



30 September 2026

August Monthly Report

Dear Investors,

We're pleased to provide you with the August 2026 Monthly Report for the Fawkes Capital Fund ("Fund"). In this monthly report, we:

- (1) Update our performance for August 2026;
- (2) Describe our Investment Posture and Macro Outlook.

Performance Update

The Fund declined 4.0% in August. The underperformance reflected two main factors: we were somewhat early in establishing several of our macro positions, while one of our larger holdings, Metasurface Technologies, retraced during the month.

Aug-26	1 Mth	3 Mth	1 yr	3 Yrs	5 Yrs	SI (ann)	SI (cum)
Fund (Net)	-4.0%	-6.9%	52.4%	25.4%	17.5%	16.5%	125.9%
Blended Index	0.0%	1.4%	2.7%	7.3%	5.3%	5.8%	34.8%
All Ords	1.9%	4.0%	3.5%	10.9%	7.4%	8.6%	54.9%
RBA Cash	0.4%	1.1%	4.0%	4.2%	3.3%	3.1%	17.5%

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.

We discuss our macro positions in the following section. Here, we focus on why we continue to hold Metasurface Technologies despite the recent decline. In our view, the company remains significantly misvalued by the market.

Regular readers will know that Metasurface manufactures highly precise components used in semiconductor manufacturing equipment. It is one of only a handful of qualified suppliers to Applied Materials, one of the world's largest semiconductor equipment companies. Becoming a qualified supplier typically takes around four years, creating a significant barrier to entry.

Metasurface is benefiting not only from rising semiconductor capital expenditure globally, but also, we believe, from significant market share gains. While industry revenues are currently growing at around 20–30% per annum, Metasurface recently reported an approximately 260% increase in its orderbook. Given the magnitude of this increase, we think it is unlikely to have come from increased orders from a single existing customer. This suggests that the company has secured one or more significant new customers.

There are substantial barriers to entry in this industry. Metasurface is one of only five companies in Southeast Asia with SSQA qualification, placing it among a relatively small group of top-tier producers capable of meeting the required standards. These barriers become particularly significant as semiconductor equipment increasingly requires components manufactured to micron-level precision.

We see three principal barriers to entry. The first is technical: suppliers must be capable of manufacturing highly precise components and meeting stringent quality standards. The second is time: qualification with major customers involves an extensive testing process that can take several years. The third is scale: suppliers need sufficient manufacturing capacity to fulfil large orders from customers operating in a highly concentrated industry.

Our site visits to Metasurface's factory have highlighted another important advantage: the company's ability to execute. As its orderbook expands, we believe this operational capability will become increasingly important.



The company currently trades at a market capitalisation of around SGD85m. Given the orderbook, we expect the company will earn around SGD13m in net profit for the full year. If the company does not spend any of its cash on buying back stock, we estimate Metasurface's cash balance would grow to around SGD28–30m by the end of the year.

There are also several potential catalysts for a re-rating. The company has filed its intention to dual-list on the Catalyst Board of the Singapore Exchange. We believe this could occur against a favourable backdrop for smaller Singapore-listed companies. Through the Equity Market Development Programme (EQDP), the Singapore Government has committed approximately SGD7 billion to investment managers to invest in Singapore-listed equities, with an emphasis on strengthening research coverage and market participation. This is significant relative to the approximately SGD100 billion market capitalisation of the relevant segment of the market.

In addition, based on our estimates, by the end of this year Metasurface should satisfy the Hong Kong Stock Exchange's profitability requirements for an uplisting to the Main Board. Together, these developments have the potential to broaden the company's investor base and improve liquidity, providing potential catalysts for the valuation gap to narrow.

Investment Posture

We continue to hold our short position in the bond market and our long position in the Japanese yen.

The bond market continues to face a difficult combination of persistently high energy prices, elevated inflation, substantial new supply associated with datacentre investment, and an increasingly hawkish Federal Reserve. Most recently, the Federal Reserve raised interest rates by 25 basis points in an effort to prevent elevated inflation from becoming entrenched.

In our assessment, the new Chair, Kevin Warsh, is extremely hawkish. His views over many years have been remarkably consistent. In particular, he believes the Federal Reserve should hold as few bonds as practicable, arguing that it is not the central bank's role to intervene in financial markets when intervention is unnecessary. He has also long admired the monetary discipline of former Fed Chair Paul Volcker, whose aggressive interest-rate increases in the early 1980s brought inflation under control and, in Warsh's view, helped lay the foundations for the decades of prosperity that followed.

