



April Monthly Report

Dear Investors

We are pleased to provide you with the April 2025 Monthly Report for the Fawkes Capital Fund (“Fund”). In this monthly report, we provide an update on:

- (1) Performance for April 2025;
- (2) Current macroeconomic landscape
- (3) Two recent stock purchases

This note will be a bit longer than usual because we explain 2 long-term stocks that we don’t often sell for this cheap in some detail.

Performance Update

Global equity markets experienced a tumultuous April 2025, characterised by a sharp downturn in the first half of the month followed by a significant rebound in the latter stages. Investor sentiment was heavily influenced by new US trade tariff announcements, which initially stoked fears of a global trade war and economic slowdown, before a partial easing of these concerns paved the way for a recovery.

The Fund delivered a positive net return of 5.35% over the month. This was driven largely by the portfolio’s macro positioning in response to Trump’s “Liberation Day” announcement. Our anticipation that equity markets would decline on the back of Trumps policy agenda played out at the beginning of the month. At the same time, gold prices continued to rise, supported by both private demand and official sector purchases. The Fund also generated gains from its short US dollar exposure, as global investors began pricing in higher recession odds and growing concerns around the credibility of US assets.

Apr-25	1 Mth	3 Mth	1 yr	2 Yrs	3 Yrs	SI (ann)	SI (cum)
Fund (Net)	5.3%	0.7%	5.3%	10.8%	5.3%	7.0%	31.2%
Blended Index	2.0%	-1.5%	6.7%	7.0%	5.4%	5.5%	23.2%
All Ords	3.6%	-4.0%	8.8%	9.4%	6.7%	7.6%	33.9%
RBA Cash	0.3%	1.0%	4.4%	4.3%	3.7%	2.8%	11.6%

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.

While the drawdown in the first half of April was severe, leading to a strong start to the month for the Fund, what we underestimated was how quickly markets would rebound in light of growing expectations that the administration would moderate its stance and avoid triggering a recession. The rapid repricing caught many investors wrong-footed. Fortunately, by this point the short exposure to equities in the portfolio had been removed and returns were largely flat for the remainder of the month.

The volatility and changing policy landscape is creating significant opportunities. Market participants have struggled during this period of uncertainty. While most participants prefer to focus on more bottom-up signals, paying less attention to how the macro environment will evolve, we view macro as central to navigating this moment and protecting investors from future pullbacks in equity markets. When government actions have broad-based market impacts, correctly anticipating their consequences can meaningfully add value.

So far, the good news has continued into May, with satisfactory performance month-to-date. We remain focused on monitoring events that could challenge or invalidate our investment theses.



Macro Update

On fiscal policy, Trump 2.0 is gradually beginning to resemble Trump 1.0. House Republicans have recently passed a bill that would establish the U.S. budget framework for the next decade via the reconciliation process. The Congressional Budget Office (CBO) has now released its estimate of the proposal's budgetary impact — and the numbers suggest a clear fiscal expansion.

In short, the plan would stimulate the US economy. At the core of the plan is a full extension of the tax cuts implemented during Trump's first term. According to the CBO, this would add approximately \$1 trillion to the deficit over 2026 and 2027. To put that in perspective, it's the fiscal equivalent of the US government injecting two-thirds of Australia's entire annual GDP into its economy over the next two years. As a share of US consumption, these tax cuts could boost spending by around 5% of GDP over that period, a substantial tailwind.

While the CBO does not score tariff revenues, we estimate that in a steady-state scenario, the proposed tariffs could generate roughly \$300 billion annually. This cost would be shared between foreign exporters and US consumers. Assuming a 60/40 burden split between domestic and foreign actors, the effective drag on the economy would be around \$175 billion, notably smaller than the fiscal stimulus that is set to arrive.

While the final spending package has yet to pass, it's clear that the Senate is pushing for a more expansive version than the House. And despite their usual objections, the hard-right faction of the Republican Party has, in the end, largely acquiesced.

The implications of this new spending package are becoming clear. We now hold greater conviction that a US recession is unlikely. Economic growth, and by extension corporate earnings growth, may continue unabated.

That said, the political acceptance of this stimulus has revived concerns about the long-term sustainability of US government debt, arguably more so than in the 2018 tax cut cycle. There's good reason to be worried. First off, the government's budget deficit is already running at around 6-7% of GDP. The new Republican plan would add another couple of points on top each year. Second, interest rates are starting from a much higher base than they were in 2018. By 2034, CBO estimates that the Federal Government's debt to GDP ratio could rise to around 125%. If the average interest cost of that debt settles around 4% that implies the government would be devoting roughly 5% of GDP annually to interest payments alone.

