

Interim Letter to BrightGate Global Income co-investors
July 2026

July 13th, 2026, Madrid

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

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

Dear co-investors,

The Fund closed the first half of 2026 with a NAV of 159.0, representing a return after management fees of 1.4%, compared to 0.9% for the BofA US High Yield Index and 0.1% for the BofA US Corporate Index – both returns after the euro hedging costs. Although the Fund does not have a benchmark, we believe that the above indices broadly capture our potential investment universe, with the important caveat that our Fund, by construction, focuses on shorter durations and generally holds a percentage invested in cash and cash equivalents.

As we have said in previous years, half-year results should be interpreted with caution. While we believe that over the long term the performance of the Fund will be in line with the objectives set at inception (Euribor + 300 basis points), 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 past six months, the Fund has slightly outperformed the indices noted above, despite maintaining a higher average credit quality and holding a sizeable position in cash and cash equivalents. Yet, as we will explain in greater depth throughout this letter, *the pervasive complacency in credit markets is extremely dangerous, and we are convinced that investors tempted to “pick up pennies in front of the steamroller”, by taking on greater credit risk for a few basis points of return, will ultimately be disappointed with their returns at the end of the current economic cycle – and, in the worst-case scenario, will suffer material losses.*

The phrase we used as the opening line 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 began. For the Chinese public – and, weeks later, for the rest of the world outside the United States – the phrase has come to exemplify the massive deterioration of US democratic institutions, characterized by a lack of planning and apparent arbitrariness in the way decisions are made – both in domestic and international policy.

However, for our purposes, it is not only the U.S. administration that seems to be deeply confused, but also the financial markets, which appear to have absorbed the chaos reigning in domestic politics and adopted an “anything goes” philosophy. We firmly believe that we are not exaggerating when we say that *the first half of this year will go down in financial history as one of the most absurd periods in the history of the markets.*

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

energy markets, although with no apparent impact (yet) on the prices of oil, natural gas, thermal coal, or electricity. Although oil and natural gas prices rose sharply during the first weeks of the conflict, they have since retreated from much of those gains; in fact, as we write this, the price of oil is in line with the levels at which it was trading just before the conflict began.

At the same time, the bubble surrounding the entire AI ecosystem has continued to inflate unstoppably. While in our previous letter we already warned about the high valuations of the indices as a whole (especially those in the U.S.), over the past six months tech stock prices have continued their inevitable rise, making the current bubble the largest in history – surpassing those of 1929, 1973–74, and 2000. Futuristic narratives abound everywhere, and the more outlandish they are, the better – since this makes it impossible to calculate any short- or medium-term profits, which would anchor valuations at more down-to-earth levels. We now have everything from companies promising to send data centers into space with valuations exceeding two trillion dollars, to various terrestrial data center companies worth hundreds of billions with high levels of debt and an insatiable appetite for more capital, to companies without business models, yet whose valuations have skyrocketed simply because “they’re in the artificial intelligence business.” Finally, as was to be expected, we also have the ever-classic examples of cyclical companies that are about to cease being cyclical (*this time it’s different*), since they have apparently transformed their businesses into something more akin to “essential infrastructure,” thereby enabling sharp increases in their trading multiples.

On the credit side, we have continued to see how AI’s insatiable appetite for additional capital has led to the issuance of significant volumes of debt in the credit markets – both investment-grade and high-yield. Ultimately, these debt volumes will have to be repaid (or refinanced) at some point, something that strikes us as frankly difficult once one understands that this entire ecosystem ultimately depends on two companies, Anthropic and OpenAI – both of which would have credit ratings close to junk bond status if they were publicly traded, given their financial statements.¹

It’s not just stock valuations and credit standards that have been drifting further and further from reality in recent months. In addition, *we’ve been learning new details that seriously call into question the short-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 spent. Inevitably, customers have come to realize that the costs of LLMs have been heavily subsidized by these companies, with the actual cost being much higher. Examples range from customers who “accidentally” [spent \\$500 million of their budget in a single month](#), to Uber’s chief operating officer stating that the company used up [its annual token budget in just four months](#), to Meta, which recently [restricted its employees’ use of AI](#) after seeing the high costs involved.

