30 January 2025

December Monthly Report

Dear Investors

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

(1) Update our performance;
(2) Discuss current investment themes; and
(3) Provide an update to the macro situation.

Performance Update

The Fund declined by 2.08% in December. This retracement was primarily driven by a pause in several key investment themes (detailed in the following section). As is often the case, prices tend to consolidate after periods of upward movement, particularly within a durable trend, assuming the underlying fundamentals remain strong. There was no single factor driving performance in December, as many of the stocks in our portfolio recently have exhibited a degree of correlation.

Dec-24	1 Mth	3 Mth	1 yr	2 Yrs	3 Yrs	SI (ann)	SI (cum)
Fund (Net)	-2.1%	1.5%	14.5%	6.6%	7.9%	7.2%	29.3%
Blended Index	-1.4%	0.1%	8.0%	8.3%	5.3%	5.7%	22.2%
All Ords	-3.1%	-0.9%	11.4%	12.2%	6.9%	8.2%	33.6%
RBA Cash	0.4%	1.1%	4.5%	4.2%	3.2%	2.6%	10.0%

Update on Current Investment Themes

We continue to hold the same core investment themes as last month. This section provides an update on the key developments within each of the core themes within the Fund.

- ***Immigration Policy:*** On the executive order front, President Trump has declared a national emergency at the south-west border. He has deployed the military to begin mass deportations, beginning with non-citizen aliens that have committed a crime. The President has also ordered the Department of Homeland Security (DHS) to draw up a plan to secure the Southern border and will provide all necessary resources to achieve this goal. In addition, the new Congress has passed the Laken Riley Act in a bipartisan way, requiring the detainment of all illegal aliens who have committed or are accused of committing a crime. Trump aims to reinstate the "Remain in Mexico" asylum policy, but this is likely to be used as a bargaining chip for Mexico on trade. Currently, the US is still experiencing 100,000 border encounters each month. There is a backlog of around 5 million immigration cases that still needs to go through the courts. However, last year the DHS was only funded for around 40,000 detention beds. There were rumours in the Senate that a $100 billion reconciliation bill was being debated, a large enough sounding amount to signal to the electorate that the Republicans are serious about solving this issue. We continue to favour GEO Group. But with likely further tariffs to be imposed in various parts of the world, we also favour scanning equipment makers such as OSI Systems.
- ***Drill Baby Drill and AI Energy:*** Scott Bessent's 3-arrow plan involves producing more energy to bring inflation down. This 3-arrow approach has largely been confirmed by Trump's own messaging. At Davos, the President stated that he aims to bring energy prices down by around half. In addition, President Trump noted that Europe might be able to avoid tariffs if they purchase LNG from the US. In conjunction with a pledge to slow down federal government support for renewable energy and a huge need for electricity to

power AI data centres, we believe that the result will very likely be a boom in natural gas production. We are now seeing increasing evidence to triangulate and support this picture:

- GE Vernova, America's largest manufacturer of power equipment and one of only a few that has the capability to produce high-tech gas turbines, stated that:

  "in [its] power [segment], market demand for gas generation is driving significant orders growth. For the full year, we built approximately 20 gigawatts of gas orders, double last year's level…These agreements are tied to load growth in the US, partially driven by data centre hyperscaler demand associated with AI. Given our expansion plans to produce 70 to 80 heavy-duty gas turbines per year beginning in the second half of 2026, up from 48 this year, we are positioning to meet this demand. We expect to grow our gas equipment backlog considerably in 2025, even as we ramp to ship approximately 20 gigawatts annually starting in 2027 and expect to remain at that level going forward…We are seeing [grid equipment] orders accelerate in North America…with Power and Electrification [business segments], we expect these segments to continue to materially grow their backlogs in 2025 at better margins."

  GE noted that customers were willing to pay for premium slots in the outer years (2028, 2029) in order to secure supply of gas equipment.

- NextEra Energy, one of America's largest utility companies and one of the five largest infrastructure spenders, commented:

  "we have invested more than $150 billion in our nation's energy infrastructure over the last decade…over the next four years alone, we plan to invest roughly $120 billion across the country…However, one point that I believe is being overlooked is that power demand is everywhere across all sectors…And as demand for power increases across all customer classes as we advance our domestic economic agenda, so does the price of power unless we bring new generation online quickly to meet that demand…Given the current power demand environment, it is more important than ever to unleash all forms of electric generation."

  NextEra also announced a framework agreement with GE Vernova to build gas powered generation solutions. The CEO concluded that "the need to add to the country's power infrastructure is no longer in doubt."

Power remains the key constraint for AI development. We are invested in companies that enable power to flow to where it's needed, with a focus on gas. This includes companies such as Argan, Solaris Energy Infrastructure, Energy Services of America, Powell Industries, SmartSand, Archrock and Technip Energies.