If the rumours are to be believed, this fiscal expansion may soon be joined by a looser monetary stance. Chair Powell's term ends in May 2026, at which point Trump would have the opportunity to appoint a new Federal Reserve Chair, potentially someone more politically aligned and willing to cut rates. Combined with expansive fiscal policy, this could provide a powerful boost to the economy.

Taken together, we've gained greater conviction that fiscal stimulus of 1–1.5% of GDP will more than offset the drag from tariffs, keeping the economy on solid footing. Against this backdrop, we expect equities to continue rallying through the remainder of the year and do not foresee rate cuts from the Fed in 2025. While trade negotiations will likely remain contentious — particularly around non-tariff barriers — and may contribute to market volatility, we now see a near-term recession as highly unlikely.

Recent Portfolio Additions

The broader market decline, along with company-specific concerns, has pushed the share prices of Alphabet and UnitedHealth Group to what we view as deeply undervalued levels. In our view, both companies are high-quality compounders with strong long-term earnings power. Short-term fears, which we believe are unlikely to impair their long-term trajectory, have driven investors to indiscriminately sell these names. In our judgment, the current valuations significantly understate the underlying quality and resilience of their businesses.

Google

Let's start with Google. The market has recently become fearful that, with the advent of AI chatbots, competition will kill Google's advertising business. This line of thought has driven investors to dump the stock with maximum pressure



arriving when an Apple representative, during an antitrust court case, said that it saw declining Google searches on iOS for the first time in April.

However, we believe the fear of declining ad revenues is misplaced. There are a few reasons why.

- **Resilient Growth Despite AI Adoption:** Over the last 2-3 years when AI chatbot adoption has exploded from essentially no users to some estimates of 1 billion users worldwide, Google's revenues have grown from \$283 billion to \$350 billion. That's an 11% annual growth rate, even with peak hype around AI. If anything, we believe the most aggressive phase of chatbot adoption is behind us. It stands to reason that slower adoption from here is unlikely to reverse or even meaningfully impair revenue growth.
- **Enduring AI Search Advantages:** Google's ability to pair its own search index with LLMs offers a unique edge in delivering timely, relevant answers – something standalone models often struggle with. For instance, LLMs are notoriously poor at understanding time-sensitive queries, such as sports scores, news events, or product availability. Google's real-time data advantage is not easily replicable.
- **User Habits and Platform Stickiness:** Google already has a natural advantage in being the place where people go to ask their questions already. Microsoft has found this out the hard way as it pushes AI tools into its software ecosystem, reportedly scaling back its data centre buildout in response to lukewarm adoption. Google, by contrast, is integrating AI features into products that users already rely on daily, from Search and Gmail to Maps and Docs, making the transition seamless and sticky.
- **Contextual AI Requires Deep Data:** The next frontier in AI utility lies in its ability to understand user context. To be truly useful, AI will need access to workplace and personal data to tailor responses. Realistically, only two companies have this depth of structured, user-level data at scale: Google and Microsoft. That gives Google an embedded advantage as contextual AI evolves.
- **Product Integration Unlocks Differentiation:** Google's unmatched ability to bundle services strengthens its competitive moat. For example, it's the only company with a fully geolocated index of websites. Combining this with tools like Gmail and Maps allows Google to provide more relevant, comprehensive answers than any standalone AI agent. Consumers tend to converge around the platform they perceive to offer the best utility, and Google is positioning itself to win that battle.

Google's leadership in AI enables two key revenue opportunities:

- (i) charging directly for AI tools, which supports the continued growth of its cloud business, and
- (ii) bundling those tools into a cohesive, high-utility interface that reinforces platform stickiness.

Importantly, user attention, and advertiser budgets, will likely continue to centre around Google Search for the reasons outlined above. In "AI mode," advertisers can still reach audiences much as before. Similar concerns about monetisation surfaced in the early days of Search, yet Google proved it could integrate advertising seamlessly into its core product. As long as the platform remains the natural destination for finding information, it will continue to find ways to monetise user intent effectively.

Meanwhile, competitors are discovering just how difficult it is to sustain progress in large language model development. OpenAI has repeatedly delayed the release of GPT-5, while Meta's Behemoth LLM has faced performance issues and missed timelines. Apple appears to have deprioritised in-house AI development, and Microsoft's model access is contingent on its partnership with OpenAI, a deal currently set to expire in 2030 absent renegotiation. Amazon, for its part, has struggled to gain meaningful traction.

In contrast, Google has already released some of the most capable LLMs to market and continues to iterate quickly. It also benefits from a more robust and integrated business model than newer challengers. For example, companies like Perplexity lack a meaningful revenue stream and are heavily reliant on ongoing venture capital funding. OpenAI's ChatGPT charges a subscription, but its long-term user economics remain unproven. If Google is able to deliver a



superior and more affordable product, while also capturing the largest share of user attention, these aggregators may struggle to maintain the financial backing needed to scale.