In other words, as companies cut back on current subsidies, the *current uses of AI will be largely limited to customers who can afford the high operational costs* – that is, enterprise

¹ The article at this [link](#) perfectly explains how the current bubble could be conceptualized as a real estate bubble, but this time not involving residential properties, but rather data centers, in which essentially the entire ecosystem ends up depending on two tenants who are the ones actually driving most of the demand for computing capacity.

customers who need it for very specific tasks. For everyone else, AI is clearly a product with a [negative return on investment today](#).

All of the above is evident when looking at OpenAI's financials, which were published a few weeks ago by the [Financial Times](#) and [Ed Zitron](#). These figures show how OpenAI's losses skyrocketed from \$5 billion in 2024 to nearly \$40 billion (yes, that's correct – I didn't add an extra zero), as a result of a strategy aimed at acquiring additional customers and revenue at any cost, regardless of the business's sustainability. Although we don't yet have enough additional details on the financial statements, it wouldn't be surprising if OpenAI (and, likely, Anthropic) were shifting a large portion of their costs from the cost of sales line item – thereby improving their gross margins—to other fixed cost line items such as research and development expenses. To what end? To be able to claim that the business model is already profitable in the inference phase (where a large portion of the costs are variable), while the expensive part of the process – training new models – falls 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 that, obviously, we cannot confirm and that is dubious at best.

Regardless of how significant these accounting maneuvers may be, the reality is that the business model of all these companies is quite different from that of software companies – the model against which they are compared and the valuations at which they would like to be listed in a potential initial public offering. While software companies have a cost structure consisting largely of fixed costs and minimal costs to serve an additional customer, AI companies have even higher fixed costs and a significant percentage of variable costs, since the cost of tokens is directly linked to usage.

Other developments – such as [OpenAI postponing its IPO](#), considering [price cuts](#) (when, in theory, demand is infinite), attempts to impress us with [names like “Mythos”](#) by claiming that the [models are already too powerful](#) to be left running loose, or [presentations that teach us how to value companies](#) using geese and golden eggs—are clear signs, in our view, that the sector is still trying to resolve the existential question of *how it will be able to monetize all the investment the private sector is undertaking*. As we'll explain later – and this is probably *the most important short-term dynamic to understand* – investment automatically generates profits in the short term; however, as investment volumes decline for whatever reason, it will become clear that the goal of making all these investments profitable by 2030 is, quite simply, a dream.

The rest of this semester's letter is structured as follows. First, we would like to offer some observations on the current energy crisis and its potential implications for both the markets and individual names. Next, we will explain an aspect of the Levy-Kalecki equation that we did not explore in our letter six months ago, but which we believe is crucial for understanding the short-term dynamics of how the private investment boom in the AI sector is affecting profit generation in the U.S. economy. Finally, as in previous years, we will explain the main positions that make up the portfolio, as well as a brief investment thesis on one of the companies in which we have recently invested.

Confessions of two barrel counters

Without a doubt, the biggest event in the markets this semester has been the closure of the Strait of Hormuz. Considered the world's main artery for oil trade, the Strait was closed in early March and has been either completely or partially closed ever since. For many analysts of geopolitics or energy markets, not only was such a prolonged closure traditionally considered unthinkable, but so was the mere fact that it would be closed even for a short period of time. In the remainder of this section, we will explain our view on the closure's impact on energy markets, without venturing to assess either the reasons why the United States has entered the conflict, the possible long-term geopolitical impacts it will leave in its wake, or what kind of agreement will be reached in the coming weeks – if one is ultimately reached at all.

To give an idea of the magnitude of the impact of the Strait's closure, since the start of the conflict, Saudi Arabia, the United Arab Emirates, Kuwait, and Iraq have lost about 12–13 million barrels of production (Mbpd) daily. It should be noted that this figure already takes into account the alternative routes that have been established to the Red Sea and Fujairah; without them, production losses would have reached 19–20 Mbpd, since both Saudi Arabia and the UAE would have quickly run out of storage capacity and, like their neighbors, would have had to halt production at all their fields.

Given that global oil demand before the conflict stood at 104 Mbpd, the average daily production loss represents 12% of the total – an unprecedented impact in the history of oil.

