



24 March 2026

February Monthly Report

Dear Investors

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

- (1) Update our performance for February 2026; and
- (2) Describe our views on the Iran War, its impact on asset values and our investment strategy.

Performance Update

February was another satisfactory month for the Fund, with net asset value increasing by 3.6%. As outlined in last month's update, we initiated positions in the Asian AI supply chain. This exposure was the primary driver of performance during the month, with gains across a range of companies including Ta Liang, All Ring, Chroma, Seikoh Giken, Japan Electronic Materials and Metasurface Technologies. While individual holdings may evolve as our research deepens and relative value shifts, we remain conviction-driven in our positioning within the AI supply chain, where we believe the next phase of bottlenecks and shortages is likely to emerge.

Feb-26	1 Mth	3 Mth	1 yr	2 Yrs	3 Yrs	SI (ann)	SI (cum)
Fund (Net)	3.6%	16.2%	59.1%	26.6%	20.5%	15.0%	96.6%
Blended Index	1.8%	3.6%	9.8%	8.4%	8.2%	6.5%	34.8%
All Ords	3.3%	6.3%	15.8%	12.5%	12.1%	9.5%	55.1%
RBA Cash	0.3%	0.9%	3.9%	4.1%	4.1%	2.9%	15.1%

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.

March has, to date, been characterised by heightened market volatility. Equities, bonds and gold have all declined as escalating tensions involving Iran have contributed to renewed inflationary pressures, particularly through higher energy prices. While we are cautious about providing a definitive performance update in such conditions, the Fund has so far remained resilient. Our macro-first approach has been effective in navigating this environment and continues to provide downside protection for our investors during periods of dislocation.

Views on Iran War

We were fortunate enough to anticipate the breakout of the war in Iran. We positioned the fund accordingly ahead of time: long oil, short stock index futures and long gold. As gold began to weaken in response to rising interest rates, we reduced this exposure and increased our positioning in oil. In this section, we outline our current assessment of how the conflict may evolve.

We begin with an important caveat. The trajectory of any conflict is inherently difficult to predict, with numerous uncertainties and evolving dynamics. Our views are therefore conditional and will be updated as new information emerges.

With this in mind, our base case throughout this month has been for a protracted conflict. Despite public commentary, including from Donald Trump, which may aim to influence market sentiment and energy prices, we believe the underlying incentive structures point toward a drawn-out scenario. In our view, the outcome is likely to be determined by which side can sustain economic and political pressure over a longer period.

The story of Achilles is instructive in this context. Though rendered nearly invincible, his single point of vulnerability ultimately led to his downfall. Despite overwhelming strength, a minor weakness proved decisive.



We see a parallel in the US position. While technologically and militarily superior, there remains a structural vulnerability, namely the sensitivity of a democratic, market-based system to sustained increases in oil and gas prices. Rising energy costs feed directly into inflation, constrain policy flexibility, and can erode public support over time.

At the outset, the US and Israeli strategy appeared focused on applying overwhelming force to pressure Iran into submission. The objective was to degrade Iran's launch and missile manufacturing capabilities sufficiently to force a concession, particularly with respect to its nuclear enrichment program.

This outcome has not materialised for several reasons. First, while Iran's Constitution centralises authority in the Supreme Leader, military decision-making has been deliberately decentralised in anticipation of conflict. This "poison pill" structure has proven effective, with regional commanders retaining autonomy over missile deployment, making it significantly harder to fully degrade operational capability.

Second, the regime's origins in revolution make it inherently resistant to external attempts at regime change. Historical precedent suggests that such outcomes are rare without direct military intervention. Even in cases often cited, such as Yugoslav Wars, regime change was accompanied by armed factions and international peacekeeping involvement.

Third, Iran maintains substantial military depth. The combination of its conventional forces and the Islamic Revolutionary Guard Corps provides a large and layered structure, with personnel estimated in excess of one million. This creates a highly resilient system, often likened to a "hydra", where degrading one component does not meaningfully impair the whole.

Finally, Iran has long prepared for asymmetric and guerrilla-style warfare, including through its support and training of regional proxy groups such as the Houthis. This further complicates any attempt at a rapid or decisive resolution.

In response to the escalation, Iran has acted as though facing an existential threat. To preserve regime survival, the leadership has moved to restrict access through the Strait of Hormuz, its most significant strategic lever. Approximately 20% of global oil supply transits this route. Prices have already moved higher, and in our experience, when supply disruptions of this scale persist, price dynamics can become increasingly non-linear. The longer Middle Eastern supply remains constrained, the greater the risk of a sharp, potentially parabolic increase in oil prices.

Needless to say, Iran is strongly incentivised to drive oil prices higher, with limited immediate downside and potentially significant strategic upside. Most directly, higher energy prices increase economic pressure on the US, where the impact of the conflict is most visibly transmitted through rising gasoline prices. This, in turn, can influence political sentiment and policy direction. In parallel, elevated oil prices strengthen Iran's negotiating position, both in relation to sanctions relief and its nuclear program.

More importantly, however, higher oil prices serve as a form of strategic deterrence. By demonstrating its ability to disrupt global energy markets, Iran can increase the perceived cost of future military action against it, effectively seeking to establish its own form of security guarantee.