One of Google's most underappreciated advantages in AI is its infrastructure. Advanced AI development is constrained by access to compute power, which is currently being rationed by GPU manufacturers. Unlike most competitors, Google has been designing and refining its own custom processors (TPUs) for decades. These chips give the company greater control over its AI development cycle, enabling faster experimentation and cheaper inference at scale. In the trial-and-error world of model development, compute power is critical – and Google has it in spades.

If Google were to spin out its chip division, it could arguably command a valuation comparable to NVIDIA's, given its technical depth and strategic importance. Even if the advertising business were to slow, Google's rapidly growing cloud division, now powered by proprietary infrastructure and increasingly integrated with its AI stack, offers a credible growth offset. Recent quarters have shown accelerating momentum in cloud revenue, further reinforcing the company's multi-engine growth model.

To understand why user attention still matters so much, it's worth stepping back in time. In the era of broadcast and print media, media moguls like Rupert Murdoch held enormous power due to the scarcity of audience attention. Whether through local newspapers or TV stations, media was a game of concentration: limited viewer time meant that only a few dominant outlets thrived in each city. These outlets, with their larger audiences, commanded premium ad rates, reinvested in content, and further widened the gap with smaller competitors. As a result, the industry tended to consolidate into the hands of a few highly profitable enterprises.

Times have obviously changed. What was true of these media companies in decades past is now true of digital companies today. News is now read online and people, especially of the younger generation, connect via social media. Google and Meta, in particular, worked out how to advertise *directly* to a specific customer. A targeted approach has proved more effective than advertising at large on TV or newspaper. Advertisers flocked to the new approach.

Advertising will always remain a core function of business. Even the best business or product in the world is worthless unless it reaches the minds of potential customers. National advertising, especially in the US, created a lasting competitive edge by allowing businesses to scale beyond their local markets. With centralised operations and broader reach, national firms reduced their cost per unit relative to smaller competitors. As advertising costs rose, larger companies could afford premium placements during major sporting events or prime-time news that smaller rivals simply couldn't match.

This dynamic continues in the digital world. As Google's search engine scaled, its algorithm became more effective. Users want fast, relevant answers — and Google's underlying data gives it an unmatched ability to deliver them. Its model learns what is most useful by observing aggregate user behaviour: when millions of people consistently click on certain answers, Google uses that feedback loop to prioritise results for the next user. By being able to combine its product suite of Maps, Search, shopping and news together into an integrated product ecosystem, we believe Google still offers the best AI solution for what customers will want overall.

Critically, Google is more than just a search engine — it's a platform business. When it builds something new, it can roll it out quickly to billions of users. From driverless cars and video sharing to TV streaming, cloud services, and productivity tools, Google has established leading positions across multiple categories. Its platform structure cuts out intermediaries and enables high-margin scalability. Whether or not AI becomes as transformative as many expect, Google is already positioned to monetise the trend through its infrastructure, distribution, and innovation culture. The innovative culture of the business means it continues to come up with new ways to grow and generate more earnings per share.

We believe Google will maintain its market share with time. The company's advantages in resourcing and providing the customer with a holistic approach to AI will allow it to continue growing earnings per share at a fast rate. Google has, historically, never traded at current valuations. It has never sustained a forward P/E multiple as low as 14x



forward earnings. Its TPU chip business alone could justify today's market capitalisation. Absent a recession, which we no longer forecast, we see Google's stock in the low \$150s as a compelling long-term compounding opportunity.

UnitedHealth Group

UnitedHealth Group's stock price has suffered a string of bad news headlines in recent months:

- The CEO of its insurance unit was murdered in the high-profile Luigi Mangione case.
- The company recently revised its earnings guidance from \$27 per share to \$26 per share, before withdrawing it entirely in April.
- The CEO of the group recently resigned citing "personal" reasons.
- Reports have also emerged of a federal investigation into the company's billing practices.

While these developments have understandably raised concerns, we do not believe they impair the long-term earnings power of the business. In fact, we would argue the opposite: the company's ability to continue operating effectively through this period only underscores the durability of its earnings engine. The core fundamentals remain intact, and we view the recent price weakness as an opportunity to increase exposure to a high-quality compounder at an attractive valuation.