If the impact has been so significant, why are Brent prices currently around \$73 – the same level they were at just before the war began? In the energy sector, analysts tasked with determining whether markets are in equilibrium or not essentially work to estimate how many barrels are being produced at any given time and how many are in demand, so that once both variables are understood, they can finally determine the trend in inventories – which ultimately determine commodity prices in the medium term. Traditionally, these analysts are known in the industry – somewhat derisively – as “barrel counters,” and they are among the most knowledgeable people in the world when it comes to predicting the expected price trends of a particular commodity.

As we've been following the conflict over the past three months, we wouldn't say we've spent 100 percent of our time counting barrels, but almost. And, like most of the world's most renowned barrel counters, *we've been frankly surprised by how little impact the conflict has had on energy prices* – with the exception of refining margins, as we'll explain later.

The general consensus among oil analysts right now is that the two main factors offsetting production losses have been, respectively, the resilience shown by the Chinese economy and the release of barrels from strategic reserves by various governments in the developed world. Since this second factor has been widely analyzed—and is expected to become less significant in the coming weeks, given that the original schedule called for lower outflows from this point forward (unless they agree on another joint announcement to release more barrels in the coming weeks) – we will focus on explaining what is happening in the Chinese economy.

First, China has sharply reduced its crude oil imports since March, with the decline reaching 5 Mbpd in the first weeks of June. Given that Chinese imports have been in the range of 10–12 Mbpd in recent years, this drop represents a 40% decrease from pre-conflict volumes. To give readers an idea of just how irreplaceable oil demand is in the short term, during the

Covid-19 lockdowns in the first months of 2020, the largest global decline in demand on record, 25-30%, occurred in April. In other words, it is clearly unrealistic to think that China has destroyed a greater amount of demand in such a short period of time – and, above all, without having been incentivized by high prices over an extended period.

The decline in imports has also been reflected in the volume of refined products. During these months, refineries have drastically reduced their capacity utilization, in many cases operating at the minimum levels they can sustain—around 50-60%. As we will see later, the reduction in China's effective capacity is having far-reaching impacts on global refining margins.

The most plausible explanation is that this decline in imports (and in refined volumes) has been offset in part by a small amount of demand destruction, which analysts estimate at around 1-2 Mbpd (stemming mainly from the decline in petrochemical products and, to a much lesser extent, from lower air traffic volumes²), and the remainder by strategic inventories which, unfortunately, being underground, are not observable. In 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 were more the result of inventory buildup than of robust final demand. In fact, the economic slowdown that has occurred since the bursting of the real estate bubble in 2022 must have had a significant impact on demand for petroleum products, especially diesel.

But returning to the present, given that we do not know the total size of China's strategic reserves, it is difficult to know how much longer China can continue to use its strategic stockpiles to rebalance global energy markets. What we can speculate, however, *is that if China wants to rebuild its strategic reserves once the conflict ends, the additional Chinese demand for barrels will provide a tailwind for the coming quarters*, just as it did a few years ago.

We can draw a similar conclusion regarding inventories, both strategic and commercial, in the rest of the world. In this case, since we know the numbers, it is easier to assess the impact the conflict has had on these inventories. In most of these cases, unlike in China, inventory levels are well below their historical averages, and in some cases, they are very likely close to their operational lows. Although we believe we have weathered the worst of the conflict in terms of production losses, if negotiations drag on or break down entirely, we could see further rapid declines in inventories; and this time, unlike in late February, inventory levels offer little cushion – the volume of inventory lost over these past three months has amounted to approximately one billion barrels.

If we move along the value chain from crude oil production to the refining process, the story could not be more different. Although the conflict's impact on the refining industry in terms of volumes has been somewhat less than in the case of production (as I will detail, refining capacity in the Persian Gulf stands at about 10 Mbpd), refining margins, as of this writing,

² Another factor that is often mentioned is the impact of the electric vehicle fleet on gasoline consumption. However, although the penetration rate of electric cars in China is among the highest in the world (if we consider both pure electric vehicles and plug-in hybrids, that share was slightly over 50% in 2025), as a percentage of the total vehicle fleet, they still account for just over 10%. Although this is not an insignificant figure, it is clearly not the reason for the decline in imports in China.

remain near historic highs, while crude oil prices remain at pre-conflict levels. If one wishes to understand the impact of the energy crisis on the global economy, one should not treat the refining industry as a mere footnote: given that current refining margins (depending on the geographic region) range widely from \$50 to \$80 per barrel, this means that to arrive at the price of refined products (e.g., gasoline), one must add these high margins to the price of crude oil. Since refining margins have shown no sign of easing, product prices remain at very high levels, with potential ramifications for price indices and economic activity.