- ***AI Infrastructure:*** We remain bullish on companies supplying data centre equipment, which is crucial for the computing power driving AI advancements. The expanding applications of AI are becoming increasingly evident. For example, Google's subsidiary, Isomorphic Labs, plans to begin clinical trials for AI-developed drugs next year. Prominent investor Stan Druckenmiller anticipates the arrival of general artificial intelligence by 2035. Furthermore, the potential for autonomous robotics is significant. NVIDIA believes robots will be the next major application of AI, envisioning a future where "digital twins" – virtual replicas of physical spaces like factories and distribution centres – will become the new foundation for training autonomous systems. This, combined with advancements in synthetic training, could revolutionize industries from manufacturing to autonomous driving.

  The demand for AI infrastructure is robust. Meta's planned capital expenditures are projected to rise significantly next year, indicative of continued investment in data centre expansion. The recently announced Stargate project, a collaboration between Microsoft and OpenAI, represents another $100 billion commitment to building out AI-focused data centres in the US. This is substantial when considering that, excluding NVIDIA, the "Magnificent 7" tech companies collectively spent around $225 billion on capital expenditures last year. While rapid growth has created some supply chain bottlenecks, as evidenced by recent challenges at Seagate, it is also driving up pricing power for key suppliers. Our investments in this space include companies like Celestica, IES Holdings, and Seagate, all of which are positioned to benefit from the ongoing build-out of AI infrastructure.

- ***Tariff Beneficiaries:*** We continue to look for businesses that will benefit as a result of potential tariffs. The tariff situation is dynamic and subject to potential negotiations with other nations. However, we're invested in companies that should benefit from their domestic operations being shielded from external competition, such as Whirlpool. As mentioned in the immigration policy section, we're also invested in companies that build equipment for scanning at the border to enforce the Trump administration's policies such as OSI Systems.
- ***Antimony:*** We will release a detailed note on the current supply and demand situation of this metal. We are invested in companies that are either currently producing the metal or will bring on supply within the next year. This includes Larvotto Resources, Mandalay Resources and Campine.
- ***Defence Weaponry Restocking:*** The ongoing war in Ukraine is accelerating a major restocking cycle for developed nations, as older weapons systems are depleted and replaced with more technologically advanced armaments. We believe this modernization trend will persist for several years. This shift is creating significant demand for specialized components, particularly in areas like radio frequency (RF) communication, which is increasingly crucial for the operation of modern weaponry. Separately, the commercial aerospace sector is experiencing a surge in demand for avionic replacement parts. This is driven by a combination of factors, including the slowdown in new aircraft production during the pandemic and Boeing's recent manufacturing challenges, coupled with record levels of international air travel. We are invested in companies well-positioned to benefit from both the defense and aerospace trends, including M-tron Industries and Innovative Solutions and Support.

Macro Update

While there has been much discussion about the possible impact of tariffs on the economy, inflation, interest rates and the stock market, we believe that much of it is overblown.

Our starting point is that the economy has now stabilised and is, once again, beginning to pick up steam. To give you an idea of its strength, in the fourth quarter of 2025, consumers increased the pace of nominal spending from about 4.5% year-over-year to around 5.5-6.0%. The remarkable point is that all of this has happened while personal and consumer loan growth is slowing. Not only are consumers spending more and borrowing more slowly, but they are also beginning to save more. Total deposits at the money-centre banks are increasing again for the first time since late 2021. On top of this, an increasing amount of savings is flowing to money market funds from both consumers and businesses at the fastest rate we've seen.

We believe we might be approaching a goldilocks situation for the next year. Consumers are able to earn and spend at high growth rates while falling rents allow the Fed to remain on hold.

If we quantify some of what's happening, nominal consumer spending is growing around 5.5% annualised. Savings are also growing around 5.5% per annum. Wages are, however, growing by only around 4.0%. This probably means that returns from financial assets are playing a role that is allowing for this dynamic, especially higher interest rates and stock prices.

In 2024, we estimate that the US imported around $3 trillion of goods with around 15 percent of that total coming from China. Assuming a 20% weighted average tariff rate and if nothing else changed, then the US would have an increased import bill of around $600 billion. This would represent around 2.5% of GDP. Given the still-heightened savings buffers of consumers, they could absorb this one-off shock over the course of a year. We estimate that the shock would amount to around 15% of the excess savings built up by consumers over Covid. The significant increase in capital expenditures, strength of the US dollar and reshoring of production would keep the economy stable. Indeed, if it is imports from overseas that are curtailed, the net impact of such a tariff policy on the jobs market is not necessarily negative.

While tariffs would provide a one-off shock to the price level of goods, this change must be considered within the context of possible minor reductions in federal spending, the possibility of energy prices falling and declining rent price growth. The picture for where inflation is headed overall is cloudy.

We continue to monitor the evolving situation and will adjust our investment posture if required.

Kind Regards,
Fawkes Capital Management

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