We address each concern in turn:

- **Tragic events and reputational scrutiny:** The tragic killing of the CEO of UnitedHealth's insurance division has rightly prompted broader criticism of the US healthcare system. However, no material regulatory changes have been introduced that would affect the industry's structural profitability. While public frustration is understandable, we believe the absence of policy response highlights the entrenched position and pricing power of large health insurers.
- **Earnings guidance revision:** The reduction and subsequent withdrawal of earnings guidance reflects an uptick in claims severity and cost, a development we are monitoring closely. However, the industry's oligopolistic structure allows for premium adjustments, and we expect pricing to re-align in the next rate cycle to preserve margins.
- **Executive turnover:** We do not wish to speculate on the Group CEO's resignation, especially given the broader context. Given recent developments, it could be for any number of reasons.
- **Regulatory investigations:** Federal scrutiny into UnitedHealth's billing practices has been ongoing for over a year without charges being filed. Past cases have been dismissed in civil court. At present, we view the legal overhang as limited and largely priced in.

There is one area of legitimate concern that will likely have a negative impact on the company's earnings. As part of ongoing budget negotiations, House Republicans are proposing to tighten eligibility for Medicare by introducing an 80-hour-per-month work requirement. This measure is aimed at reducing federal spending and has been positioned as a cost-saving offset to broader fiscal expansion. Some policy think tanks estimate that such a requirement could reduce Medicare enrolment by approximately 10%, or roughly 7 million people nationwide.

This, combined with the other recent headlines, has contributed to a significant drawdown in UnitedHealth's share price, which has fallen around 55% from recent highs.

We remain sceptical that these forecasts will play out as expected. For one, when the state of Georgia introduced work requirements for Medicaid in mid-2023, enrolment rates continued to rise, a signal that the policy may be less restrictive in practice than headlines suggest. Secondly, from a business performance standpoint, UnitedHealth was generating nearly the same level of profit when its revenue base was 10% smaller. This highlights the company's ability to protect margins even under moderate top-line pressure.

The underlying economics of UnitedHealth Group's business remain highly attractive. It's no coincidence that private health insurers play such a dominant role in the US – even the rollout of the Affordable Care Act relied on private companies as delivery vehicles. Compared to other developed countries, US healthcare is significantly more expensive, while outcomes are often poorer. Systems such as co-pays and high deductibles act as deterrents to



care, shifting cost burdens to patients and reducing utilisation, all while preserving insurer profitability. This imbalance contributes to a return on equity of roughly 25%.

The industry's oligopolistic structure further reinforces these dynamics. National scale confers a clear advantage, particularly in areas like advertising and back-office operations, where centralisation reduces cost and increases pricing power. Unlike local insurers, national players can pool risk more effectively, optimise pricing, and extract efficiencies across large administrative functions that don't require proximity to customers.

But not all oligopolies generate supernormal profits. Industries like container shipping, cinema exhibition, and even Australian airlines in the 1990s show that concentrated market structure doesn't always lead to pricing power or high returns. The difference in US health insurance lies in its economic and cultural foundations.

First, pricing behaviour is rational and consistent. Premiums are typically set on a cost-plus basis with generous margins and are increased annually to more than offset rising healthcare costs. This creates a system where insurers can adjust pricing dynamically based on loss experience – akin to a casino that can tilt the odds as it sees the results come in.

Second, the industry has a deeply analytical culture. Underwriting and pricing rely heavily on probability theory, actuarial analysis, and risk stratification. When all players use a common, disciplined approach to pricing, and adjust premiums predictably, it fosters rational, profit-preserving behaviour across the market.

Third, the insurance business model is relatively capital-light. Unlike manufacturers or utilities, insurers are primarily selling contingent promises – policies that are low-cost to issue but highly recurring in nature. As a result, they face less pressure to compete on price to cover fixed costs, reducing the risk of margin erosion even in a concentrated industry.

These structural and behavioural features help explain why US health insurers generate sustainably high returns, and why we see dislocations caused by non-recurring news as compelling entry points.

The changes we've seen so far appear to be one-off in nature. Higher claims costs are temporary, as health insurance policies in the US are repriced annually, allowing premiums to adjust. The proposed Republican changes to Medicare may reset enrolment levels, but like the Georgia example, we expect growth to resume thereafter. Meanwhile, the commercial side of the business remains a robust engine for long-term earnings growth.

With the underlying earnings power of the business intact, what matters now is the price we're paying relative to that future. On this front, we see clear value. UnitedHealth's share price declined nearly 60% in the span of a few weeks. Even accounting for some operating leverage, we believe it is highly unlikely that the long-term earnings power of the business has declined by anything close to that amount, nor that the core economics of the industry have changed.

At current levels, the stock trades around 10x our forecast 2027 earnings. Given the margin of safety this offers relative to the likely range of outcomes once the dust settles, which may take time, we believe UnitedHealth represents compelling long-term compounding value.

Kind Regards,
Fawkes Capital Management

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