The bond market also looks expensive relative to history. With inflation running at around 3% and nominal GDP growth at approximately 5.5%, historically we would expect bond yields to be closer to 6–6.5%. At current levels, we believe yields provide insufficient compensation for persistent inflation, strong nominal growth and increasing bond supply.

There have also been positive developments supporting our long position in the Japanese yen. On the sidelines of the G20 Finance Ministers' meeting, US Treasury Secretary Scott Bessent suggested that he has "asymmetric" information regarding the intentions of Japanese policymakers towards the yen. He went further, describing himself as the "house" and effectively challenging investors to bet against him. At the same time, various Bank of Japan board members have indicated a willingness to raise interest rates more quickly if circumstances require. In our view, the foundations for a stronger yen are increasingly being laid.

We also think some caution is warranted towards artificial intelligence (AI) stocks. AI will, of course, continue to be adopted across businesses and increasingly embedded in process automation around the world. Our concern is not with the technology or its adoption, but with the valuations now being placed on its beneficiaries. Despite rapid underlying growth, valuations across the sector have become increasingly stretched.

To illustrate the scale of the re-rating, we estimate that since ChatGPT was first released, the market capitalisation of companies associated with AI has increased by approximately US\$15 trillion globally. Needless to say, this is an enormous amount of value creation in a relatively short period.



To put that figure in context, the combined market capitalisation of Apple, Alphabet, Microsoft and Amazon is also around US\$15 trillion. These are four of the most successful businesses the world has ever seen. Collectively, they encompass the dominant smartphone ecosystem, advertising platforms with global reach, one of the most successful software franchises in history, and the world's leading online retailer. Together, these businesses generate approximately US\$500–600 billion in annual net income, depending on the treatment of one-off items.

It is not entirely clear to us that AI will ultimately be able to extract US\$500 billion of annual value from its end customers – businesses and consumers. As a starting point, only a small proportion of consumers currently pay directly for AI products. Even if the entire working populations of the US and Europe paid US\$20 per month for AI, this would equate to only around US\$120 billion in annual revenue. Moreover, AI is relatively expensive to provide compared with many of the highly scalable products offered by Big Tech.

To justify current valuations, AI will therefore need to capture a significant share of the value currently attributable to human labour. It may ultimately do so, but the evidence remains inconclusive. AI demonstrates extraordinary proficiency in certain areas, particularly tasks involving deductive logic such as mathematics and coding. Many jobs, however, involve judgement under uncertainty, contextual understanding and forms of inductive reasoning where there is no clear historical analogue from which to infer an answer. Despite rapid improvements in frontier models, we have yet to see widespread disruption to the software industry or a corresponding displacement of software engineers.

There is also a regulatory dimension that remains difficult to predict. As frontier models become increasingly capable and autonomous, their potential usefulness rises, but so too do the risks associated with cyber security and unintended actions. If the incremental benefits from future frontier models begin to diminish while these risks continue to increase, policymakers may become less willing to tolerate unrestricted deployment. How this trade-off evolves remains an important unanswered question.

Even if AI ultimately replaces a meaningful amount of human labour, frontier model providers will still need sufficiently defensible competitive advantages to capture the economic value they create. They aspire to the network effects and scale advantages enjoyed by Big Tech, rather than the economics of more commoditised industries such as airlines or telecommunications. At this stage, however, it is not clear that network effects or scale provide the same degree of protection for LLM providers. For many corporate applications, what matters most is security, reliability and whether a model can consistently complete a particular task to an acceptable standard, not necessarily whether it is the world's most capable model. This creates a genuine risk of commoditisation, particularly as open-source models continue to improve.

For this reason, within the AI ecosystem we favour companies that enable the next generation of semiconductor manufacturing technology over more cyclical beneficiaries of the AI investment boom. Even if the pace of AI adoption disappoints current expectations, the enormous installed base of advanced computing infrastructure will eventually require replacement as equipment reaches the end of its useful life. We therefore believe companies developing critical next-generation semiconductor technologies are more likely to benefit from a structural change in demand.

To be clear, we think it is extraordinarily difficult to predict how far AI technology will ultimately progress. It is not obvious to us whether today's models will evolve into something approaching general intelligence and, without sufficient conviction either way, we are reluctant to make an investment bet that depends on this outcome. It was similarly difficult during the early stages of the internet to foresee many of the businesses and applications that would eventually emerge. We expect AI to continue changing the world and will monitor its development closely.

Our caution is therefore not a call on the future of AI itself. Rather, it reflects the price investors are currently being asked to pay for that future. As valuations have risen and expectations have become more demanding, we believe the risk-reward from holding cyclical exposure to the AI investment boom has become considerably more balanced than it was during the earlier stages of the trend.

Kind regards,
Fawkes Capital Management



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