Newspaper headlines have been dominated by the drop in crude oil production, the most severe in history. Less discussed has been the fact that there is also substantial refining capacity on the other side of the Strait. This capacity breaks down as follows: Saudi Arabia (3.3 Mbpd), Iran (2.4), Kuwait (1.5), the United Arab Emirates (1.4), Iraq (0.4), and Qatar and Bahrain (both at 0.4). To clear up any doubts, part of that capacity has not been affected: Aramco's YASREF refinery, for example, is located in Yanbu and has access to Red Sea routes. Even so, we believe the aggregate figure for the Persian Gulf offers an idea of the impact the closure of the Strait has had on global 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 during the conflict) is unclear, but it is likely to cause a delay of several weeks or even months, even if flows eventually return to normal.

Added to the loss of capacity in the Strait is the fact explained above: Asian refineries, and Chinese ones in particular, have been operating well below their maximum capacity in recent months. Finally, Ukrainian attacks in 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, about 1 Mbpd in losses.

In any case, taking a step back, *the key point is to understand that global demand for products has barely declined, while supply (refining capacity) has contracted severely*, leading to unprecedented drops in product inventories. These declines, which will continue in the short term until traffic through the Strait returns to normal, have resulted in U.S. refining margins near all-time highs. Looking ahead, the key factor for refining companies is not so much whether we will reach new record levels, but how long the current environment of high margins 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 yet it still provided refineries with a significant boost that lasted a couple of years. We are convinced that the current crisis is much more profound than the previous one.

We would not want to conclude this section without at least mentioning that, although we are optimistic in the short term regarding both production and refining companies, *we should be more cautious in the medium term*. The closure of the Strait has opened Pandora's box, unleashing several far-reaching dynamics that will unfold over the coming years. We have already discussed the main positive dynamic: the need to replenish lost inventory levels in order to be prepared for another contingency. On the other hand, there are at least two negative dynamics. The first is that many countries will continue to push, now at an accelerated pace, their energy independence agendas, which will entail, to a greater or lesser extent, a greater share of renewables, nuclear power, and electric vehicles in the energy mix. The second is that, following the UAE's exit from OPEC – as well as Iraq's recent threats to follow suit—the group's production discipline will become more questionable. Although it is difficult to know exactly how much the UAE will be able to produce until flows fully

normalize, several estimates suggest it could reach 5 Mbps – a considerable additional amount.

In any case, fixed-income investments in oil production and refining companies should perform well, since in many cases it takes only a few quarters of extraordinary profits to repay the debt early. Additionally, and from a purely tactical standpoint, these investments should perform better in the hypothetical scenario of a spike in inflation (and a widening of credit spreads) if supply chain issues ultimately prove to be more severe than expected.

A brief additional note on the profits of the U.S. economy and the Levy-Kalecki profit equation

In our letter six months ago, we explained how the Levy-Kalecki profit equation works and its application to the U.S. economy. As we argued, the ratio of corporate profits to GDP (or, equivalently, the aggregate profit margin) has been gradually widening throughout this century and currently stands at historic highs of around 13–14%. We argued that the best explanation for this rise lay in the sharp increase in fiscal deficits, which had shifted from a roughly balanced budget during the Clinton administration to the recent high deficits, at levels of 5–7%. We concluded that section by noting that the market was applying unprecedented multiples to a profit stream that, in turn, was also at record levels.

We have, however, neglected to thoroughly explore what is likely now the most significant application of the profit equation, which is none other than the *impact that high levels of investment in the AI ecosystem are having on corporate sector profits*.

In other words, the question that many readers have surely been asking themselves lately is this: How can such a colossal investment in data centers, which we know is doomed to be unprofitable, coexist with such rapid growth in the profits of S&P companies? It's an entirely legitimate question that, in fact, [the financial press is asking every day](#) – though, for now, with rather 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.

Current portfolio composition

Looking at the portfolio’s composition, the percentage invested is higher than it was in December: the percentage of cash and cash equivalents has fallen from 16.7% to 13.8%. The yield to maturity (YTM), already hedged to euros, stands at 5.4%, in line with the level we had at the beginning of the year.

