26 November 2026

October Monthly Report

Dear Investors

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

(1) Update our performance for October 2026;
(2) Describe our current outlook and macro positioning.

Performance Update

Our Fund declined by 4.0% in October, largely driven by a fall in the share price of Metasurface Technologies. Our interest rate positioning also detracted approximately 1% from performance during the month as interest rates declined.

Oct-26	1 Mth	3 Mth	1 yr	3 Yrs	5 Yrs	SI (ann)	SI (cum)
Fund (Net)	-4.0%	-7.3%	26.1%	26.6%	17.6%	15.2%	118.2%
Blended Index	0.5%	0.6%	3.0%	8.6%	5.6%	5.8%	35.5%
All Ords	0.7%	0.0%	1.6%	12.8%	7.3%	7.9%	52.1%
RBA Cash	0.4%	1.1%	4.2%	4.2%	3.4%	3.1%	18.4%

November has so far been characterised by significant market volatility, with equity markets retreating globally as investors increasingly question the outlook for artificial intelligence. We explore these concerns in greater detail below.

Fortunately, the Fund's positioning has largely protected capital through this period of market turbulence. Nevertheless, markets remain highly volatile, and we continue to navigate this environment carefully, with a focus on preserving and growing our investors' capital.

Outlook and Positioning

We are currently running the portfolio with relatively neutral equity exposure. As discussed in our last monthly note, we have become increasingly bearish on artificial intelligence ("AI"). While we do not currently hold an overall net short position in the sector, we have been hedging our long position in Metasurface Technologies with short positions in Neoclouds such as Nebius and CoreWeave. This represents a significant change from June, when we held substantial net long exposure to AI.

Volatility in the sector has increased significantly. Funds that maintained their long positions in AI, or established new positions prematurely, have suffered substantial losses. Some of our peers have experienced monthly drawdowns of 20–30%. While being net short AI stocks would have been beneficial for our recent performance, it's worth zooming out for a moment. We have participated in one of the largest technology investment booms in history, captured significant gains along the way, and have since materially reduced our exposure as the outlook has changed.

Where to from here?

Our largest single-stock exposure remains Metasurface Technologies. Following the recent decline in its share price, we believe the stock is now cheap. We estimate that by the end of 2027, the company will hold approximately SG$55

million in cash on its balance sheet. At the time of writing, this compares with a market capitalisation of just SG$75 million.

Against this long position, however, we are increasingly concerned about the economic viability of the Neoclouds. These companies build data centres and rent out the computing capacity they provide. Their economics become challenging when the revenue generated from renting out compute falls below the cost of building and operating the infrastructure.

The cost side of the equation is relatively well understood, particularly given NVIDIA's pricing of its chips. However, as we're increasingly seeing, delays caused by shortages of power, skilled labour or other critical components can lead to significant cost overruns.

The bigger risk, though, is what happens when the price of renting out compute capacity begins to fall.

The latest NVIDIA Blackwell GPUs cost around US$100,000 each. Over their estimated six-year useful life, Neoclouds need to generate substantially more than this in rental revenue to cover operating costs, financing expenses and ultimately deliver a return to equity investors.

At rental rates of around US$10 per hour, these businesses should be capable of generating reasonable economic returns. But if prices were to fall to US$8 per hour, the economics change dramatically. A seemingly modest 20% decline in rental rates could, by our calculations, be enough to turn the entire enterprise unprofitable.

What is the likelihood that rental prices fall by another 20%?

- Spot prices for renting out compute currently sit at around US$10 per hour, having declined from approximately US$15 following the introduction of US export controls restricting the supply of compute to China. Capacity that had previously been contracted to Chinese customers now needs to find a new home, adding to the available supply in Western markets.
- It's alleged that around 20% of NVIDIA's chip exports were destined for countries in Southeast Asia that are now subject to restrictions, or ultimately made their way into China. A 20% increase in supply would be extraordinary in almost any commodity market. For context, the closure of the Strait of Hormuz disrupted around 10% of global oil supply. A comparable supply shock in compute, particularly one occurring over a relatively short period, could put significant downward pressure on rental prices.
- The effective increase in compute supply over the next year could be many times greater than 20%. This is because leading AI labs are making their models increasingly efficient at completing tasks. During Anthropic's recent roadshow, management placed considerable emphasis on the "compute multipliers" they are unlocking and, importantly, how these efficiency improvements compound. Taken together, these advances could increase the effective supply of compute available to Western markets by as much as 10-fold over the next 12 months.
- Meanwhile, we're still waiting for the next AI "killer app", and leading labs have cautioned against expecting one in the near term. There is little evidence of a meaningful acceleration in demand growth. While cybersecurity is likely to require increasingly sophisticated AI agents, we don't believe it can generate sufficient demand to rival the industry's dominant existing use case: coding.

