FAWKES CAPITAL MANAGEMENT

23 October 2025

September Monthly Report

Dear Investors

We are pleased to provide you with the September 2025 Monthly Report for the Fawkes Capital Fund ("Fund"). In this monthly report, we delve into the following sections:

(1) Update on performance for September 2025;
(2) The bubble; and
(3) The impending power shortage.

Performance Update

The Fund delivered a return of 12.1% in September, marking another month of satisfactory performance. While gains were broad-based across the portfolio, two positions stood out as major contributors.

First, our conviction in antimony continued to pay off, with Felix Gold rallying sharply as the market began to better appreciate the value of its underlying reserves. We have since exited this investment and taken profits. Second, Google, one of the Fund's largest holdings, has seen increasing recognition for its leadership in artificial intelligence. While AI chatbots have somewhat reduced traditional click-through rates, this has been more than offset by rising advertising prices for high-quality shopping leads.

As at the time of writing, performance in October has also been satisfactory.

Sep-25	1 Mth	3 Mth	1 yr	2 Yrs	3 Yrs	SI (ann)	SI (cum)
Fund (Net)	12.1%	23.9%	30.5%	21.3%	10.5%	12.2%	66.1%
Blended Index	-0.1%	3.1%	7.4%	10.2%	9.6%	6.4%	31.1%
All Ords	-0.5%	5.3%	10.5%	16.2%	15.1%	9.4%	48.9%
RBA Cash	0.3%	0.9%	4.2%	4.3%	4.0%	2.9%	13.3%

Returns are calculated net of fees and represent the combined income and capital returns over the specified period.
All returns provided are in AUD. Blended Index returns are composed of 50% All Ords / 50% RBA Cash.

The Bubble

Are we currently in a bubble? Will the bubble expand before it implodes? These are increasingly common questions among market participants.

Our view is that certain segments of the equity market are exhibiting clear signs of bubble-like behaviour. In particular, US small-cap stocks have become especially frothy. Within high-profile thematics like drones, defence, and rare earths, valuations for many companies are now pricing in near-perfect outcomes. History suggests not all of them will succeed. This dynamic is reminiscent of the 2021–22 bubble, though with some notable differences.

The prior bubble cycle centred around meme stocks and cryptocurrencies. Today, speculative activity has shifted toward small caps, often driven by thematic enthusiasm rather than grounded forecasts. The speculative focus continues to evolve, but the underlying behaviour remains similar.

That said, we do not believe the overall market is in a bubble. Valuations for major indices and Big Tech are elevated relative to long-term averages, but not alarmingly so. Even within the AI space, despite rapid price appreciation, earnings growth has continued to track upwards. In our view, the aggregate of AI-related equities, while not cheap, cannot yet be classified as a bubble.

We believe there's a reasonable likelihood that the current bubble expands further before it unwinds. There remains a substantial pool of savings in the system, which continues to grow. For example, even after tariffs were introduced in Q2 2025, US consumers not only maintained their elevated levels of spending but also increased their savings, a clear sign of underlying resilience.

A key difference between today and previous cycles lies in who is doing the spending. The ongoing surge in AI infrastructure investment is being led by Big Tech, and crucially, it is being funded through free cash flow rather than equity issuance or excessive leverage. Unlike the dot-com bubble in 2000, this capex is proportionate to actual AI usage growth. This isn't speculative overbuild, it's an infrastructure cycle tied to observable demand.

At a broader level, the financial market bubble is beginning to mirror what we might call a Trump Bubble – a feedback loop between political narrative and market expectations. Much of Trump's political appeal rests on a promise to transform the lives of those left behind by globalisation. Central to that promise are a series of new trade deals and the reshoring of industrial capacity.

However, job creation remains weak, partially constrained by restrictive immigration policies, and Trump's second-term fiscal agenda has not been expansionary. That leaves him with two remaining levers: AI-fuelled economic optimism and rapidly rising asset prices. These forces are now doing the heavy lifting in maintaining the appearance of economic strength.

In that sense, the market's current exuberance is not only tolerated by the administration – it's essential. The AI boom and the stock market rally have become political imperatives, sustaining the broader Trump economic narrative.

As stock prices rise rapidly and the bubble inflates, the incentive to speculate draws more capital from the growing pool of household savings into equity markets. We believe we are still early in this process. Each year, the stock of available savings expands, and with it, the fuel for continued market momentum. The psychology of the bubble – anchored by "buy the dip" behaviour – is becoming increasingly entrenched. With time, investors begin to feel invincible. To us, this environment feels reminiscent of 1998–99.

Bubbles typically burst for one of several reasons. A shift in investor psychology becomes harder to trigger as the euphoria builds. It often takes a significant event to challenge prevailing optimism – historically, either a recession or a sharp tightening cycle from the Federal Reserve, like in 2022. Another common catalyst is when valuations become so stretched that they can no longer be supported by the available savings or access to debt.