There is good reason to believe that Iran will want to achieve these objectives in this current war, rather than a future one. A future war would allow Israel, the US and other Gulf states to re-arm their interceptor missiles. For instance, there are some reports that Israel has now begun to forego the use of interceptor missiles against Iran's cluster bombs. Secondly, it would give the US and Israel more time and preparation to achieve a few things: (1) re-open the Strait of Hormuz, (2) clear existing mines in the Strait, and (3) take Kharg Island. Iran, through the implementation of new licensing requirements for vessels transiting the Strait, has indicated a shift toward sustained control rather than a short-lived disruption, reinforcing the likelihood of a more prolonged conflict dynamic.

This outcome would be highly unfavourable for the US and its allies, while potentially advantageous for strategic competitors such as China and Russia. For China, a prolonged conflict that sustains higher energy prices and



weakens Western political cohesion could have broader geopolitical implications. For Russia, heightened anti-war sentiment in Western economies may influence the trajectory of the Russo-Ukrainian War.

However, for the US and its allies, allowing a single actor to exert control over a chokepoint responsible for approximately 20% of global oil supply is not a viable outcome. Maintaining the free flow of energy through the Strait of Hormuz is therefore a critical strategic priority.

The challenge lies in how this can be achieved in a sustained and credible manner. Based on discussions with military experts, restoring normalised shipping flows through the Strait appears operationally complex. A number of structural constraints limit the effectiveness of conventional naval protection.

First, the nature of the threat has evolved. Iran's use of low-cost, unmanned surface and aerial systems presents a difficult target set, particularly from a moving naval vessel. These systems can carry significant payloads, with sufficient explosive capacity to materially damage or sink large vessels.

Second, there are indications that the Strait may have been mined, introducing an additional layer of risk. Mine clearance operations are both time-intensive and resource-constrained, particularly in the absence of broader international support.

Third, the scale and geography of the Strait make comprehensive protection impractical. The volume of commercial traffic, combined with transit times of up to 12 hours each way to key Gulf ports, limits the feasibility of escort-based solutions.

Finally, commercial realities further constrain activity. Shipowners face elevated risks to crew and assets, while insurance coverage may not fully compensate for the loss of earnings capacity associated with vessel destruction, particularly given the long lead times and high cost required to replace tankers.

Recent indications have suggested that the strategy being considered by Donald Trump centres on targeting Kharg Island. The island is a critical piece of infrastructure, accounting for the majority of Iran's oil storage and export capacity, with oil revenues estimated to comprise a substantial portion of government funding. Gaining control over this asset would represent a meaningful source of leverage, potentially constraining the regime's ability to fund both its military and administrative apparatus.

However, there are significant operational challenges.

First, access remains a key constraint. As noted, the mining risk of the Strait makes things difficult, while international support for mine-clearing operations appears limited. For example, officials in Japan have publicly cited legal and technical limitations in providing minesweeping capabilities. Without sufficient clearance capacity, establishing a secure maritime corridor toward Kharg Island would be difficult.

Second, the geography materially favours the defender. Kharg Island is located deep within the Persian Gulf, requiring extended transit along Iran's coastline, where missile and drone capabilities are dispersed across multiple positions. This creates sustained exposure for naval forces over a prolonged period. Even in the event of a successful seizure, maintaining control would likely prove challenging and resource-intensive.

More broadly, such an operation carries escalation risk. A direct attempt to capture or neutralise Kharg Island would likely prompt a further intensification of Iranian responses, including increased targeting of commercial shipping and regional energy infrastructure.

While the potential strategic payoff is clear, the path to execution is complex and uncertain. In that sense, the operation would represent a high-risk, high-stakes attempt to shift the balance of the conflict.

And so, a race is on. Iran is incentivised to drive oil prices higher as quickly as possible, while the US must restore stability to the Strait of Hormuz before domestic political pressures begin to constrain its response. With additional



naval deployments still some weeks away from full operational capability in the region, the near-term balance of incentives favours actions that tighten supply and elevate prices.

Eventually, we believe that Trump will be forced to give in politically. The price of gasoline at the pump will likely force his hand. Once he decides to cave, Trump can make a deal that is hidden from the media – previous negotiations and agreements have, at times, been communicated selectively, suggesting that any resolution could be structured in a way that allows for de-escalation without immediate full public disclosure. Commentary from the Trump administration has been mixed, with more recent commentary suggesting a deal with Iran is being discussed, pointing to a desire to accelerate a path toward de-escalation. In our view, however, regardless of how long the de-escalation process may take, further upward pressure on oil prices is likely before a stabilisation phase is reached.

The duration of the conflict will be a key determinant of its economic impact. A recession cannot be ruled out, particularly given the historical precedent of the 1970s oil shocks, which contributed to successive downturns. In a sustained high-inflation environment, equities tend to face pressure through multiple compression, while tighter financial conditions weigh on growth more broadly. That said, a more prolonged disruption would likely be required, measured in months rather than weeks, for these effects to fully transmit into a recessionary outcome.

Markets have already begun to reflect some of these risks. Interest rate expectations have shifted, with markets increasingly pricing the potential for further tightening rather than easing. At the same time, equity markets have adjusted to a higher perceived probability of economic slowdown.

It is within this context that we are managing the portfolio. We have maintained our core positions in AI-related equities throughout the month, while implementing selective hedges through short index futures to mitigate downside risk. As with any hedging strategy, outcomes are unlikely to be perfectly offsetting, and some degree of slippage should be expected. However, we believe this approach provides meaningful diversification and downside protection relative to a traditional long-only portfolio.

We continue to actively reassess our positioning as conditions evolve. We remain keenly focused on any new information that comes to light which may challenge our underlying assumptions and remain ready to adjust our portfolio accordingly.

Kind regards,
Fawkes Capital Management

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