



## June Monthly Report

Dear Investors

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

- (1) Performance for June 2025;
- (2) Macro update;
- (3) Update on recent investments

### Performance Update

In June, the Fund gave back some ground after a series of strong months. Pullbacks of this nature are to be expected, particularly following sharp upward moves. The retracement was not attributable to any single catalyst but rather reflected a broad-based softening across several of our holdings. Many of these stocks had outperformed materially in previous months and simply consolidated as the broader market advanced. We view this as a healthy correction within an ongoing positive trend rather than the start of a reversal.

| Jun-25               | 1 Mth | 3 Mth | 1 yr  | 2 Yrs | 3 Yrs | SI (ann) | SI (cum) |
|----------------------|-------|-------|-------|-------|-------|----------|----------|
| <b>Fund (Net)</b>    | -3.2% | 7.7%  | 5.7%  | 9.3%  | 5.1%  | 7.3%     | 34.1%    |
| <b>Blended Index</b> | 0.9%  | 5.2%  | 8.8%  | 8.7%  | 8.8%  | 6.1%     | 27.1%    |
| <b>All Ords</b>      | 1.4%  | 9.5%  | 13.2% | 12.9% | 13.5% | 8.7%     | 41.5%    |
| <b>RBA Cash</b>      | 0.3%  | 1.0%  | 4.3%  | 4.3%  | 3.9%  | 2.8%     | 12.3%    |

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.

Looking ahead, performance in July has so far been encouraging, with gains comfortably exceeding expectations. However, the durability of these gains in the near term may be influenced by developments in trade negotiations at the end of the month. This is an area we continue to monitor closely.

Importantly, our broader thesis remains intact. Even if tariffs between the US and Europe escalate, we believe any economic impact will be temporary and unlikely to trigger a recession. The US consumer remains resilient, corporate buybacks are strong, and liquidity continues to support risk assets. Against this backdrop, we expect equity markets to remain on an upward trajectory, providing a constructive environment for our investment strategy.

### Macro Update

Our view remains unchanged from last month. Should tariffs between the US and Europe increase, we expect any escalation to be temporary and resolved through compromise. Other potential “boomerang” tariffs aimed at countries such as Canada and Mexico are either too small to have a meaningful global impact or involve only minor rate adjustments relative to current levels. Similarly, sector-specific tariffs are unlikely to have a significant effect given the narrow industries they target. While there is some risk that our long equity positions could experience a temporary drawdown if no deal is reached between the US and Europe by 1 August, we believe any weakness would be short-lived and that a US recession remains unlikely.

The American consumer continues to demonstrate resilience. This quarter, spending levels have largely been maintained despite tariff-related price increases, with households drawing modestly on their savings to sustain consumption patterns. Importantly, the stock of savings remains elevated – sufficient to absorb higher prices without forcing a reduction in spending. We see little reason for this behaviour to change in the medium term.



The Trump Administration appears to be engineering the conditions for a financial bubble. Its policy mix is turning the economy into something resembling a casino. The decision to allow 401(k) accounts – the US equivalent of Australian superannuation funds – to invest in cryptocurrencies will further fuel the speculative frenzy already taking shape. The removal of the head of the Public Company Accounting Oversight Board (PCAOB), an independent body responsible for overseeing the audits of public companies and broker-dealers, similarly encourages promotional excess. Much like during the 2022 “everything bubble,” speculative behaviour is resurfacing, with meme stocks once again surging. When the watchdogs of the financial system are sidelined, speculation runs unchecked.

### **Update on Investments**

#### ***Alphabet***

We continue to believe Alphabet, the parent company of Google, is under-estimated by the market. Since our last update, its competitive position has strengthened further for several reasons:

- ***Content Advantage:*** Cloudflare, one of the key gatekeepers of internet traffic, has started blocking AI scraping robots from accessing web content unless a fee is paid. Crucially, it cannot block access to Google without making the underlying webpages effectively invisible. This unique position gives Google privileged access to data for training its AI models.
- ***Integrated Product Ecosystem:*** Google can seamlessly embed its other products into AI-generated answers, leveraging its unmatched data assets. No competitor has successfully geolocated or indexed websites onto maps at the same scale, giving Google a distinct edge in delivering context-rich responses.
- ***Cloud Growth Momentum:*** Google Cloud continues to expand rapidly, driven by its AI product suite. We believe the market underestimates how cloud growth will more than offset any potential losses in the search segment.

In our previous update, we highlighted several core investment themes and concepts that underpin our portfolio positioning. We provide an update on some of these as well as several new exposures in the portfolio.

