

**Interim letter to the co-investors of the BrightGate Focus Fund
1st half of 2026**

July 7th, 2026, Madrid

“In order to confuse your enemies, first confuse yourself.”

Don Tzu, platform X (formerly Twitter), circa 2026.

Dear co-investors,

The Fund closed on 30th June with a NAV (institutional class) of 2,400.7, representing a return of 12.6% over the six-month period, compared with 10.2% for the S&P500, 9.7% for the MSCI World and 1.9% for the BofA US High Yield Index – in all cases including reinvestment of dividends or coupons but excluding the cost of currency hedging. Although the Fund does not follow any benchmark, I consider the three indices above to be a representative group of the asset universe (equities and high yield bonds) in which the strategy invests.

As I have repeatedly said in previous years, half-year results should be interpreted with caution. While I believe that over the long term the performance of the Fund will be in line with the objectives set at inception (Euribor + 700bps), short-term movements in NAV, both up and down, *can be largely random and not representative of the value creation (or destruction)* that has taken place in each of our companies.

Over the half-year, the Fund performed in line with the equity indices mentioned above and far better than the high-yield index. At the risk of repeating myself, it is worth pointing out that the Fund has maintained zero exposure to the whole artificial-intelligence (AI) theme, which has driven the gains in those indices, both in the United States and in emerging markets (thanks to South Korea and Taiwan). The companies in our portfolio still trade at valuations that should deliver reasonable future returns and continue to earn solid returns on their assets – unlike many of today’s more speculative companies which, together with the semiconductor names, have led the recent gains in the indices.

The sentence at the head of this letter (*“In order to confuse your enemies, first confuse yourself”*) began circulating as a meme on Chinese social media shortly after the conflict in the Middle East broke out. For the Chinese public and, weeks later, for the rest of the world outside the United States, the phrase has come to capture the dramatic erosion of America’s democratic institutions, marked by the utter lack of planning and the apparent arbitrariness in the way decisions are taken – in both domestic and foreign policy.

For our purposes, however, it is not only the U.S. administration that seems deeply confused, but the financial markets too, which appear to have metabolised the chaos prevailing in domestic politics and embraced an “anything goes” philosophy. I firmly believe that I am not exaggerating when I say that *the first half of this year will go down in financial history books as one of the most absurd periods the markets have ever seen.*

On the one hand, as I will detail in the next section, since the closure of the Strait of Hormuz in early March we have witnessed the largest physical disruption in the history of energy

markets, yet so far with no apparent impact on the prices of oil, natural gas, thermal coal or electricity. Although oil and natural gas prices rose sharply in the first weeks of the conflict, they have since given back much of those gains and, in fact, as I write these lines the price of oil sits below the levels at which it traded just before the conflict began.

In parallel, the bubble surrounding the entire AI ecosystem has gone on inflating relentlessly. If in my previous letter I was already warning about the lofty valuations of the indices as a whole (especially in the US), over these six months the prices of technology stocks have continued their inexorable climb, turning the present bubble into the largest in history — surpassing those of 1929, 1973–74 and 2000. Futuristic narratives reign everywhere and, the wilder they are, the better, since they make it impossible to compute any near- or medium-term earnings — which would otherwise anchor valuations to more mundane levels. We now have everything from companies promising to send data centres into space at valuations above two trillion dollars, to several terrestrial data-centre companies worth hundreds of billions, carrying heavy debt loads and an insatiable appetite for fresh capital, to companies with no business model at all whose valuations have soared simply because “they do artificial intelligence.” And finally, as could hardly be otherwise, we also have the ever-classic examples of cyclical businesses that are supposedly about to stop being cyclical (*this time is different*), having apparently turned themselves into something more akin to “essential infrastructure,” thereby justifying sharp expansions in their trading multiples.

Not only equity valuations have drifted further and further from reality in recent months. We have also been learning *new details that seriously call into question the near-term sustainability of the entire current AI business model*.

Recently, Anthropic and OpenAI have shifted their business model from a flat subscription fee to one based on the number of tokens consumed. Inevitably, customers have been discovering that the cost of LLMs had been heavily subsidised by these companies, with the true cost being far higher. From clients who have “accidentally” [burned through \\$500 million of budget in a single month](#), to Uber’s chief operating officer, who said the company spent [its entire annual token budget in just four months](#), to Meta, which recently [restricted employees’ use of AI](#) after seeing how high its costs had become.

In other words, as these companies cut their current subsidies, *today’s uses of AI will be sharply restricted to those clients who can absorb the high cost of running it* — that is, enterprise customers who need it for very specific tasks. For everyone else, AI is clearly, today, a product with [negative returns on investment](#).

All of the above becomes obvious when one looks at OpenAI’s financial numbers, which were published a few weeks ago by the [Financial Times](#) and [Ed Zitron](#). In them, we could see how OpenAI’s losses ballooned from \$5 billion in 2024 to almost \$40 billion (yes, that is correct, I have *not* added an extra zero), the result of a strategy of pursuing additional customers and revenue at any cost, with no regard for the sustainability of the business. Although we still lack enough additional detail on the accounts, it would not be surprising if OpenAI (and, probably, Anthropic) were shifting a large part of their costs out of cost of goods sold, thereby improving their gross margins, and into other fixed-cost lines such as research and development. What for? So as to be able to claim that the business is already profitable on the inference side (where a large share of the costs is variable), while the expensive part of the process is the training of new models, which sits below the gross-margin line. Dario

Amodei [has stated](#) that, were it not for the training of new models, the business would already be profitable — a claim we obviously cannot verify, and which is dubious at best.