As we mentioned last year, yields to maturity in the fixed-income markets are more attractive than they have been over the past decade, but this has been the result of higher risk-free rates, since credit spreads remain at their lowest levels in the last decade. In other words, *credit risk remains undercompensated at this time*, and all the AI-related credit issues we discussed in the introduction have only exacerbated this trend. The Fund currently offers a slightly lower yield than the high-yield (HY) indices, but it has a higher average credit quality, in addition to the 13.8% we mentioned that is invested in cash and short-term government bonds.

In this regard, it is worth noting that, for the first time in the Fund’s history, we have allocated a portion of our cash to inflation-protected government bonds (TIPS). Although the percentage we have invested in TIPS does not represent our entire position in short-term government debt, we believed the purchase was prudent given the market’s complacency regarding short-term inflation spreads, which, in our view, do not reflect the new reality to which countless supply chains will be exposed in the coming months, both due to sharp increases in energy prices and rising costs for many technological components (especially memory) – components that have traditionally been deflationary in price indices and that, for the first time in decades, are now contributing positively to inflation.

In any case, and at the risk of sounding repetitive, our previous opinion is not a prediction of what will happen, but simply an observation that these tail risks cannot be priced in – not even remotely – given the current narrow credit spreads.

Below, we detail the Fund’s main investments, listed in order of their relative weightings. As is our custom, we have grouped them by theme to provide an overview of the portfolio:

Refineries and midstream assets

It is in the refining and midstream assets segment where we have focused most of our efforts this half-year on identifying investment opportunities. As a result, our exposure to this group is, for the first time in the Fund's history, the highest one, amounting to nearly 23%. Our top holdings in this group, in order of weight, are: Enterprise Products Partners, MC Brazil, Golar LNG, TC Energy, Venture Global, CVR Energy, Sasol, and PBF Energy.

The first thing to note is that the end markets for all these companies are very different from one another, even though, according to established sector classification categories, they all fall under the same heading. Essentially, we have a group of three refineries (MC, CVR, and PBF), another group of two companies focused on liquefied natural gas (LNG) infrastructure (Golar LNG and Venture Global), two others focused on oil infrastructure (Enterprise and TC), and, finally, a company focused on chemicals and coal (Sasol). In a later section, we devote some space to explaining the investment case for MC Brazil, one of the new acquisitions, simply to provide a more detailed example of how we have approached credit analysis in this segment of the oil value chain and how these companies will benefit in the coming quarters.

Oil Producers

Oil producers continue to account for a significant portion of the portfolio, with an exposure of around 21%, an exposure we have been gradually increasing over the past six months. We believe that, overall, they remain one of the best opportunities in the credit indices right now, not only because of the tailwinds they should enjoy in the short term, but also because they continue to trade at a discount relative to the returns offered by comparables in other sectors.

Our top holdings, by weight, are: Kistos Energy, EnQuest, W&T Offshore, IPCO, Panoro Energy, Kosmos Energy, and Genel Energy. As we'll discuss in a later section, we've sold several of the producer holdings we had at the beginning of the year to make room for other names that pay higher yields and should have no trouble meeting their debt obligations in a 70-dollar-barrel environment. As we explained in the previous section on refineries and midstream assets, we would like to point out that exposure within the producer group is not as homogeneous as it appears at first glance. Although the end market for all these producers is the same, each operates in different geographic regions with different tax systems, has different relative weightings between crude oil and natural gas, and follows different capital allocation plans.

Kistos Energy and EnQuest have the majority of their reserves concentrated primarily in the North Sea; W&T Offshore, for its part, has its reserves in the Gulf of Mexico; and Panoro and Kosmos, in Africa. We have increased our holdings in the latter two companies the most during this half-year, given their combination of attractive returns (nearly double-digit at the time of purchase), professional management teams, and assets that are profitable at a Brent price of \$65 per barrel. Interestingly, a transaction took place between them in late February, when Panoro announced the acquisition from Kosmos of its 40.4% stake in the Equatorial Guinea assets for \$180 million, paying a modest multiple of \$3.9 per barrel of 2P reserves. Panoro tapped the market with a \$150M bond issue, which we were happy to subscribe to both because of the rationale behind the transaction and the bond's greater

liquidity. Finally, although the transaction was clearly unfavorable for Kosmos, as it was under pressure to reduce its leverage, it is worth noting that the Kosmos bond we hold is the one issued late last year with the assets in Mauritania and Senegal (GTA) as collateral, as this is the best asset in Kosmos' entire portfolio, meaning we have no exposure to the rest of the company as such – although we have no doubt that it may continue to deleverage in the coming quarters if global energy uncertainties are not resolved soon.

