



October Monthly Report

Dear Investors

We're pleased to provide you with the October 2025 Monthly Report for the Fawkes Capital Fund ("Fund"). In this monthly report, we:

- (1) Update our performance for October 2025; and
- (2) Update our current macro views

Performance Update

Our performance in October was satisfactory, with the Fund rising 4.1% for the month. While gains were broad-based across the portfolio, our AI-related positions continued to lead performance. In particular, our investments in memory designers and manufacturers such as Kioxia and SanDisk rallied meaningfully as the market began to appreciate the scale of the emerging semiconductor memory shortage. Japanese suppliers of critical materials for AI chips and hardware, including MEC Co and JX Advanced Materials, also contributed strongly as demand across the AI supply chain continued to accelerate.

Oct-25	1 Mth	3 Mth	1 yr	2 Yrs	3 Yrs	SI (ann)	SI (cum)
Fund (Net)	4.1%	22.6%	35.8%	26.9%	13.5%	12.9%	73.0%
Blended Index	0.4%	2.0%	8.4%	11.4%	8.7%	6.4%	31.6%
All Ords	0.5%	3.1%	12.5%	18.8%	13.2%	9.4%	49.6%
RBA Cash	0.3%	0.9%	4.1%	4.3%	4.1%	2.9%	13.7%

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.

Macro Update

We're at an interesting juncture in the macro cycle, one that warrants more careful reflection. Markets are beginning to display a subtle change in behaviour – volatility has picked up, narrative swings are sharper, and reactions to data have become more amplified. This type of backdrop often emerges around major turning points, though in itself it does not guarantee a shift in market direction.

As we've highlighted in prior updates, the US labour market has been weakening for some time. It has now deteriorated to the point where, on average, the economy is barely generating any net new jobs. October marked an acceleration in layoffs, and what stands out is both the timing and breadth. US companies typically avoid reducing headcount in October ahead of the holiday season, and the layoffs this time were spread across several industries rather than isolated to one or two.

Given the labour market's importance to the economic outlook, we track it closely using both official statistics and our own data. The deterioration is visible in both. While the delayed September payrolls report showed a headline gain of 119,000 jobs, the underlying signals were weaker. The unemployment rate ticked higher and wage growth slowed — a combination that has historically preceded recessions.

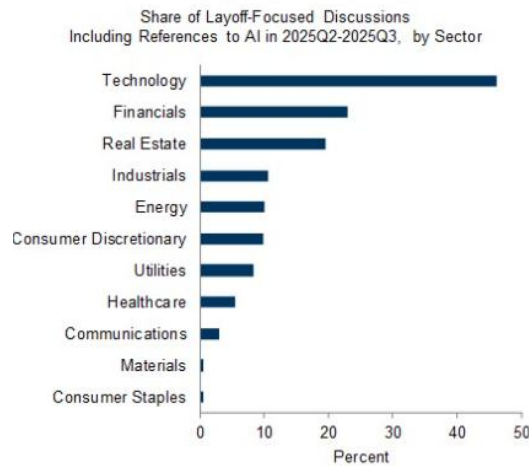
Our view of the outlook is becoming increasingly opaque. A simple reading of modern economic history suggests that the probability of a recession is not trivial. When the labour market weakens to this degree, there are only two examples in the past half-century (1986 and 1996) where conditions stabilised without a downturn. In every other comparable episode (1973, 1977, 1981–83, 1991, 2001, 2008), a recession followed. We therefore cannot rule out the possibility of a US recession within the next 6 to 9 months.



In our interpretation, financial markets are oscillating around this uncertainty. Markets tend to move ahead of economic inflection points, and the recent volatility reflects shifting views on whether a recession is imminent or avoidable. We expect this question to be resolved in the coming months as economic data becomes more definitive.

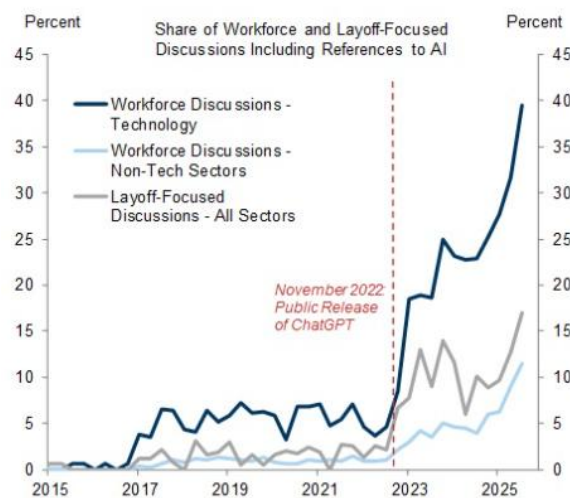
While the historical base rate suggests elevated recession risk, we struggle to see why this layoff cycle must extend into a deeper trend. Consumer spending will likely cool, but households still possess substantial savings buffers. AI-related capital expenditure is set to contribute meaningfully to growth — potentially adding close to 1% to GDP in 2026. And perhaps most importantly, it appears increasingly likely that the Supreme Court will strike down the administration’s tariffs on constitutional grounds. Since only Congress can levy taxes, a reversal of tariffs and a refund of tariff revenue would provide an immediate cash-flow boost to businesses and could halt a nascent layoff cycle.

There is also debate about whether AI itself is contributing to labour market softness. While AI-driven productivity improvements may be influencing some corporate decisions, the effect remains modest in aggregate. So far, AI has been cited in only around 15–20% of announced layoffs. At current scale, it is unlikely to be a standalone driver of economy-wide job losses.



Source: Goldman Sachs

The problem is that, over time, the ratio of AI-induced layoffs as a proportion of total layoffs is increasing:



Source: Goldman Sachs Dataworks



Given the advances made in AI software and agent automation methods, we believe it's likely that these ratios continue to rise over the next year.

Even before this trend accelerates, Goldman Sachs notes that the share of US public companies reporting layoff intentions has risen to abnormally high levels:



Source: Goldman Sachs and GS Dataworks

If these trends continue, it is not difficult to imagine an AI-induced layoff cycle emerging over the next 6 to 9 months. Once one company in an industry demonstrates meaningful headcount reductions through AI-driven efficiencies, competitive pressure will force others to follow. The combination of institutional survival and the profit motive creates a powerful incentive to adopt AI wherever feasible. From what we observe across earnings calls, a material and growing number of companies are already experimenting with AI-enabled workflows.

Unlike the 2023 layoff cycle, which occurred in an otherwise strong economic environment, both the labour market and consumer spending are now starting from a far weaker position. That makes the system more vulnerable. We are cautious not to extrapolate recklessly, but given the labour market has stalled, we believe the odds of an AI-linked layoff cycle are significant. It is an exceptionally difficult forecast, and highly path dependent, but the outcome will likely determine where major asset classes trade over the next year.

Whereas a few months ago we were confident the economy would continue growing without interruption, recent developments give us pause. The broader macro outlook has become unusually opaque. In light of the shift in underlying conditions, we have made meaningful changes to the portfolio to reflect this new reality.

Kind Regards,
Fawkes Capital Management

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