Whatever importance these accounting games may have, the reality is that the business model of all these companies is very different from that of software companies, which is the model they compare themselves to and the valuation they would like to achieve in a potential IPO. Whereas in software the cost structure consists largely of fixed costs with a minimal cost to serve an additional customer, AI companies carry even higher fixed costs together with a substantial proportion of variable costs, since the cost of tokens is directly tied to usage.

Other developments — such as OpenAI [postponing its IPO](#), weighing [price cuts](#) (at a time when demand is, in theory, infinite), trying to impress us [with names like Mythos](#) by telling us the [models are now too powerful](#) to be left roaming free, or even [presentations that teach us how to value companies](#) using geese and golden eggs — are, in my view, clear symptoms that the sector is still trying to answer the existential question of how it is going to earn a return on all the investment the private sector is undertaking. As I will explain later, and *this is probably the most important near-term dynamic to grasp*, investment automatically generates earnings in the short run; however, as investment volumes fall for whatever reason, it will become apparent that the goal of making all this investment profitable by 2030 is, quite simply, a pipe dream.

The rest of this half-year's letter is structured as follows. First, I would like to offer some observations on the current energy crisis and its potential implications both for markets and for individual names. Next, I will explain an aspect of the Levy-Kalecki equation that I left unexplored in the letter six months ago, but which I believe is crucial to understanding the short-term effect that the private-investment boom in AI is having on the generation of corporate earnings in the U.S. economy. Finally, as in previous years, I will discuss the main additions and disposals I have made in the Fund over these months, along with brief updates on the principal companies in our portfolio.

Confessions of a barrel counter

Without question, the biggest market event of the half-year has been the closure of the Strait of Hormuz. Considered the world's main artery for oil trade, the Strait closed in early March and has been wholly or partly shut ever since. For many geopolitical and energy-market analysts, not only was a closure of this length traditionally deemed unthinkable, but so was the very fact of its closing even for a short period. In the rest of this section, I will set out our view of the impact of the closure on energy markets, without venturing to assess either the reasons the United States entered the conflict, the possible long-term geopolitical consequences it will leave behind, or what kind of agreement will be reached in the coming weeks — if one is reached at all.

To convey the scale of the impact of the Strait's closure, since the start of the conflict some 12–13 million barrels per day (Mbpd) of production have been lost across Saudi Arabia, the Emirates, Kuwait and Iraq. It is worth noting that this figure already accounts for the alternative routes opened up towards the Red Sea and Fujairah; without them, the production losses would have reached 19–20 Mbpd, since both Saudi Arabia and the

Emirates would quickly have run out of storage capacity and, like their neighbours, would have had to halt production across all their fields.

Given that world oil demand before the conflict was 104 Mbpd, the average daily production lost represents 12% of the total — an unprecedented shock in the history of oil.

If the impact has been so large, why does Brent today sit at around \$73, the same level at which it traded just before the war began? In the energy world, the analysts whose job is to study whether markets are in balance essentially have to estimate how many barrels are produced at a given moment and how many are demanded, so that, once both variables are understood, they can finally work out the path of inventories — which are ultimately what set commodity prices in the medium term. These analysts are traditionally known in the industry, somewhat disparagingly, as “barrel counters,” and they are among the best-informed people in the world when it comes to forming a view on the expected path of a particular commodity’s price.

As we have tracked the evolution of the conflict over these past three months, I would not say we have become barrel counters one hundred percent of the time, but pretty close. And, like most of the world’s most respected barrel counters, *we have been frankly surprised by how little impact the conflict has had on energy prices* — with the exception of refining margins, as I will explain below.

The general consensus among barrel counters right now is that the two biggest counterweights to the production losses have been, respectively, the flexibility the Chinese economy has shown and the release of strategic-reserve barrels by various governments across the developed world. Since this second factor has been widely analysed, and is likely to carry less weight in the coming weeks given that the original schedule called for smaller outflows from here on (unless another joint announcement is agreed to release more barrels in the coming weeks), I will focus in the following lines on explaining what is happening in the Chinese economy.

First, China has sharply cut its crude imports since March, with a decline that reached 5 Mbpd in the first weeks of June. Given that Chinese imports have run in the 10–12 Mbpd range in recent years, that drop represents 40% of pre-conflict volumes. To give readers a sense of how irreplaceable oil demand is in the short term, during the Covid lockdowns in the first months of 2020 the largest global decline recorded was 25–30% of demand, which occurred in April. In other words, to think that China has destroyed a greater quantity of demand in these months, over so short a span and, above all, without high prices over a prolonged period, is plainly unrealistic.

The fall in imports has also been reflected in refined-product volumes. Over these months, refineries have drastically cut their capacity utilisation, in many cases operating at the minimum operational levels a refinery can sustain — around 50-60%. As we will see later, the reduction in China’s effective capacity is having far-reaching effects on global refining margins.

