FAWKES CAPITAL MANAGEMENT

31 July 2024

June Monthly Report

Dear Investors

We are pleased to provide you with the June 2024 Monthly Report for the Fawkes Capital Fund ("Fund"). In this monthly report, we:

(1) Update our performance for June 2024.
(2) Provide a brief update on some of the Fund's investments
(3) Offer some thoughts on the macro outlook

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Performance Update

Performance for the Fund for the month of June was broadly flat. The main positive drivers over the period included the Fund's macro position in EURCHF and stock gains in Hammond Power Solutions, Bird Construction, and Credo Technology Group. However, this was offset by losses from our holdings in Vertiv and Qualcomm, along with a macro position in Copper.

Jun-24	1 Mth	3 Mth	1 yr	2 Yrs	3 Yrs	SI (ann)	SI (cum)
Fund (Net)	0.0%	0.5%	13.1%	4.8%	8.5%	7.8%	26.9%
Blended Index	0.5%	0.0%	8.5%	8.8%	4.5%	5.2%	16.8%
All Ords	0.7%	-1.2%	12.5%	13.6%	6.1%	7.3%	25.0%
RBA Cash	0.4%	1.1%	4.4%	3.7%	2.5%	2.4%	7.6%

Returns are calculated net of fees and represent the combined income and capital returns over the specified period. Performance figure for June is based on cum price. All returns provided are in AUD. Blended Index returns are composed of 50% All Ords / 50% RBA Cash.

Review of Investment Theses

As at the time of writing, the current investment concepts that we favour include:

(1) Artificial Intelligence (AI) Infrastructure and Energy Infrastructure (Including Renewables)

While we remain invested in this theme, we have focused the portfolio on the energy infrastructure needed to power AI, regardless of the upcoming presidential election.

We've taken profit on our artificial intelligence infrastructure investments. This is largely due to soaring investor expectations (though not insurmountable) for future growth. The market now recognizes AI's potential as a future platform technology, a view we had held for some time.

Our preference currently is to invest in construction and equipment companies building this infrastructure, as their profitability is closely tied to increased sector capex. We continue to favour companies such as (but not limited to) Argan, Bird Construction, and Hammond Power Solutions.

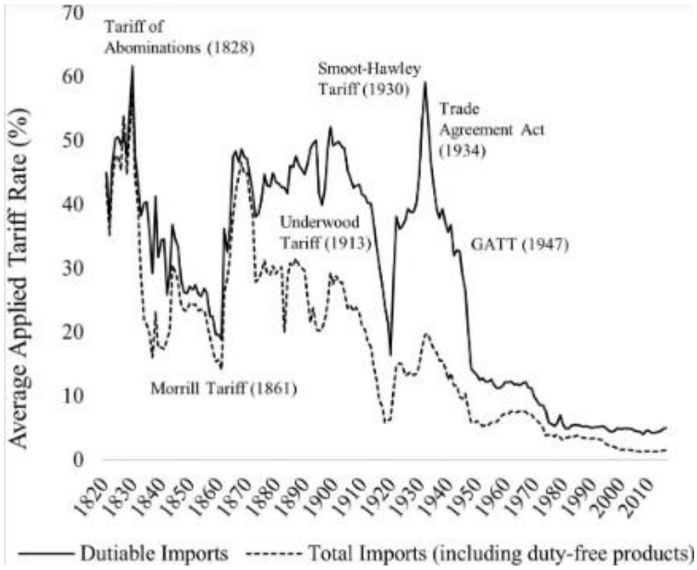
(2) UK Construction

The UK Labour Party won a resounding victory on the 4^{th} of July. As one of the largest majorities in the party's history, the Labour Party has a strong mandate for change. As the central tenet of its decade of renewal plan, the 2024 Labour Manifesto included a pledge to change the country's planning laws. As we'll detail in a forthcoming investment note, it's been these planning laws which devolved planning and decision-making power to local governments that has stood in the way of both housing and infrastructure construction. Unlike when Tony Blair won a landslide victory in 1997, one of the key goals for Sir Keir Starmer is to “build, baby, build.” To this end, the Labour Government released bills that will remove impediments to planning and building in the most recent King’s Speech.