A potential candidate for disruption this time could be a re-escalation of the US–China trade war, particularly if it impacts critical supply chains or corporate earnings. While we're monitoring this risk closely, our base case remains that a fragile equilibrium between both sides will likely prevent a major flare-up.

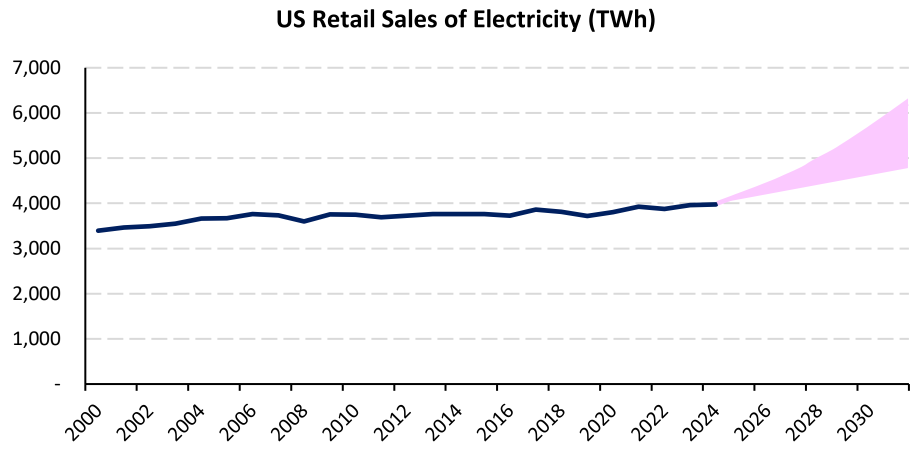
Absent a clear catalyst, however, we believe the current market dynamics will continue to be underpinned by a structural imbalance between asset demand and supply. We are far from the point where savings or income growth are insufficient to sustain today's asset prices.

Against this backdrop, our approach is to invest in assets that are not yet part of the bubble, but that (i) remain fundamentally cheap and (ii) have the potential to re-rate dramatically if sentiment shifts. A prime example of this is our positioning in what we believe to be the next semiconductor memory supercycle, expressed through companies like SK Hynix, SanDisk, and Kioxia.

The Impending Power Shortage

We've previously written about the likelihood of an energy shortage in the US as a direct consequence of AI-driven infrastructure growth. That risk is now becoming reality. After more than two decades of stagnant electricity demand, the US power grid is beginning to feel the strain of surging AI-related consumption.

The below chart shows how big this change in power consumption is expected to be:



Source: U.S. Energy Information Administration, Fawkes Capital Management

This substantial shift marks a clear departure from the previous two decades of subdued growth. Given the magnitude of the increase, it's no surprise that companies offering timely and scalable energy solutions are becoming significantly more valuable. Timing is critical: the AI arms race, between both companies and nations, favours speed of deployment as a source of competitive advantage.

We've previously highlighted Argan, a key beneficiary of this trend, whose share price has appreciated meaningfully. In the US, the barriers to ramping up electricity supply are substantial and multifaceted:

1. **Grid interconnection delays** – Queues for connecting new generation assets to the grid have doubled in the last few years, stretching from ~30 months to ~60 months.
2. **Equipment constraints** – A shortage of critical components like high-voltage transformers is slowing project execution.
3. **Manufacturing bottlenecks** – The lead time to bring new gas-powered turbines or engines to market remains lengthy due to limited industrial capacity.

These constraints are structural and will take years to resolve, even with coordinated policy support. In the meantime, companies with existing capabilities to address these pain points, particularly those involved in gas engine production, transformer supply, or turnkey power project execution, are well positioned to benefit.

Given that permanent power generation facilities can take years to bring online, several companies are stepping in with near-term solutions. Behind-the-meter generation – where datacentres are powered independently of the grid – has become a critical stopgap. For instance, Solaris Energy Infrastructure is deploying mobile gas turbines to support the rapid buildout of X.AI's datacentre infrastructure. Bloom Energy has also signed multiple high-profile deals to supply its solid oxide fuel cells to utilities and hyperscalers. Yet even with these innovations, supply still lags behind the surging demand.

One company we're now particularly interested in is Liberty Energy. What sets Liberty apart is its ability to bypass the long lead times for gas-powered generation engines from manufacturers like Caterpillar and Jenbacher. Owing to its legacy business and long-standing supplier relationships, Liberty has secured early access to the equipment others are waiting years to procure. The company is rapidly scaling up its backlog and procurement of generation assets. It uses proven reciprocating gas engine technology, which is not only reliable but relatively inexpensive to operate once installed. Crucially, its model leverages the flexibility of US fracking supply, which can ramp faster than large-scale utility projects. In our view, the market has yet to price in Liberty's strategic advantage in addressing the US power crunch.

Kind Regards,
Fawkes Capital Management

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