The most plausible explanation is that this fall in imports (and in refined volumes) has been covered partly by a small amount of demand destruction, which analysts put in the region of 1–2 Mbpd (stemming chiefly from the decline in petrochemical products and, to a far lesser

degree, from lower air traffic¹), and the rest by strategic inventories which, unfortunately, being underground, are not observable. Over recent years, several analysts had already warned about the [apparent arbitrariness of China's oil-import data](#), suggesting that the high volumes recorded in 2023 owed more to inventory accumulation than to robust final demand. In fact, the economic slowdown since the property bubble burst in 2022 must have had a significant impact on demand for oil products — diesel in particular.

But returning to the present, since we do not know the total size of China's strategic reserves, it is hard to say how much longer China can go on using its strategic inventories to rebalance global energy markets. What we can venture is that *if they want to rebuild their strategic inventories once the conflict ends, additional Chinese demand for barrels will become a tailwind over the coming quarters*, just as happened a few years ago.

A similar conclusion can be advanced for inventories, both strategic and commercial, in the rest of the world. Here, since we know the numbers, it is easier to gauge the impact the conflict has had on these inventories. In most of these cases, and unlike China, inventory volumes are well below their historical averages, and in some cases are very likely close to their operational minimums. Although we believe we have passed the worst of the conflict in terms of production losses, if the negotiations drag on or break down outright we could see further accelerated inventory draws and, this time, unlike at the end of February, inventory levels offer little cushion — the volume of inventories lost over these three months has amounted to roughly one billion barrels.

If we move along the value chain from crude production to refining, the story could not be more different. Although the conflict's impact on the refining industry in volume terms has been somewhat smaller than on production (as I will detail, Persian Gulf refining capacity comes to about 10 Mbpd), refining margins as I write these lines remain close to all-time highs, while crude is still at pre-conflict levels. If one wants to understand the impact of the energy crisis on the world economy, one should not treat the refining industry as a mere footnote: since current refining margins (depending on the region) sit in a wide range of between \$50 and \$80 per barrel, that means that to arrive at the price of refined products (e.g. gasoline) one must add these elevated margins to the price of crude. Because refining margins have given no respite, product prices remain very high, with potential ramifications for price indices and economic activity.

The financial press has been obsessed by the fall in crude production, the most severe in history. Less discussed has been the fact that behind the Strait there is also substantial refining capacity. The capacity breaks down as follows: Saudi Arabia (3.3 Mbpd), Iran (2.4), Kuwait (1.5), the Emirates (1.4), Iraq (0.4), and Qatar and Bahrain (each with 0.4). To dispel any doubt, part of that capacity has not been affected: Aramco's YASREF refinery, for example, is located in Yanbu and has access to the Red Sea routes. Even so, I think the aggregate Persian Gulf figure gives a sense of the impact the Strait's closure has had on world capacity. On the other hand, the extent of the damage at many refineries (Ras Tanura, Samref, Ruwais, Mina al-Ahmadi and Mina Abdullah have all been attacked at some point

¹Another factor that is often cited is the impact of the electric-vehicle fleet on gasoline consumption. However, although electric-vehicle penetration in China is among the highest in the world (counting pure electric vehicles plus plug-in hybrids, that share was slightly above 50% in 2025), as a proportion of the total vehicle fleet they still stand only a little above 10%. Although that is not a negligible figure, it is clearly not the reason for the decline in China's imports.

during the conflict) is unclear, but is likely to cause a delay of several weeks or even months even if flows do eventually normalise.

On top of the loss of capacity at the Strait comes the point made above: Asian refineries, and Chinese ones in particular, have been running well below their maximum capacity in recent months. Finally, the Ukrainian attacks of recent months have also taken a toll on Russia's ability to refine products, with estimates circulating that put the losses at 20% of the country's total capacity — around 1 Mbpd in losses.

In any case, stepping back, *the essential point is to understand that world demand for products has barely fallen, while supply (refining capacity) has contracted severely*, giving rise to unprecedented draws in product inventories. These draws, which will continue in the short term until flows through the Strait normalise, have translated into U.S. refining margins close to all-time highs. Looking ahead, the relevant question for refining companies is not so much whether we will reach new record levels, but how long the current high-margin environment will last. Although those margins were very high in 2022, the impact of the war in Ukraine was relatively superficial in terms of lost capacity — and even so it gave refiners a meaningful boost that lasted a couple of years. I am convinced that the current crisis is far deeper than the previous one.

I would not want to close this section without at least noting that, although I am optimistic in the short term about both upstream and refining companies, *in the medium term we should be more cautious*. The closure of the Strait has opened a Pandora's box of several far-reaching dynamics that will unfold over the coming years. The main positive dynamic is the one that I have already mentioned: the need to rebuild the inventory volumes that have been lost in order to be prepared for another contingency. The negative ones, for their part, are at least two. The first is that many countries will keep pushing, in an accelerated fashion now, their energy-independence agendas, which will imply, to a greater or lesser degree, a larger role for renewables, nuclear and electric vehicles in the energy mix. The second is that, following the Emirates' exit from OPEC and Iraq's recent threats to follow the same path, the group's production discipline is going to be more questionable. Although until flows fully normalise it is hard to know how much the Emirates could ultimately produce, several estimates suggest they could reach 5 Mbpd — a considerable additional amount.

