



27 August 2025

July Monthly Report

Dear Investors

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

- (1) Update our performance for July 2025;
- (2) Macro update; and
- (3) Update on Recent Investments

Performance Update

The Fund delivered a satisfactory return of +5.2% in July, with gains driven by several high-conviction themes outlined in our previous monthly update. The portfolio’s exposure to equities remains higher than average historical levels, reflecting both our constructive macro outlook as well as our levels of conviction in our stock theses which are outlined in more detail below. Notably, our thesis on German infrastructure spending began to materialise earlier than anticipated, with Friedrich Vorwerk benefiting from significant new orders for energy infrastructure projects.

Jul-25	1 Mth	3 Mth	1 yr	2 Yrs	3 Yrs	SI (ann)	SI (cum)
Fund (Net)	5.2%	7.6%	13.9%	11.6%	7.0%	8.4%	41.2%
Blended Index	1.5%	4.7%	8.2%	8.6%	8.2%	6.3%	29.0%
All Ords	2.6%	8.4%	11.9%	12.7%	12.1%	9.2%	45.2%
RBA Cash	0.3%	1.0%	4.3%	4.3%	4.0%	2.8%	12.7%

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.

We also saw positive contributions from our exposures to the future of AI infrastructure, as well as continued strength in our long-term position in Google, where recent developments have reinforced our conviction in the stock’s undervaluation.

Looking ahead, while some short-term risks remain on the horizon, the Fund’s performance in August so far has been satisfactory.

Macro Update:

We’ll keep this section brief, as there isn’t much new to consider. Despite tariffs, the US economy remains in solid shape. Q2 data indicates that consumers once again dipped into their savings to support an accelerated pace of spending growth, which we estimate at around 7% year-over-year. Given both the consumer’s demonstrated willingness to dissave and the still-substantial stockpile of savings, we expect robust spending to continue. Encouragingly, the industrial economy also showed signs of acceleration during the second quarter – a development that strengthens our conviction in the resilience of the broader economy.

On tariffs, the market is beginning to better understand where rates are likely to land, somewhere in the 15–20% range, in aggregate. A higher level of tariffs didn’t trigger a recession in Q2, so we see little reason to believe a lower level would cause one in Q3 or Q4. Importantly, there is a growing likelihood that the Supreme Court will rule the Trump administration’s use of the International Emergency Economic Powers Act (IEEPA) as a legal basis for tariffs



to be unlawful. The rationale? A trade deficit hardly constitutes an “emergency” under the statute, particularly given it has persisted for decades. If this decision comes to pass, the court may order previously paid tariffs to be refunded. Other legal avenues available to the administration for imposing tariffs appear weaker and far less flexible. The main tail risk to our outlook is a potential escalation in secondary sanctions on Chinese imports of Russian energy. While we think this remains unlikely, it is the most material risk currently on our radar.

Although the US jobs market has softened modestly, the faster-moving, forward-looking data we track has not shown further deterioration. We continue to monitor all relevant indicators but, on balance, we believe the macroeconomic backdrop remains constructive.

Update on Recent Investments

We’ve kept the investment trends our portfolio is positioned in largely unchanged. While the thematic exposures remain consistent, we have refined the way we express these views by shifting into more attractively valued stocks. As our research deepens within each theme, we often uncover more efficient or compelling vehicles to capture the same exposure.

This month, we also introduced a new theme – Chinese AI development – where we believe we have a differentiated and well-founded thesis. We elaborate on this further below.

1. German Infrastructure

Our investments here are unchanged with Friedrich Vorwerk showing significant earnings momentum in Q2. The company cited the potential for far more significant growth as a result of the hydrogen energy pipeline plan the German Cabinet recently passed. The potential scale of the opportunity would be 4-5x more than the revenue the company generated in the last 12 months. The German Cabinet also passed their spending proposal for infrastructure work starting in 2026. We continue to believe that we are early in this infrastructure cycle, with both Friedrich Vorwerk and Strabag well positioned to benefit from the upcoming surge in public sector demand.

2. Western AI beneficiaries

The next iteration of NVIDIA’s GPU architecture, Rubin, is scheduled for release in 2026 and is set to significantly alter the energy infrastructure within data centres. We are actively evaluating which companies stand to benefit most from these shifts. The core architectural changes will likely drive:

- Increased demand for supercapacitors – miniature batteries that store energy at the chip level.
- Greater reliance on advanced semiconductors that enable voltage step-down closer to the chip, with silicon carbide (SiC) and gallium nitride (GaN) emerging as preferred materials over traditional silicon.