Empirically, we're also hearing directly from industry participants that excess GPUs are becoming available for both rent and purchase. As supply and demand move towards a more balanced market, rental rates for older-generation GPUs could fall sharply, particularly as newer, more efficient chips enter the market.

We're also hearing that Anthropic has passed on opportunities to rent older-generation compute capacity from SpaceX. If the market were genuinely as tight as suggested, we would expect Anthropic to be securing virtually all the available compute it could find.

Taken together, we believe the probability of a significant further decline in compute rental rates is elevated.

Equity markets also face another emerging threat: cybersecurity. Following discussions with numerous subject-matter experts, we believe the probability of a major cyber event over the next 12 months is now greater than 50%. One area where AI has demonstrated a significant advantage is in coding and identifying vulnerabilities in software. As these capabilities improve, the potential for malicious actors to exploit weaknesses in digital systems is growing rapidly.

Cyberattacks and disruptions to critical services are increasingly affecting our day-to-day lives. Over the past month alone, we've seen service disruptions involving Microsoft software, Coles' website, Binance, the US Federal Aviation Administration's communications systems and internal NSA systems, among others. Not all of these incidents necessarily resulted from cyberattacks, but they highlight just how dependent we have become on the uninterrupted functioning of digital infrastructure. Our concern is that AI's ability to identify and exploit vulnerabilities could increasingly outpace the ability of defenders to detect and patch them.

The bigger risk is what happens if hackers successfully infiltrate the financial or payments system. With so much commerce now conducted online, a significant loss of confidence in internet banking, payment networks or financial exchanges could trigger a major shock to the financial system and asset prices.

This is a particularly difficult risk to manage because the timing and nature of any such event are almost impossible to predict. Nevertheless, we believe the threat is growing and continue to monitor developments closely.

Meanwhile, the Federal Reserve remains focused on containing inflation, with Chair Warsh maintaining a hawkish stance on monetary policy. Higher interest rates are exerting further pressure on equity markets.

Following the rise in interest rates during November, we have begun reducing our exposure to further rate increases. Markets are now pricing in several additional Fed hikes over the coming year, while we see growing risks of a deflationary period should data centre capital expenditure decline significantly. In our view, the balance of risks is beginning to shift, making the prospect of lower interest rates increasingly attractive.

Finally, a word on our currency positioning. While we've previously outlined our thesis on the Japanese yen, we also believe the euro is headed lower. This has led us to position the portfolio for a decline in the euro relative to the yen, a trade that has been working in our favour.

There are several reasons for our bearish outlook on the euro. First, ongoing social and political upheaval across major Eurozone economies is likely to weigh on economic growth, leaving Europe struggling to keep pace with the rest of the world.

Second, France's debt problems remain unresolved. The European Central Bank has shown little willingness to intervene in the French government bond market purely to address the country's fiscal difficulties. Germany, meanwhile, has been reluctant to extend support, with domestic political pressures and the rise of the AfD complicating the prospect of greater fiscal solidarity. We believe these tensions could become increasingly difficult for European policymakers to contain.

Third, the Democrats' success in securing control of both chambers of the US Congress may help restore confidence among European investors in the stability of US institutions and the rule of law. Given Europe's position as a major source of capital for the United States, a recovery in confidence could encourage renewed capital flows into US assets, adding further downward pressure on the euro.

The investment environment remains highly uncertain, but we believe this volatility will present significant opportunities. We remain focused on protecting capital while positioning the Fund to take advantage of opportunities as they emerge.

Kind Regards,
Fawkes Capital Management

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