In any case, fixed-income investments in oil producers and refiners should perform well, since in many cases only a few quarters of extraordinary earnings are needed to repay debt early. As for equity investments, as I will explain later, I have been more cautious with our exposure to these names, especially upstream companies, preferring exposure to fertiliser companies and, to a lesser extent, refining.

A brief additional note on U.S. corporate earnings and the Levy-Kalecki profit equation

In the letter six months ago, I explained how the Levy-Kalecki profit equation works and applied it to the U.S. economy. As I argued, the share of corporate profits in GDP (or, equivalently, the aggregate profit margins) has been widening gradually over the course of this century, to stand today at all-time highs, around 13–14%. I argued that the best explanation for this rise was the sharp increase in fiscal deficits, having gone from a roughly balanced budget under the Clinton administration to the recent elevated deficits, at levels of 5–7%. The conclusion with which I closed the section is that the market was applying unprecedented multiples to a stream of earnings which was, in turn, also at record levels.

I did, however, neglect to explore in depth what is probably now the most relevant application of the profit equation, namely *the effect that the high volumes of investment in the AI ecosystem are having on corporate profits*.

Put differently, the question many readers have surely been asking themselves lately is the following: how can such colossal investment in data centres, which we know is destined to be unprofitable, coexist with such rapid growth in the earnings of S&P companies? It is an entirely legitimate question that is, in fact, being [asked daily by the financial press](#) — though, for now, with unsatisfactory answers.

Taking a step back, as a reminder, the profit equation is as follows:

$$\text{After-tax profits} = \text{Net investment} - \text{Households' savings} + \text{Fiscal deficit} - \text{External deficit} + \text{Dividends}$$

As can be seen, the first term of the expression holds that higher investment volumes correspond to higher profits. Although that relationship may appear paradoxical at first sight, it becomes intuitive once one understands how accounting works at the level of the individual firm. On the one hand, investment in fixed capital is simply a cash outflow for the company that makes it, with no short-term impact on its income statement — and therefore no impact on its profits. On the other hand, the company that sells the fixed-capital goods records a sale of (say) machinery on its income statement, and therefore a profit. When we consolidate the income statements of this simple corporate sector made up of two firms, *it becomes obvious that profits have risen as a consequence of the increase in investment*.

Naturally, in subsequent periods, and barring other transactions, the depreciation of the machinery will start to flow through the income statement of the company that acquired it, but this is an effect that does not appear immediately, rather it is deferred (and on a straight-line basis) over time.

In sum, all the strong increases in corporate profits that have accompanied every great bubble of capitalism have not stemmed from the impact of new technologies, but from a far more prosaic explanation: *the very accounting rules under which we have organised modern capitalist systems contain, by their very definition, these dynamics within them*.

The following table, [from S&P Global](#), illustrates one of these episodes, the years immediately preceding the dotcom and telecom bubble. The first column shows the evolution of operating earnings per share, from the second quarter of 1998 to the same quarter of 2001:

Quarter	Quarterly operating earnings per share (\$)	S&P500 price (\$)
2Q'01	9,02	1.224,4
1Q'01	10,73	1.160,3
4Q'00	13,11	1.320, 3
3Q'00	14,17	1.436,5
2Q'00	14,88	1.454,8
1Q'00	13,97	1.498,6
4Q'99	13,77	1.469,2
3Q'99	12,97	1.282,7
2Q'99	13,21	1.372,7
1Q'99	11,73	1.286,4
4Q'98	11,45	1.229,2
3Q'98	10,45	1.017,0
2Q'98	11,43	1.133,84

Quarterly operating earnings per share (not annualised) and the S&P 500 price, respectively, 2Q'98–2Q'01. Source: [S&P Global](#).

Earnings per share were 10.4 in the third quarter of 1998 and, from there, climbed relentlessly to 14.9 in the second quarter of 2000 — a rise of close to 43% in under two years. Throughout that period, investment in fibre and in all the other equipment needed to build out the digital age, such as routers and semiconductors, flowed straight through as profits to companies like Cisco and Intel. It is telling that the bubble burst precisely at the peak of earnings. From there, the collapse in these stocks' prices over those months was one of the triggers of the same dynamic but in reverse: lower prices, which set off lower fixed-capital investment orders, which in turn set off lower profits, which in turn fed back into still-lower prices as profit expectations were revised. By the time several rounds of this vicious circle had run their course, *operating earnings had collapsed in under a year to \$9* — a staggering fall of almost 40%. It was a crunch comparable to the one the U.S. corporate sector suffered during the Global Financial Crisis, an episode far more dramatic in its economic consequences than the bursting of the dot-com bubble. Even so, the investment-profit-price feedback loop had been so powerful in the years before the bust that it was enough to bring about an outcome similar to one of the worst financial crises in U.S. history.