We are currently assessing a handful of names that may be well positioned, including AEHR Test Systems, Navitas Semiconductor, Delta Electronics, and Aixtron.

It’s increasingly clear to us that we will hit an energy limitation on data centre development probably around the middle to end of next year. Companies like Argan, Power Solutions International, Tecogen, Bloom Energy, Willdan and Solaris may benefit. While there will be many ways to take advantage of this shortage, we believe the current valuation of these stocks does not yet reflect the future opportunity set, and we are waiting for more attractive entry points.

There are many that draw similarities between the current rapid pace of data centre development and the many miles of fibre optic cable that were laid down when the internet was invented. We believe that this analogy is flawed. Fibre infrastructure, once laid, does not scale proportionally with demand. The system does not require a doubling of fibre to support a doubling of usage. In contrast, AI inference and model training are compute and power-intensive tasks that scale non-linearly with usage, and the infrastructure must grow accordingly. A more material threat to demand



would be a breakthrough in compute efficiency – a new way of achieving the same computational output with less energy. We continue to monitor this risk.

In this evolving landscape, stock selection is becoming increasingly important. Emerging approaches to compute architecture are beginning to supersede legacy methods. One example is NVIDIA's move to co-package optics directly with its chips. If this approach proves successful, which remains uncertain, it could dramatically reduce demand for discrete fibre optic cables and transceivers. As always, we believe that change creates opportunity, provided we can identify and understand these shifts ahead of the market.

The release of ChatGPT-5 brought only incremental improvements, and AWS growth has notably lagged Microsoft and Google, who have proprietary AI models. We believe the market is only beginning to appreciate Google's AI leadership. The company controls the full web stack – search, browser, maps, YouTube, and more – and has now begun commercialising its TPU (Tensor Processing Unit), a chip it has developed over the past decade. We believe TPUs are the only real challenger to NVIDIA's GPUs.

In its most recent quarterly earnings call, Google announced plans to offer its TPUs externally – a decision that could unlock significant standalone value. If this unit were valued in line with NVIDIA's GPU business, we believe Alphabet could justify a valuation multiple closer to 50x earnings, rather than its current ~20x. While regulatory risks remain – particularly the pending antitrust remedy involving its Chrome and ad-tech businesses – we believe the core business is deeply undervalued, barring an extreme outcome such as the forced divestiture of Chrome.

3. Chinese AI Development

It is becoming increasingly clear that the Chinese Communist Party (CCP) views the AI race as existential. Just as the Space Race defined global power dynamics in the 20th century, the AI race may determine which nations project influence in the 21st.

Historically, software allowed us to automate tasks using deductive logic, where a given input reliably produces a known output. Its strength – certainty – is also its weakness: rigidity. AI, however, is built on inductive reasoning, enabling automation where inputs and conditions vary.

This is particularly transformative in robotics and manufacturing. For example, Amazon previously struggled to automate warehouses due to the sheer variability of packages in size, shape, material, and orientation. Today, working with Teradyne, it has deployed robots capable of dealing with that complexity. Similarly, autonomous vehicles must make split-second decisions based on sensor data – tasks that were previously infeasible without AI's pattern recognition capabilities. These developments pose a direct threat to China's manufacturing and industrial dominance, and we believe the CCP understands the stakes.

An AI Arms Race in Datacentres

China's response is already underway. Roughly two to three years behind the US, Chinese hyperscalers have begun an aggressive push into datacentre development. This includes both domestic construction and, critically, the renting of computing power from datacentres in Malaysia.

Why Malaysia? Because it offers a regulatory workaround. Due to US export controls, China cannot import the latest NVIDIA GPUs. However, Malaysian datacentres are not subject to those restrictions and can house the cutting-edge chips Chinese firms need. Renting compute power from Malaysia is not only legally viable, it is also more cost-efficient than building onshore capacity with inferior chips.

Malaysia, as a result, is poised to become the fastest-growing energy demand market in the world, even surpassing the US. We are in the early stages of positioning the portfolio to benefit from this theme through exposure to Malaysian energy producers and grid service providers. Many of these companies are growing revenues at 150% annually but are still trading at 10–15x earnings. We believe this is an asymmetric opportunity.



An Overlooked Beneficiary: Chongqing Machinery

While many Chinese AI-related companies now appear expensive, we have identified a compelling exception: Chongqing Machinery. Through its joint venture with Cummins, the company is one of just three major producers of high-horsepower diesel backup generators in China. These generators are essential for AI datacentres and broader grid resiliency.