Financial companies

We have continued to reduce our exposure to financial companies, a trend similar to what we experienced in 2025. They currently account for about 11% of the Fund's assets. Although most of these companies are at a sweet spot in the cycle, with reasonable interest rates and very low default rates, bonds have already priced in this scenario and are trading at the tightest credit spreads in the last five years. Our main holdings are Bankinter, Genworth Financial, Abanca, Intesa, SLM Corp, and Banca Transilvania.

To our surprise (especially in the case of banks), the group has performed steadily over the past few months – with the exception of some minor declines in the first weeks of March. We say “to our surprise” because Europe, like Asia, has been among the hardest hit by the closure of the Strait of Hormuz, and we thought the consequences of that closure on Europe's economic growth would be more pronounced than they have been. This is an issue we are monitoring closely, as the European economy will need to rebuild its natural gas inventories as the winter months approach, which we believe will push energy prices higher, just as happened in 2022. We are convinced that the minimal premium at which European financial bonds trade relative to other industrial bonds is not justified by the potential volatility they will face in a possible adverse scenario.

Main divestments in the semester

As a result of the events of this semester, the Fund has experienced one of the highest turnover rates in recent years. The new investments mentioned in the previous section were financed in part with the cash we had on hand at the beginning of the period and in part through sales. The main divestments were, in alphabetical order: Axa, BAWAG, BlueNord, Doman Building Materials, International Seaways, Murano, Okea, Pearl Petroleum, Pembroke Resources, and Winnebago.

In the case of the divestments from oil companies (BlueNord, Okea, and Pearl Petroleum), the reason was simple: we replaced them with other names that have identical exposure to oil (or gas) but offer higher yields to maturity. In Pearl's case, furthermore, its exposure in Kurdistan, with a gas terminal that is easily vulnerable to attack by Iran (unlike Genel and DNO), led us to be cautious about the collateral, and we chose to divest the position.

As for the financial institutions (AXA and BAWAG), we have already explained the reasons for the sale in the previous section. We have nothing against these two issuers in particular; rather, we simply object to the low returns their bonds were yielding. We believe that the investments we have made in the energy value chain are more attractive both in absolute terms and, of course, in more turbulent scenarios involving a spike in energy prices and an economic slowdown.

For the rest of the divestments, there were various reasons. The bonds of Doman Building Materials and International Seaways, after having been in the portfolio for about a year and trading above par, were yielding returns that we did not consider attractive. On the other hand, Pembroke Resources and Winnebago (the convertible bond) were cases of misguided investment theses, from which we were fortunately able to exit without significant losses. We do not rule out revisiting the Pembroke story at a later date if metallurgical coal prices improve and, more importantly, if the expansion of its Australian mine—which is well-positioned on the global cost curve—goes better than expected. In the case of the Winnebago convertible bond, although the bond offered a positive yield to maturity, we considered it insufficient given that the bond’s conversion price was far above the stock’s current trading price. We do not believe the company will face financial problems, but the recreational vehicle cycle has been worse than we expected two years ago, and the optionality of the bond with shorter maturities is substantially lower.

Finally, Murano bonds have been one of the main factors dragging down the Fund’s returns over the past year. Purchased in late 2024, the investment thesis centered on ownership of a hotel in Cancún, on which we held a first lien, and part of the bond proceeds was to be used to complete the hotel’s expansion program, which was supposed to increase its capacity from 400 to 1,000 rooms. That expansion never took place, and, worse still, the company met with a group of bondholders nine months later to try to extricate itself from the dire financial situation it found itself in. We chose to exit the position in this context given the lack of clarity regarding the plan proposed by management. Our error in judgment here was clearly not placing enough importance on the management team and overestimating the importance of having a strong covenant package. This is not the first time we have seen similar behavior in the Mexican corporate debt market, and it is something that will make us (even) more cautious in this region going forward. The only silver lining of the investment, if there is one, is that we have limited our losses thanks in part to the (double-digit) coupon we received and in part to having sold the bond at around 40.