The dynamics today are exactly identical to those of that bubble. The difference is that this time the investment volumes are flowing through as profits to a narrower group: the semiconductor companies. In any case, once this dynamic is understood, *it should not surprise us that the S&P's operating earnings have kept growing at elevated rates*, even against a backdrop of mediocre economic growth. All it takes is for investment by the large companies and the rest of the ecosystem to start cooling for any reason (whether through a lack of appetite for new debt or equity issuance or, more likely, through a divergence in the share prices of the companies making the investment and those receiving it as profit) for the whole upward dynamic to go into reverse. Although trying to pin down timing is a futile exercise in the world of investing, I would not be surprised if it happened over the coming quarters, given the enormous investment volumes we are talking about.

Kalecki closed his reflections on the profit equation with a famous aphorism, written in his usual elegant and laconic style: “[t]he tragedy of investment is that it causes crisis because it is useful. Doubtless many people will consider this paradoxical. But it is not the theory that is paradoxical, but its subject — the capitalist economy.” What not even a mind as brilliant as his could ever have suspected is that a century after he formulated his equation,

the paradox would not be that “the tragedy” of the investment we are now undertaking is that it is useful, *but that it is utterly useless*, given the accelerated depreciation and the risk of technological obsolescence to which these assets will be subject.

Structure of the portfolio and updates on our main investments this semester

At the end of June, the portfolio is structured as follows. We have 74.9% invested in long-term equities, 12.4% in special situations (through our position in Liquidia), 3.6% in fixed income through our position in the MC Brazil bonds, around 2% in preferreds through our position in Freddie Mac, and 7.4% in cash and equivalents.

As for the sector composition, the main sectors in which we are invested are: consumer cyclical at 17.1%, financials at 24.4%, consumer non-cyclical at 21.5%, energy at 20.8% and basic materials at 7%. The companies we hold in each of these sectors are very diverse and, with the exception of our exposure to the U.S. refining sector — in which we have 8% of the Fund invested in this theme — the rest of the portfolio is moderately diversified across a wide range of industries, with businesses ranging from healthcare to auto-parts distribution in Europe, to regional banks in the United States and homebuilders.

Below, I will comment on the most notable developments at our three principal long-term equity holdings during the half-year. Together, the three represent more than 25% of the Fund’s total assets. For those investors less familiar with any of these positions, I have explained some of these theses in detail in previous years’ letters:

Liquidia Corporation (LQDA:US)

We bought our first shares in Liquidia back in 2021 and, since then, I think I can say for the first time that, after numerous ups and downs over all this time, we are approaching very quickly the climax of this long journey; a climax that should, moreover, culminate at a share price well above the current one.

What is the last hurdle to a favourable resolution? That Judge Andrews rules, after a year studying the case, on the ‘327 patent, whose implications affect Liquidia’s ability to treat patients with pulmonary hypertension associated with interstitial lung disease (PH-ILD), an indication that covers a larger number of patients than the classic pulmonary arterial hypertension (PAH) indication and, more importantly, one that lacks an effective treatment following Tyvaso’s poor results in these studies. An adverse ruling by the judge, which I consider highly unlikely, since it would deny access to the therapy to patients who have been receiving it since last year (something without precedent in the history of U.S. pharmaceutical patents), would be a temporary setback for Liquidia, since it would restrict its access to the PH-ILD market — or, more likely, it would continue selling Yutrepia for PH-ILD under a skinny label.

Even in that scenario, the ability to treat PAH patients not only via the inhaled route but also those migrating from oral and parenteral therapies to Yutrepia would justify a share price in line with current levels. That said, as I mentioned at the outset, the most likely scenario is a clean win, which should propel the shares into triple-digit territory and, before long, open the door to the company’s acquisition by a large pharmaceutical firm eager to secure the leading drug in its field for the coming years. Given that the potential market amounts to

some \$5 billion in annual sales (counting oral PAH patients, the transitions and PH-ILD patients, but excluding indications currently under study, such as pulmonary fibrosis), it would not be far-fetched to think the company ends up being sold in a range of \$13–17 billion, which would imply doubling from current levels.

Northeast Bank (NBN:US)

For another half-year, Northeast Bank (NBN:US) remains one of the Fund's largest positions. The share's performance over this period has been remarkable, recovering much of the ground lost in the previous half-year. Even so, the shares still trade at a P/E of around 10 times and a P/BV of 1.8x, valuations I consider very undemanding for one of the best banks in the entire United States over the past fifteen years, run by a team that understands perfectly how to maximise capital-allocation decisions in shareholders' favour.

Operationally, the bank carried on as usual — that is, with simply extraordinary results. In the latest reported quarter, Rick and his team delivered a 2.4% ROA (2.2% over the trailing twelve months) and a 21.7% ROE (18.4%). One might think these are figures born of some fluke or of unrepeatable factors, but the truth is they have been achieved even with something of a headwind, since the SBA business is still running at low volumes and, moreover, the bank has not yet managed to deploy the \$1 billion of capacity it still holds to acquire new loans. In other words, *the balance sheet carries little leverage*. I have no doubt that the team will eventually find attractive ideas in which to deploy all that capital, which will accelerate the growth in book value when it happens.

In early May I was fortunate enough to visit their offices in Boston with some friends, and I was able to see at first hand their management philosophy: simple, consistent, with no grandstanding and none of the usual hollow messaging that proliferates in most boardrooms. Not only have the bank's results been extraordinary to date, but the risk taken to obtain them has, in my judgement, been low. This philosophy reinforces my conviction that we are looking at a “blue chip” quality business (to use a much-worn label) disguised, to outside eyes, as a regional bank, and one capable of continuing to beat the indices comfortably in the years ahead.

