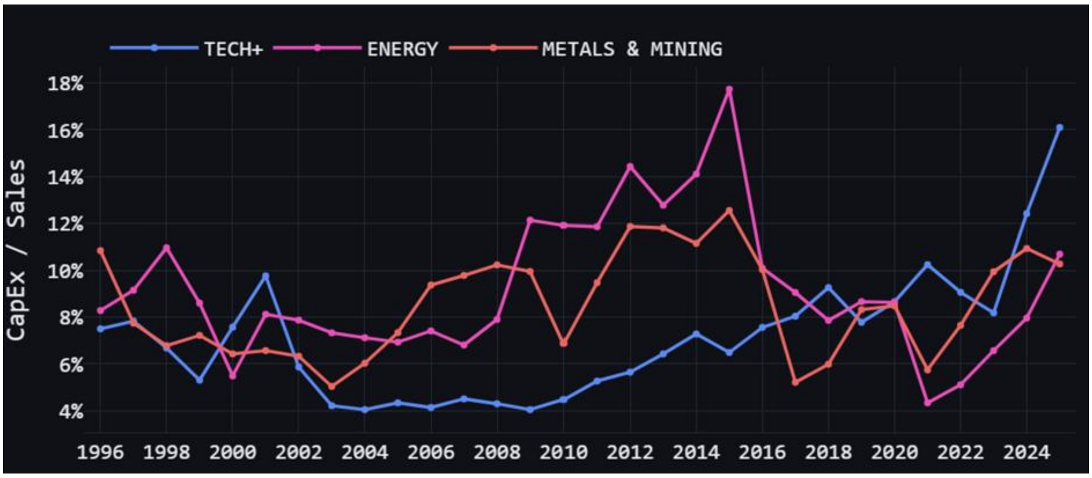


Source: Bloomberg

As previously outlined, we are most bullish on Energy and most bearish on Technology, which as a result of the AI datacentre malinvestment, has now become more capital intensive than either the energy or materials sector. This should be another red flag and means there is nothing "magnificent" anymore about the leading US technology stocks.

Fig. 4 – CapEx Intensity of Sector Leaders: Capex/Sales – Tech, Energy, Metals & Mining

The 10 biggest companies in each sector, re-picked every year using only what was known at the time.
Firms that later failed or were bought stay in their own years.



Source: Bloomberg, Argonaut Capital

Within Energy, the Fund is diversified between tankers and refiners, with Petrobras our only oil producer and Weatherford our only oil services company. We believe the capital cycle will require less investment in technology and more dollars to be allocated across the energy complex.

The weightings of technology and AI related stocks across global stock markets, particularly in the US (and the current measly weightings of energy stocks) means that if and when we see this rotation, the implications for passive and beta investing will be significant.

Barry Norris
September 2026

ALPHA MANAGER 2026
Barry Norris

YFS Argonaut Flexible Fund

PERFORMANCE (%)

	1M	3M	1YR	3YR	5YR	YTD	ITD	ITD CAGR
Argonaut Flexible Fund	1.1	0.4	15.7	n/a	n/a	3.8	52.8	25.3
IA Flexible Investment	2.1	1.7	15.7	n/a	n/a	9.6	24.0	12.2

DISCRETE YEARLY PERFORMANCE (%)

1-year to	31 Aug 22	31 Aug 23	31 Aug 24	31 Aug 25	28 Aug 26
Argonaut Flexible Fund	n/a	n/a	n/a	n/a	15.7
IA Flexible Investment	n/a	n/a	n/a	n/a	15.7

KEY STATISTICS SINCE INCEPTION

Annualised Net Return	25.3
Annualised Volatility	10.7
Sharpe Ratio	1.9
Correlation vs. Global Equities*	0.1
Sortino Ratio	2.2
Max Drawdown	-13.0
Upside Capture	25.1
Downside Capture	-3.9

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	3.8	1.1					3.8	9.6
												CAGR Since Inception	**25.3**	**12.2**

Source: Argonaut Capital & Bloomberg as at 28-Aug-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	31.1
Hungary	9.8
Norway	8.5
Greece	6.2
United Kingdom	6.0
Denmark	4.7
Austria	4.5
Finland	4.5
Other	9.0
Total	**84.3**

Source: Argonaut Capital & Bloomberg.

EQUITY EXPOSURE BY SECTOR (%)

Country	% NAV
Energy	34.4
Financials	19.2
Consumer Staples	12.6
Materials	10.2
Consumer Discretionary	4.1
Industrials	3.8
Telecommunications	0.0
Information Technology	0.0
Other	0.0
Total	**84.3**

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

TOP 5 EQUITY POSITIONS

	% NAV
Frontline Plc	5.2%
Mol Hungarian Oil & Gas	4.8%
OTP Bank	4.7%
Darling Ingredients	4.6%
Newmont Corp	4.5%

TOP 5 NON-EQUITY POSITIONS

	% NAV
US Treasury Bill	13.3%
UK Treasury Bill	2.4%

MARKET CAP BREAKDOWN

	% NAV
>$50bn	8.8%
$20-50bn	22.7%
$5-20bn	29.9%
$1-5bn	22.9%
<$1bn	0.0%

DAYS TO LIQUIDATE

	% PORTFOLIO
Less than 1 day	96.6%
1-5 days	3.4%
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	84.3%
Government Bonds	15.7%
Commodities	0.0%
Cash	0.0%
Other	0.0%

FX EXPOSURE

USD	52.9%
EUR	18.5%
GBP	7.4%
Other	21.2%

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