Global demand for large-scale generators has surged. For example, Generac recently estimated a global shortage of 5,000 high-end diesel generators in 2026, each priced around US\$1 million. Chinese manufacturer China Yuchai has publicly stated it is turning away business due to capacity constraints, even after accounting for planned expansions.

In contrast, Chongqing Machinery is in expansion mode and trading at attractive valuations. We initiated our position at a forward P/E of 7.5x, with profits growing at ~50% per annum. Adjusting for the firm's significant net cash and liquid securities, the enterprise value multiple falls to ~3.8x earnings. As its new manufacturing capacity ramps up in 2026, we expect earnings growth to accelerate further.

4. Defense

We continue to hold positions in two companies exposed to rising global defense spending: Park Aerospace and AVIO SpA.

Park Aerospace manufactures high-performance composite materials (ablatives) used in jet engines and missile systems. Its products are essential to both commercial aerospace and defense applications. Even in the event of a ceasefire in Ukraine, demand appears resilient. Notably, President Zelensky has reached an agreement with former President Trump to purchase \$100 billion in military equipment, funded by rising European defense budgets. Anticipating only a temporary ceasefire, Ukraine has already requested 10 additional Patriot missile systems, which require materials that Park Aerospace supplies. Moreover, ongoing demand for commercial engines further supports the company's growth outlook.

AVIO SpA., based in Italy, is a key European player in satellite launch and missile propulsion systems. Business momentum has picked up sharply since the European Space Agency awarded AVIO control over Vega-C satellite launches in 2024. The number of low-Earth orbit satellite launches is expanding rapidly, driven by both military and commercial needs. The role of Starlink in the Ukraine war highlighted how critical it is to have sovereign or private satellite networks to support secure communications.

In parallel, companies like Maxar are seeing increased demand for high-resolution satellite imagery to support military operations. Major US tech firms are also developing proprietary satellite networks for internal communications. Until recently, Europe lagged in satellite deployment. That has changed. Recognising the strategic importance of space-based infrastructure, Ursula von der Leyen's budget has earmarked significant funding for new launches, with a goal of increasing from 2 to 8 launches per year in the near term.

AVIO is well-positioned to benefit from this surge in satellite and missile demand. The company also supplies propellants for European missile stockpiles being replenished due to the Ukraine conflict. We initiated our position at an attractive valuation, around 15x forward earnings, with a strong conviction in the multi-year growth trajectory.

5. Commodities

We continue to hold selective positions across commodity markets where we see compelling supply-demand imbalances and policy-driven catalysts. Below, we summarise our current theses for key commodity exposures.

Antimony remains a core position. As we've written in previous updates, we expect sustained price strength driven by declining ore grades globally and increasingly constrained supply. We believe Felix Gold is well-positioned to capitalise on this dynamic, yet its current valuation does not adequately reflect the company's upside potential. We also see tungsten as a potential next-in-line beneficiary of supply-side tightening. The CCP has begun rationing tungsten exports, a tactic we've seen previously with antimony. Despite facing financial difficulties in recent years, which we believe are now largely resolved, EQR Resources may be a significant beneficiary of higher prices.



According to management, improved ore grades expected over the next 6–9 months could enable the company to generate ~\$80 million in annual net profit, against a current market capitalisation of just \$110 million.

Our third focus is graphite, especially in its use for battery anode material in the US. Following a roughly 100% anti-dumping tariff on Chinese graphite, we expect the Trump administration to introduce additional tariffs on battery production, further encouraging the reshoring of critical battery supply chains. In this environment, companies with vertically integrated graphite anode operations in the US are well placed. Our focus includes Syrah Resources, Westwater Resources, and Novonix, which we believe are best positioned to benefit from this reshaping of the supply chain.

We note, however, that commodity investing often involves higher uncertainty and relies on harder-to-prove inferences. That said, the payoff from correctly anticipating commodity cycles can be significant. As such, we've maintained a modest portfolio allocation to these investments, in line with our risk-reward expectations.

The primary risk to our portfolio remains a broad-based global equity market correction. While we're mindful of this possibility, it's worth noting that we haven't held this level of conviction in our individual stock positions and the broader macro and thematic trends in quite some time. Our current exposures are the result of deep research and high-conviction views, which we believe position the portfolio well – despite the potential for volatility in broader markets.

Kind Regards,
Fawkes Capital Management

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