Molina Healthcare (MOH:US)

We bought Molina late last year and I set out the thesis for this company in the last letter. Since then, the shares have performed well, although this owes more to chance than to changes in the business, since over this short span there has been little news.

The management team held an investor day in early May, at which it set out the targets for the business through to 2029. True to this team's long-standing philosophy, the targets were conservative, assuming a very slow normalisation of the Medicaid business's MCRs. Such a slow recovery implies that most of Molina's competitors will keep losing money over the next two years, something many states will find unsustainable if they wish to preserve acceptable coverage for their members. Although the coming quarters will, as always, be uncertain, Molina's lean cost structure will allow it to keep accumulating capital and winning new contracts competitively, as was recently the case with the award of one of the Medicaid contracts in Illinois.

Share prices across the whole sector have rebounded from their lows of a few months ago and are up on the year, on the back of a cost trend moderating relative to the past two years. Whether such a trend holds up in the short term is, obviously, open to debate. What does seem clearer is that the improvements in plan premiums, arising from actuarial reviews, should provide some relief to these companies' earnings over the coming quarters.

Main additions to the portfolio

During the first half of the year, the Fund added the following stocks, in alphabetical order: Bank7 (BSVN:US), Canadian Natural Resources (CNQ:CN), CF Industries (CF:US), Cheniere Energy (LNG:US), Daiwabo Holdings (3107:JP), Par Pacific (PARR:US) and PBF Energy (PBF:US). In the fixed-income portfolio we bought, in March, the bonds of the Brazilian refiner MC Brazil, with yields close to 10% in euros — though, given the bond's strong performance since purchase, the yields to maturity have compressed and now stand closer to 7%.

I will briefly explain the theses for CF Industries and Daiwabo Holdings. In the case of the refining companies, I devote an entire section to setting out the rationale for the thesis in more detail. The MC Brazil bonds also fall under this umbrella, although given the substantially lower risk they carry, I have chosen to leave them out of the discussion.

CF Industries is a U.S. company engaged in the production of nitrogen fertilisers — which can take the form of ammonia, urea or nitrates. Nitrogen is one of the three main macronutrients of all the world's major crops, alongside potassium and phosphorus. Although by total volume applied nitrogen is the most important fertiliser (with volumes similar to those of the other two combined), all three are equally important. To maximise a plant's growth, the nutrients must be kept in a relatively fixed ratio following the principle known in the sector as Liebig's Law of the Minimum, which holds that growth is determined not by the total amount of nutrients available, but by the scarcest resource relative to its needs. The nitrogen industry is highly fragmented, with CF Industries being the world's largest company by capacity — and yet its market share is below 10%. CF owns the best assets in the sector, thanks to a combination of modest economies of scale and, more importantly, the lowest costs in the industry, the result of the low price of natural gas in the United States relative to the rest of the world. Natural gas is one of the main inputs in the manufacture of nitrogen fertilisers via the famous Haber-Bosch process. Natural gas (CH₄) not only provides the energy for the process but also supplies the hydrogen molecules needed to synthesise ammonia (NH₃). This cost advantage (which, in my view, will last many years) has allowed CF to reap the highest returns among its competitors while at the same time operating in recent years with a very conservative balance sheet. On valuation, CF trades at an EV/NOA below 2.5x, an eminently reasonable valuation given its average RNOA of 26% over the past five years. Assuming that the RNOAs of the next two years comfortably exceed that level and that the company's residual earnings reach all-time highs (thanks to a larger amount of capital employed following a recent acquisition), CF should be an investment with little fundamental business risk that at the same time should allow us to achieve annualised returns above 15% over the next three years.

Daiwabo Holdings (3107:JP) is a Japanese company founded in 1941 that is engaged principally in the wholesale distribution of IT products, such as servers, computers and peripherals. Daiwabo has progressively gained market share from its competitors to the

point of holding today a share close to 40% of the market. In distribution businesses, scale confers certain advantages, such as the ability to spread the fixed costs of the operation over a larger number of units sold, as well as to offer customers a wider variety of inventory, increasing the value proposition for them of having Daiwabo as a supplier. Despite being a Japanese company, the thesis does not rest on an improvement in corporate governance or capital allocation, since the company has historically been very well run and has operated with very efficient balance sheets by Japanese standards. At current prices, Daiwabo trades at a P/BV of around 1.8x, having earned ROEs of 20% in recent years. The company also has no debt, so the ROE is not the result of high financial leverage. Although in the short term the sector's volumes will be pressured by high memory prices, in the medium term the company should keep growing revenue and earnings thanks to its cloud initiative (iKAZUCHI), to a cleaner corporate structure following the disposal of the fibre business, which was capital-intensive, and, although it is not central to the thesis, to rising interest rates on Japanese debt and a higher fiscal deficit. Returning to the Levy-Kalecki profit equation (once again!), we already know that aggregate corporate profits are positively affected by the fiscal deficit. Seen through this lens, the increase in interest payments by the government sector will boost Japanese corporate profits, just as happened in the U.S. from 2022 onwards. In Japan's case, the impact should be greater since, unlike in the U.S. case, the holders of Japanese debt are mostly domestic, thereby preventing part of these payments from leaking out to foreign investors — something that would widen the balance-of-payments deficit and therefore would not feed through as corporate profits.