The UK construction industry has struggled post-Covid with inflation driving up interest rates, material, and construction costs, leading to a decline in land values, construction activity, and profitability. This downturn was reflected in the value of construction stocks. However, change is on the horizon. We favor investments in infrastructure, affordable housing builders, and materials suppliers such as Kier Group, Ibstock, MJ Gleeson, and Galliford Try.

(3) Preparing for Trump 2.0 and a possible Republican Sweep

We recently released a note explaining how the world could change if Trump were to, once again, win the Presidency. If Trump wins the Presidency without a Republican Sweep, then we think a bipartisan immigration deal is likely to be done and Trump will increase tariffs significantly. Trump's long-standing policy ideal of raising tariffs, inspired by President McKinley's approach, has been evident since the early 1980s, as highlighted in *No Trade is Free.* Globalisation led to abnormally low tariff rates, but Trump's presidency could shift this dynamic significantly.



Source: *No Trade is Free*, Federal Reserve Bank of St Louis, US Department of Commerce, Bureau of the Census

Following the end of World War II, this system of low-friction trade suited the US for many decades. In particular, it allowed inflation and interest rates to remain low throughout the 1990s and 2000s. Goods inflation averaged 0% year-over-year in these decades compared to much higher rates in the decades before. China, a major saving nation of the world, reinvested much of its export profits back into US government bonds, allowing interest rates to stay low.

But slowly, millions of workers lost their jobs. These workers worked in manufacturing across the Rust Belt. Given the state-based way in which the US electoral college system works, the 10 million or so manufacturing jobs that were lost across the mid-West have come to tip the balance of the American electoral cycle. 10 million potentially affected people out of a total voting base of 100 million can easily tip the balance. The conservative faction of the Republican Party (think George Bush, John McCain and Mitt Romney) had no chance of winning these voters. But Trumpism, whose mental models believed that the main reason these people lost their jobs was unfair trade and globalisation, spoke directly to these people. The GOP needed to be reformed if it was to be competitive and Trump brought some traditionally left-wing voters as well as the Conservative base into the Republican tent.

While Kamala Harris is now very likely to be the Democratic nominee, our judgment is that she doesn’t speak to swing state voters in the same way that Trump, JD Vance or even President Biden do. But we’re open to being wrong on this judgment and continue to monitor the facts as they come in.

If the Republicans sweep control of Washington, then there will be even more change. While Trump can hike tariffs and take up the bipartisan immigration bill by himself, he can't cut taxes significantly or get America to "drill baby drill" without a Republican sweep. At this stage, the odds of a Republican sweep, which primarily depend on the odds of the Republicans retaining control of the House, are around 50/50. Our investments are currently concentrated in areas that Trump can do himself (tariff and immigration beneficiaries), but will seek to add to oil, gas and coal mining and service providers if the Republicans sweep.

Macro Outlook

Finally, in our view, the macro-economic outlook hinges on the November elections, with a Republican sweep being particularly influential.

If the Republicans sweep, Trumponomics could take full effect. Trump would likely gear economic policy to incentivise coal, oil and gas companies to "drill baby drill," bringing down both inflation and interest rates. Tax cuts on both income and corporate profits would provide the fuel to power the economy. Significantly higher tariffs and a weaker US dollar would encourage manufacturers to build in America. In such a world, economic growth would boom. In the first phase, the boom would likely be non-inflationary. But eventually inflation would return with a vengeance in the form of wage growth, especially since net migration would be curtailed. If it came to pass, this sequence of economic conditions would remind us of the late-cycle period after the Asian Financial Crisis that led us to the eventual inflationary dotcom bubble.

Conversely, without a Republican sweep, the outlook is less clear. Tariff increases without energy price drops would likely be more inflationary. But the question mark we currently have on growth would remain if the Republicans were blocked from passing their fiscal stimulus. We continue to monitor the situation.

Kind Regards,
Fawkes Capital Management

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