



December Monthly Report

Dear Investors

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

- (1) Update our performance for December 2025;
- (2) Provide an update on our macro-outlook; and
- (3) Summarise a new investment we've made that we believe to be promising.

Performance Update

December was another solid month for the Fund, which grew by 3.5%. Performance was driven largely by our major position in Wasion Holdings, as market participants continued to recognise the company's earnings power in supplying electrical products globally.

Dec-25	1 Mth	3 Mth	1 yr	2 Yrs	3 Yrs	SI (ann)	SI (cum)
Fund (Net)	3.5%	5.4%	35.5%	24.5%	15.5%	12.7%	75.1%
Blended Index	0.8%	0.1%	7.3%	7.7%	8.0%	6.1%	31.2%
All Ords	1.3%	-0.8%	10.6%	11.0%	11.7%	8.7%	47.7%
RBA Cash	0.3%	0.9%	4.0%	4.2%	4.1%	2.9%	14.4%

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.

In the first few weeks of January, volatility has increased meaningfully across financial markets. While our portfolio has delivered solid gains so far, consistent with the views outlined in our recent research notes, we have proactively reduced risk within the portfolio. In the following section, we outline our current top-down investment thinking and the rationale behind these positioning decisions.

Macro Outlook

While recent concerns have led us to trim some of our equity exposure, we continue to believe the US economy will remain on solid footing through 2026. Cost-of-living pressures are weighing on lower-income households, but aggregate consumption indicators remain healthy. Encouragingly, an early trend this earnings season has seen major banks increase their appetite for consumer lending, particularly through credit cards and personal loans. The scale of these lending volumes is significant enough to meaningfully support household spending.

In parallel, the scale of AI-related infrastructure investment is becoming increasingly clear. Our analysis of planned US datacentre builds suggests that roughly \$400 billion in capital expenditure could be deployed in 2026 alone – equivalent to nearly 1.5% of GDP. This wave of investment has the potential to double the current pace of US economic growth, marking AI capex as a major tailwind in the macroeconomic landscape.

While we believe AI ultimately exhibits bubble-like characteristics, we also think the near-term momentum can persist due to one crucial difference relative to the dotcom era. During the dotcom bubble, telecommunications companies themselves funded the build-out of physical internet infrastructure, including mobile towers and copper cable networks. Early pricing models often charged consumers based on usage, such as the number of websites browsed. Yet even had the internet been entirely free, demand at the time fell far short of available capacity. The physical infrastructure that was built could support many multiples of actual usage, in some cases more than 50 times prevailing demand.



AI is fundamentally different from past technology cycles. While most services remain free and consumers are still hesitant to pay, demand for AI usage is real and immediate when access is unconstrained. Unlike the internet buildout – where physical infrastructure was massively overbuilt in advance of adoption – AI infrastructure must scale dynamically with usage. As inference demand rises, new datacentres are required regardless of whether that usage is monetised.

That said, AI is potentially a bubble because it remains largely uneconomic at this stage. Deutsche Bank research suggests only around 5% of ChatGPT users currently pay for the service. OpenAI has trialled advertising, but consumer response has been negative. Google, meanwhile, has pledged not to serve ads on its Gemini platform. This stands in contrast to the early internet era, when Google's search product was easily monetised through advertising due to its dominance and lack of competition – an advantage no player holds in today's AI race.

This raises a key risk: if investor funding dries up and OpenAI or other leaders are outcompeted, the implications for markets could be significant. However, we don't believe this is a 2026 concern. The companies funding AI development have deep balance sheets, and loss-leading strategies are commonplace for drawing users into broader ecosystems. More importantly, AI usage drives demand for Big Tech's cloud services, supporting profitability even if front-end monetisation remains limited. This dynamic suggests AI infrastructure investment can continue at scale for some time.

Overall, while we remain cautious, we are not pessimistic. Our outlook is best described as cautiously optimistic. We have reduced equity exposure at the margin, but continue to hold selective positions where the risk-reward remains attractive.

Metasurface Technologies

We recently initiated a position in *Metasurface Technologies*, a Hong Kong-listed company headquartered in Singapore. The company manufactures precision components used in semiconductor fabrication equipment – the machines that produce semiconductor chips.

Metasurface primarily supplies parts to *Applied Materials*, one of the world's leading semiconductor equipment manufacturers, and we believe it is well positioned to become an approved vendor for *Lam Research* (a supplier of wafer-fabrication equipment) as well. Together, these two companies dominate the global market for chipmaking tools.

Specifically, Metasurface produces machined and welded parts for the vacuum chambers within chip fabrication systems. These chambers are critical for maintaining the ultra-clean, high-precision environments required for chip production, where gases are carefully controlled and ultraviolet lasers are used to etch circuits at nanometer scale.

The backdrop for this investment is a global chip shortage driven by accelerating AI demand. Memory chip prices more than tripled in 2025. Intel and AMD are now flagging logic chip supply constraints, while leading foundries such as TSMC and SK Hynix have announced double-digit increases in capital expenditure. This points to a significant near-term ramp-up in demand for semiconductor equipment – directly benefiting suppliers like Metasurface Technologies.

We believe Metasurface Technologies is well positioned to capitalise on this emerging upcycle in semiconductor equipment demand. At a high level, Singapore supplies approximately 20% of the world's precision components used in chipmaking machinery. Metasurface already has established relationships with leading OEMs, and competition for its parts is typically limited to two or three qualified suppliers. Gaining approved-vendor status is a lengthy process – often requiring two to three years – creating high barriers to entry. As a result, the company operates in a relatively protected segment of the supply chain. With demand accelerating and competition constrained, we expect both revenue and profitability to rise as Metasurface begins to exert greater pricing power.

From a valuation perspective, the company looks very cheap to us. Based on our average entry price, the stock trades at around 6–7x trailing earnings. In our view, this significantly undervalues the company, given its growth



potential. Demand for chipmaking equipment is likely to drive earnings higher in the coming years. Moreover, the company holds substantial cash and liquid securities on its balance sheet – at the time of our investment, these assets alone exceeded the company's market capitalisation. This provides a clear margin of safety. As investor awareness grows, we believe the market will begin to value Metasurface more in line with global peers, which currently trade at 30-40x trailing earnings. In our view, the fundamentals and valuation create a compelling risk-reward opportunity.

Kind Regards,
Fawkes Capital Management

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