US refiners (PBF:US, PARR:US)

The refining sector has been through a turbulent period since the start of the pandemic. After a phase, between 2021 and 2023, of elevated refining margins (also known as *crack spreads*) arising from the shutdown of refining capacity during 2020, world capacity recorded very large increases in 2023, some 2.1 Mbpd of additional capacity, the largest increase ever recorded. Capacity kept growing in 2024, albeit at a slower pace. In both years, the bulk of the new capacity came online in Asia. In 2025, net capacity additions were close to zero, margins began to gradually recover over the course of the year and, in short, most indicators suggested that the refining market was broadly in balance.

As things stand, the current picture in the refining industry is the one I described in the previous section on energy markets, and I will not repeat it. In short, *the industry is affected by a powerful trifecta of events: the shutdowns of the Persian Gulf refineries, the reduced utilisation of Chinese refineries and, finally, the shutdowns in Russian capacity.*

With that introduction made, why choose refineries in the United States and not elsewhere in the world? For two very simple reasons. First, refineries with access to both the crude market and the products market will benefit disproportionately relative to their peers. Second, U.S. companies are the only ones that meet these criteria and that are, moreover, publicly listed. Within the US universe, each region has its own peculiarities and, while I believe all refineries will benefit from the current environment, I consider the big winner is going to be the West Coast, for the reasons I set out below.

The West Coast market, and the Californian one in particular, has several idiosyncrasies that are not present in other regions. First, California's refineries are among the most complex in the world, configured with the ability to process both the heavy local crude and, more

crucially, Canadian crude. Second, according to January 2026 figures, California's total refining capacity was around 1.5 Mbpd, concentrated in twelve refineries and in an even smaller number of companies. That figure is lower still today, since Valero's Benicia refinery (with a capacity of 145 kbpd) was recently shut down. The overall breakdown by producer (not counting the Benicia closure) is as follows:

Rank	Refiner with Gasoline	Total CA Crude	Share of Total CA	Cum. Share of CA
	Production Capacity	Refining Capacity (BPD)	Crude Refining Capacity	Crude Refining Capacity
1	Chevron Corp	530,271	33%	33%
2	Marathon Petroleum Corp	365,000	23%	56%
3	PBF Energy Co LLC	316,400	20%	75%
4	Valero Energy Corp	230,000	14%	90%
5	Phillips 66 Company	138,700	9%	98%
6	Kern Oil & Refining Co	26,000	2%	100%

Source: BIG Newsletter, 2026, [The Mystery Gasoline Surcharge](#).

Third, on the demand side, California has been consuming around 1.8 Mbpd of products, creating a deficit of at least 400k barrels that must be covered through seaborne imports — and that assuming the refineries run at full capacity all year, which, evidently, never happens. Most of that demand corresponds to gasoline and kerosene, which are usually imported from Asian countries, which are currently facing reduced production and, in some cases, restrictions on exporting products to other countries. In other words, it is Asia's marginal barrels that set the price of a barrel of product in California — the price of products must be attractive enough to induce barrels to move from Asia to California.

Fourth, there are logistical considerations that shape certain dynamics of the Californian market, which is also unusually strict in regulatory terms. Gasoline standards are set by the *California Air Resources Board* (CARB), a state agency that regulates air pollution and vehicle-fuel standards. Much of what is imported is not finished gasoline but CARBOB (*California Reformulated Gasoline Blendstock for Oxygenate Blending*), which must be blended, typically with ethanol, to obtain a gasoline that complies with Californian regulations. The conventional U.S. gasoline (CBOB) used elsewhere is generally not legal as a motor fuel in California. Hence certain logistical assets (such as blending tanks or import terminals) that make such blending possible are so valuable and add further logistical constraints to the system.

With all of the above in mind, I believe that both PBF Energy and Par Pacific are the two companies whose assets will benefit most from the current environment. I will describe each one's assets briefly below, but, by way of summary, in PBF's case the following factors should work in our favour: i) greater exposure to California and less to the inland markets, unlike other companies; ii) a higher position on the refining cost curve (historically, PBF's gross margins have been lower than those of other companies such as Valero, mainly owing to reliability problems in operating the refineries), which will translate into larger relative increases in earnings; iii) more complex refineries, which provide greater flexibility in processing crudes and producing products; and iv) only exposure to the refining segment.

PBF Energy (PBF:US) is a U.S. refiner with a presence on the East Coast, the Gulf Coast and California. With a total capacity of 1 Mbpd, PBF is the sixth-largest company in the U.S. The company was born out of one of the most notable contrarian acquisition campaigns in the modern history of the refining industry, with milestones such as the purchase of the Toledo

refinery in 2010, those of Chalmette and Torrance in 2015 and, finally, that of Martinez in 2019. In many of these cases, especially the early acquisitions, PBF paid only a fraction of the replacement cost of the underlying asset. Finally, PBF fully absorbed its listed MLP (PBF Logistics) in 2022, which gave it full control over the midstream operations. Since 2023, it has also held a 50% stake in the St. Bernard Renewables (SBR) project, a renewable-diesel production plant adjacent to the Chalmette refinery.

