



January Monthly Report

Dear Investors

We're pleased to provide you with the January 2026 Monthly Report for the Fawkes Capital Fund ("Fund"). In this monthly report, we:

- (1) Update our performance for January 2026; and
- (2) Provide a detailed update on our investment posture.

Performance Update

January was another satisfactory month for the Fund. The net asset value grew by 8.3% over the period. Wasion Holdings continued to contribute meaningfully to performance, while we also began to see returns emerge from Metasurface Technologies and a tactical allocation to gold (which has since been removed).

Jan-26	1 Mth	3 Mth	1 yr	2 Yrs	3 Yrs	SI (ann)	SI (cum)
Fund (Net)	8.3%	9.7%	45.7%	27.3%	20.3%	14.4%	89.7%
Blended Index	1.0%	0.6%	5.9%	7.8%	7.1%	6.2%	32.4%
All Ords	1.6%	0.3%	7.6%	11.3%	9.9%	8.9%	50.1%
RBA Cash	0.3%	0.9%	3.9%	4.2%	4.1%	2.9%	14.7%

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.

February has been more volatile so far, with sharp moves in both directions. That said, we believe greater clarity is beginning to emerge. We have established several high-conviction positions where we see favourable risk-reward asymmetry. We outline our reasoning for our emerging clarity and heightened conviction in the section that follows. As always, we continue to monitor developments closely and will adjust our positioning if the underlying facts change.

Investment Positioning

We believe we are beginning to see the next phase unfold and have positioned the Fund accordingly.

The Agent Inflection Point

While we have previously expressed concerns about the economics of AI, recent developments suggest that capital expenditure may prove more durable than we initially expected. In particular, the introduction of Claude Code appears to mark a meaningful inflection point.

Claude Code offers a practical glimpse into how AI agents may function at scale. It is a command-line interface tool capable of reading an entire codebase, planning multi-step tasks, and executing them autonomously. With access to a user's system environment, it can assess context, formulate a plan, and iteratively complete objectives while incorporating feedback along the way.

Importantly, Claude Code extends well beyond traditional coding assistance. It operates as a digital agent directed through natural language. Rather than specifying detailed technical instructions, users describe desired outcomes and allow the system to determine how best to achieve them.

The broader implication is that agent-based AI may fundamentally change how humans interact with technology. If widely adopted, it could materially reduce the cost and complexity of software development while enabling digital assistants to take on a growing share of routine cognitive work.



To understand the magnitude of this shift, it is helpful to reconsider what traditional software actually is. At its core, software is deductive logic: defined inputs are processed through fixed algorithms to generate defined outputs. An AI agent, however, operates with both deductive and inductive reasoning. It can analyse, transform, and synthesise underlying data in ways that static software cannot. In effect, many forms of software risk becoming commoditised databases, with the intelligence layer shifting to the agent sitting on top.

This creates a structural challenge for incumbent software providers. Most do not control the agents. Meanwhile, Anthropic, OpenAI and Google must find viable ways to monetise their large language models. Google, in particular, combines frontier models with infrastructure such as BigQuery, enabling flexible data architectures integrated directly with agents. Together, these forces introduce significant competitive pressure into a sector where scale previously conferred durable advantages.

As AI agents improve, it will become cheaper and easier to build customised software in-house or through third parties. In many instances, it may prove more efficient to build entirely new systems designed for AI integration from the outset rather than try to retrofit legacy platforms. Software was once described as “eating the world.” Increasingly, AI appears set to commoditise large portions of software itself. Competitive intensity has risen to near-existential levels in some segments, and margins are likely to compress. In our assessment, Google and Anthropic are emerging as early structural leaders, while many others risk becoming followers.

The second major implication is workflow automation. AI agents are now capable of handling a growing range of routine tasks for both consumers and enterprises. This materially expands the addressable use cases of AI and, importantly, provides a more credible pathway toward sustainable monetisation. If AI can replace or augment labour in measurable ways, willingness to pay likely increases significantly.

The Second Order Beneficiaries

At the same time, Big Tech companies have recently reported earnings and, almost without exception, increased their AI-related capital expenditure guidance. This ongoing escalation in capex is likely to ripple through the semiconductor ecosystem as new bottlenecks emerge across different parts of the supply chain.

Given that much of the semiconductor manufacturing and supporting infrastructure is concentrated in Asia, this is where we are increasingly directing our capital. We recently completed a research trip to Asia, meeting with a number of companies we have been diligencing in order to test our theses and address several outstanding questions. The trip was highly productive. We returned with greater clarity and increased conviction in a number of businesses and have since built meaningful positions across the portfolio.