Investment thesis on the MC Brazil bond

In closing, we would like to present a somewhat more detailed investment thesis on one of the most recent bonds we have purchased, which has become one of the Fund’s main holdings. The goal is not to recommend specific securities, but simply to offer a little more insight into how we have applied our analysis of the energy crisis to the evaluation of specific issuers.

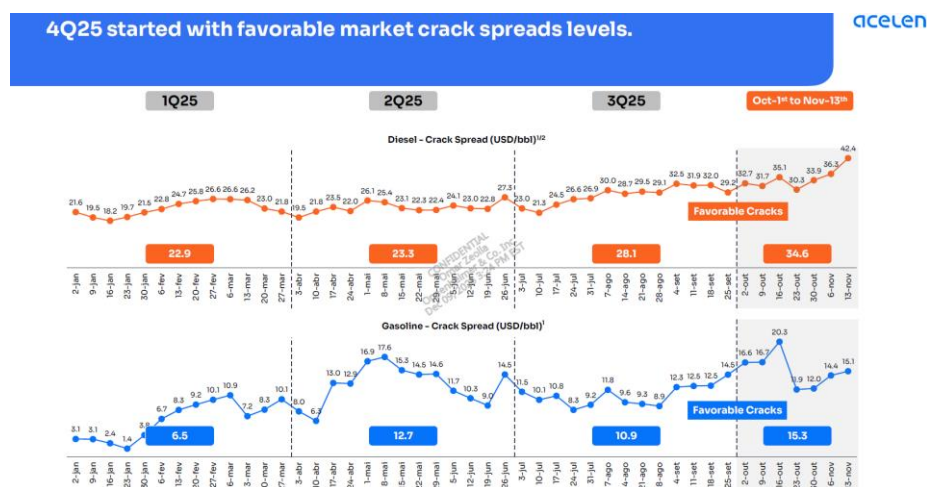
MC Brazil is a refining company whose sole asset is the Mataripe (formerly known as Landulpho Alves) refinery, located in the Brazilian state of Bahia. The refinery was built in 1950 and was Petrobras’ first ever oil refinery. The asset’s nameplate capacity is 302kbpd, with a Nelson Complexity Index of 7 (as of 2018, per the prospectus of the bonds; I have not been able to find any more recent references, but it is reasonable to assume that the index has not changed). This is low by US standards, but roughly average for the rest of the world. Several estimates have been made regarding the potential replacement cost, with figures as high as \$5.9bn. in the prospectus – which I view as unrealistic. I am sure you can justify several guesses using the numbers I have provided and applying complexity-adjusted capacity; fortunately, this is not necessary for the thesis.

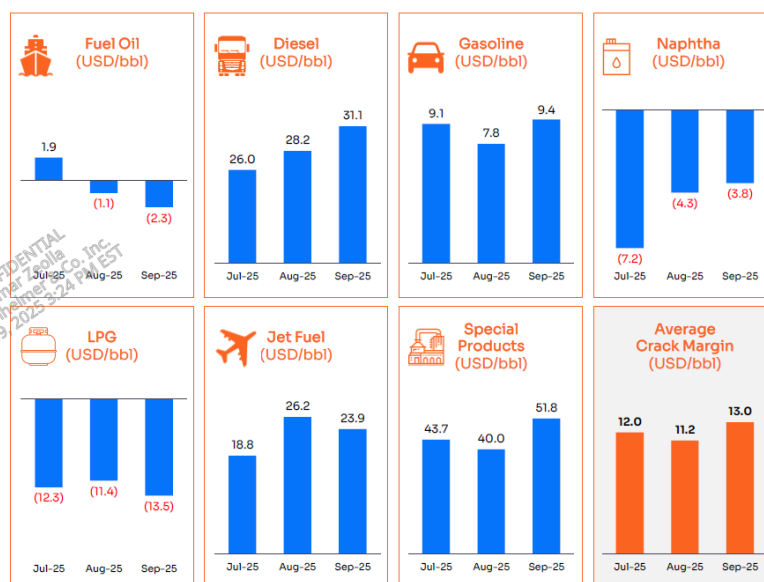
The company was established in 2018. In 2021, it acquired the refinery, along with the related real estate, pipelines, port terminal, logistics, and other infrastructure. The 7.25%

bond, which matures in 2031, was issued to finance the acquisition. This was part of the previous Brazilian administration's unsuccessful attempts to transfer several of Petrobras's refining assets to the private sector. The current Lula administration has repeatedly expressed interest in repurchasing the refinery. Mubadala Capital (Abu Dhabi's sovereign wealth fund) is the company's sole shareholder.