At current prices, PBF's shares trade below book value. If we take the operating and financial performance of 2022 as a reference, PBF could achieve ROEs above 50% over the coming quarters. Even without assuming any multiple expansion (a hypothesis I find most reasonable, since over the long term the business should trade at around book value, given the returns it has historically earned), we should expect reasonable results as book value per share rises and the company restores shareholder returns — probably in the form of share buybacks. If we assume a two-year investment horizon and operating results consistent with the scenario described, we should obtain annualised returns close to 20%.

On the other hand, Par Pacific (PARR:US) is, like PBF, a recently created company, with origins dating to the period immediately after the 2008 financial crisis. Starting from a gas-producing company that filed for bankruptcy around those years, the new management team took advantage of the company's tax shields and executed a series of disciplined acquisitions, at attractive multiples, until assembling the set of assets it owns today. In all, it operates four refineries with a combined capacity of some 219k barrels per day, as well as a network of around 120 service stations. Finally, it also holds stakes in companies engaged in the production of renewable fuels (diesel and aviation fuel).

Although at first glance Par's refineries may seem small and with ordinary complexity indices, what makes its assets attractive (especially in the current environment) is that they are located in geographies that the major refiners have abandoned and which today it is impossible to enter, given the little appetite to open new refineries, both because of regulatory obstacles and because final demand no longer grows. In Hawaii, Par owns the state's only refinery (which is, moreover, the most important of the four, being the largest by capacity), while in Montana and Washington State (where the next refineries by capacity are located) there are either logistical limitations, as in Montana, or outright supply shortages, as in the West Coast. In both Hawaii and Washington, Par is benefiting disproportionately from the tightness of the Asian refining market.

The future annualised returns I expect from the investment in Par are slightly lower than those from PBF. The company trades at 1.7 times book value, and its historical returns on equity have been higher than PBF's. Par's retail business also constitutes a more stable source of earnings through the cycle, which makes Par's ROE somewhat more predictable than PBF's.

To be perfectly clear, *the investment thesis in any refining company tends to entail a higher level of risk than the other businesses we hold. The refining business is, on average, unattractive over the long term.* The main risks we face are several. First, refineries are complex assets to operate and prone to breakdowns; PBF, for one, has had one of its California refineries shut down and under repair for close to a year as a result of an unforeseen failure in one of its units. Second, refining margins are highly cyclical in the short term. Although the only thing that ultimately determines them is the supply of and demand for capacity at a given moment, both variables depend in turn on a multitude of secondary

factors that make them absolutely impossible to predict in the short term. Finally, refining margins are closely tied to economic activity, so that a slowdown would have a very negative effect on them — paradoxically, such a slowdown could be the result of a more expensive crude.

Main divestments during the semester

The main disposals made during the half-year were, in alphabetical order, Elevance Health, Garrett Motion, Kaspi.kz, SLM and Stella-Jones. With the exception of Kaspi.kz, all of them were sold at a profit. Below, I will set out the reasons for the sale in the most relevant cases.

Kaspi has been one of the most frustrating investments in the vehicle's history, even though the management team has continued to execute its roadmap and has built verticals entirely from scratch over these past years. The shares' poor performance over these last three years has been due, fundamentally, to three factors operating together. First, the multiples at which the shares trade have compressed significantly since our initial purchases. Second, earnings growth has slowed markedly, all the more so considering the currency's depreciation and the fact that the business could, in theory, pass inflation on to its consumers — most of Kaspi's revenues are determined as a percentage of total volumes. Third, the marketplace and fintech businesses were hit over the past year by factors entirely outside the management team's control, further penalising the company's short-term profitability.

In the case of Elevance Health, the proceeds of the sale were partly reinvested in increasing our position in Molina, thereby maintaining similar exposure to U.S. healthcare insurers. However, I believe Molina trades at a more attractive valuation, has an easier story to understand by virtue of having a single business and, after following several companies' quarterly results for some time, I have more confidence in the Molina team, which has shown greater prudence in setting out results and is, in general, more transparent in explaining both the positives and the negatives the company faces.

Finally, Garrett Motion has been, as I write these lines, the worst-timed sale, since after our disposal (having more than doubled from our original purchase price) the shares have risen a further 70% in the space of a few weeks, leaving substantial returns on the table. After the share's inclusion in the indices, which forced buying by various ETFs, and a substantial re-rating of the multiple, I had judged that the opportunity was no longer as attractive, all the more so considering that the share buybacks were going to be done at double the price at which the company had been carrying them out during 2025. Although the company has announced a new business line of compressors for data-centre cooling equipment, the opportunity is still in its early stages and the impact it will have on Garrett's earnings remains to be seen. In addition, as I mentioned in an earlier section, I believe the impact of the closure of the Strait of Hormuz will accelerate, in the medium term, some already-existing dynamics, such as the acceleration of electric-vehicle sales, hitting Garrett's main business. In any case, this sale has been a reminder that, in general, the selling discipline is a process that can always be improved.

As always, I thank you for your confidence and support and will be happy to answer any questions you may have.

Nullius in verba,

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