- **Metasurface Technologies**

As discussed in last month’s note, greater chip demand implies greater demand for chip-making equipment. We are already seeing this dynamic play out, with Taiwan Semiconductor Manufacturing Company reporting a sharp lift in both capex and sales in Q1 2026. This acceleration benefits upstream suppliers of critical components used in fabrication equipment, including companies such as [Metasurface Technologies](#), which we established a position in during January.

- **Japan Electronic Materials**

But there will be other beneficiaries as well. In our view, the next supply chain pinch point is likely to emerge in semiconductor testing, specifically testing equipment and probe cards. Each chip must undergo rigorous testing to ensure it is not defective, especially given that a meaningful percentage of advanced chips fail to meet required specifications. This testing relies on specialised machines and probe cards that interface directly with the chip.

Demand for probe cards is likely to rise sharply for two reasons. First, volumes are increasing as AI drives more chips through the system. Second, complexity is rising quickly, with more layers and more advanced packaging increasing test intensity and time per unit. We expect probe card demand to outstrip supply, and believe Japan Electronic Materials, one of the world’s larger probe card manufacturers, is well positioned to benefit.



- **Seikoh Giken**

Another trend we are watching is the replacement of copper interconnects inside data centres with fibre optic interconnects. Fibre enables higher bandwidth and lower latency, which improves GPU utilisation and overall system efficiency. The next generation of architectures is increasingly moving toward co packaged optics, where chips connect more directly into optical infrastructure, reducing reliance on multiple intermediate switching layers. If this shift accelerates, it is likely to drive a step change in both the volume of fibre connections and the complexity of optical testing and finishing.

In Japan, Seikoh Giken manufactures optical connector polishing machines that ensure fibre connections are free of defects and able to transmit data efficiently. As co packaged optics scales, the number of high precision fibre terminations should rise materially. We believe Seikoh Giken's strong position in this niche could make it a key beneficiary of the transition.

- **Ta Liang Technology Co**

We are also looking at bottlenecks in the tooling required to manufacture and assemble increasingly complex hardware. Ta Liang Technology, based in Taiwan, produces high precision CNC machines used to drill microscopic holes in printed circuit boards and to cut boards into final shapes. It also manufactures inspection systems that test components for defects in shape, flatness and thickness, as well as equipment used in advanced packaging, an area where capacity remains tight. As design tolerances tighten and packaging becomes more complex, we believe Ta Liang's capability set becomes increasingly valuable.

We have high conviction in each of these four ideas and have positioned the portfolio accordingly. While volatility is likely, we are undertaking extensive due diligence to ensure that our conviction remains grounded in fundamentals and supply chain realities.

Macro Overlay: Long AUD

Finally, we have also taken a long position in the Australian dollar. Australian interest rates are likely to rise modestly relative to the rest of the developed world, driven by more persistent, domestically generated inflation. As rate differentials shift in Australia's favour, we expect capital flows to begin adjusting accordingly. Higher yields, combined with an increased issuance of domestic debt products, should encourage incremental inflows into Australian assets.

There is also a structural dynamic at play within the superannuation system. The cost of hedging foreign currency exposure has recently turned positive, meaning it is now profitable for super funds to hedge offshore assets back into Australian dollars. At the same time, Australia's largest super funds remain materially under-hedged, with APRA publicly highlighting this as a systemic risk. Given the inherently herd-like incentives embedded in the superannuation system (since the system encourages behaviour that reverts to the mean – no-one wants to be on the bottom performing list), we expect hedge ratios to gradually move higher. Even a 10% increase in aggregate hedge ratios, still low by historical standards, could equate to currency buying flows approaching 10% of GDP. That is a substantial potential tailwind for the AUD. In our view, we are at the early stages of this shift.

Wrapping Up

From a top-down perspective, we have adjusted our positioning with intent. We have leaned into what we believe is the next wave of AI beneficiaries following the introduction of Claude Code, and we have added a meaningful macro position through our long AUD exposure.

Our current views have been rigorously tested, not only internally but also through engagement with key opinion leaders across the industries in which we are investing, including technical experts, investigative journalists and specialised analysts. We have challenged our assumptions repeatedly and continue to do so. The conviction reflected in our positioning is the product of that process.

After generating significant gains over the past 12 months, we are deliberately redeploying capital into what we believe are exceptionally high-quality risk-reward opportunities. In our judgment, the asymmetry is compelling. While we would expect some volatility given the size and focus of some of our positions, we believe we have been thrown a fat pitch. When the odds are skewed in our favour, we think it is appropriate to act decisively.



That said, conviction does not mean rigidity. We continue to monitor the landscape closely and will not hesitate to adjust our positioning should any of the material facts underlying our theses change. As always, we remain globally focused and relentless in our search for the most compelling opportunities on your behalf.

Kind Regards,
Fawkes Capital Management

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