The refinery is important to the Brazilian economy, representing 14% of the country's refining capacity (second-largest refinery in Brazil) and more than 50% of the capacity in the north-east. Although Brazil has an abundant supply of crude oil, it is short of refined products, which are routinely imported. According to MC Brazil's latest investor presentation, in the 3Q'25 more than 20% of the diesel used in Brazil was imported (5% in the case of gasoline), whereas 44% of crude oil was exported.

The company faced challenges in 2023 and 2024 due to weak crack spreads following the post-Covid boom. Since then, however, better crack spreads in 2025, together with the refinery's improving operating performance (and some changes in Brent pricing, discussed below), have lifted the financial results, reaching an EBITDA of \$362M in the 9M of 2025 (we are still waiting for the 4th quarter results, which should be very strong, and still pre-Iran war), with a clear inflection in the latter part of the year. With a net financial debt of \$1.4bn. and an LTM EBITDA of \$717M, the net leverage stands at 2.0x. So, just to be clear, under normal conditions, we are not talking about a distressed situation. Average crack spreads for the 3Q'25 were \$13 per barrel.





But things should markedly improve from here. Several things to note:

- The company has traditionally purchased a significant proportion of its feedstock from Petrobras under negotiated annual pricing contracts. A few years ago, the price was Brent+2 (and even Brent+3 initially, if I recall correctly), but the premium has gradually diminished and is currently Brent flat. Last year's results were still impacted by premium pricing, but now we are starting to see normalized numbers. Assuming the company produces 280kbpd, a \$1 difference per barrel makes a \$100M annual difference to pre-tax earnings, so quite material.
- Given the current situation in the Middle East, I don't need to tell you that the global refining complex is literally printing money — provided you're not located on the wrong side of the Strait of Hormuz and you have enough feedstock to run your refineries (which is not the case in Asia). For MC Brazil, Diesel margins are currently close to \$60 per barrel, while fuel oil margins are positive. I will leave you to work out the numbers, but for illustrative purposes, an increase of \$20 per barrel in the spreads (using 280kbpd as the benchmark) would imply incremental pre-tax earnings of \$5.6M per day, or around \$500M per quarter. In other words, you don't need the situation to drag on for very long for the impact to be material, and you should also bear in mind that it would take some time to bring refining capacity back online even if the conflict ended today.
- In this vein, it is also important to note that, as of 3Q'25, the company has approximately \$450M in tax loss carryforwards that can be offset against future income taxes. According to my conversations with the company, these offsets are limited to 30% of taxable income in any given period.
- The notes are governed by a cash-sweep mechanism, whereby a significant amount of cash is directed towards paying off the notes (the notes are also amortizing, which is pretty valuable for bondholders under normal circumstances, but I don't believe it is relevant here). The key feature of the mechanism is that the company needs to maintain a minimum available cash balance of \$250 M, and the excess above that threshold can be distributed. In a couple of quarters, the outstanding principal amount of the bond will be significantly reduced, improving the current rating of the notes ("B+" by Fitch). In other words, there is a strong natural force to bring the

bonds from the current discount (around 93-94) back to par. Assuming a one-year holding period, you would be paid the coupon (7.25%) plus the reversion to par at those prices, that would equate to a 8% capital gain, yielding a total return of around 15%.

Finally, as mentioned earlier, Lula's government is considering the possibility of repurchasing the asset. Under the bonds' compensation clause, they would be redeemed at 112. Assuming the same one-year holding period, the results would be substantially higher than those in the previous scenario. We do not believe this is the base-case scenario, but in any case, it is positive news.

As always, we appreciate your trust and support, and we would be happy to answer any questions you may have.

Sincerely yours,

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