#### ***German Infrastructure Spending Surge***

Germany has embarked on a significant fiscal expansion, reversing years of restraint. In response to prolonged low growth and rising concerns over national defence, the federal government has dramatically increased spending. Constitutional changes have effectively removed the “debt brake” that capped expenditure, with defence spending and allocations to a new special infrastructure fund now excluded from budget limits. These initiatives are expected to materially boost economic activity, particularly in construction and energy infrastructure. We have identified two beneficiaries of this policy shift:

- ***Strabag*** – Germany’s largest private construction company by revenue, deriving most of its work from public sector contracts.
- ***Friedrich Vorwerk*** – a specialist in energy projects and pipelines, with revenues entirely sourced from Germany.

Given the scale of spending and the constrained supply of construction services, we expect both revenues and margins for these companies to improve significantly into 2026.

#### ***Defence and Missile Spending Expansion***

Trump’s “America First” approach, combined with the ongoing war in Ukraine, has heightened security concerns across Europe and NATO. Facing the need to fund their own defence, NATO members have pledged to raise defence spending to 5% of GDP annually over the next five years – a substantial increase from current levels, which are roughly half that pace. The immediate priority is replenishing stocks of Patriot missiles depleted by conflicts in the Middle East and Ukraine. Here, we are invested in:

- ***Park Aerospace*** – the sole supplier of heat-resistant ablative and composite materials for the Patriot missile program.
- ***AVIO*** – Europe’s primary manufacturer for missile systems and space launch technology, positioned to benefit from rising EU defence and space budgets.



These structural shifts in spending provide a powerful tailwind for our investments in the sector.

### **Critical Minerals and Rare Commodities**

China's recent embargo on magnet exports highlighted how critical minerals can be weaponised in trade negotiations. In response, the US is actively reshaping the economics of its domestic supply chain. The Department of Defense recently signed a landmark agreement with MP Materials, owner of the largest rare earth mine in the US. This deal includes a guaranteed offtake for MP's entire future production at a price floor double the current market price, providing a strong incentive to scale domestic output.

Separately, the Department of Commerce ruled that China has been unfairly dumping graphite into the US and proposed a 93.5% tariff on imported Chinese graphite. This move is set to bifurcate the global graphite market, mirroring dynamics we have already seen with antimony, gallium, and germanium. Our earlier thesis on this market split is now materialising, and additional tariffs on critical minerals and batteries are expected in the coming months. The administration's broader goal is clear – to reshore the manufacturing supply chain for industries of the future.

In this context, companies building graphite-based anode manufacturing capacity in the US, such as Syrah Resources, Westwater Resources, and Novonix, stand to benefit significantly from this changing economic landscape.

### **The Future of Artificial Intelligence (AI) Infrastructure**

AI adoption continues to accelerate, expanding beyond search and chatbots into robotics and physical automation. Chinese firm Unitree has launched a humanoid robot priced at just \$6,000, while Teradyne has developed a new robotic arm with advanced sensing capabilities for Amazon warehouses. Powered by AI, this system can efficiently handle packages of varying sizes, enabling Amazon to automate up to 80% of its package handling processes.

To support these advances, NVIDIA faces mounting pressure to differentiate its graphics processing units (GPUs) from competitors such as AMD and hyperscalers' in-house solutions. Continuing the tradition of Moore's Law, NVIDIA is driving data centre efficiency by (i) packing GPUs more densely to reduce electron travel distance and (ii) lowering voltage at the chip level rather than the data centre level to minimise energy loss. These improvements have been made possible by the introduction of liquid cooling.

NVIDIA's next-generation "Rubin" chips will deliver power to the rack at 800 volts, a dramatic leap from the 48 volts in its current Blackwell series. This shift requires a transition from traditional silicon to silicon carbide and gallium nitride chips. Here, Navitas leads in next-generation chip materials, while AEHR Test Systems dominates the testing equipment segment – both critical to NVIDIA's cost and performance optimisation.

Meanwhile, our thesis on fibre optic demand is beginning to play out inside and outside data centres. Hyperscalers are increasingly interlinking facilities to dynamically reroute workflows to available capacity. The recent partnership between Lightera and Optical Cable Corporation could be transformative, enabling Optical Cable to leverage its domestic manufacturing base – free from tariffs – to supply advanced optical cables to data centres.

While we hold other smaller investments, the themes outlined above represent the major forecasts driving our current exposure. We will provide further detail on our smaller positions in the coming month.

Kind Regards,

Fawkes Capital Management

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