FAWKES CAPITAL MANAGEMENT

29 May 2026

April Monthly Report

Dear Investors

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

(1) Update our performance for April 2026; and
(2) Describe our micro views with respect to AI.
(3) Provide a brief macro update

Performance Update

For the month of April, the Fund was broadly flat, delivering a return of -0.1%. Following a strong month in March, and amid increasing uncertainty surrounding the conflict in Iran, we reduced risk exposure during the period. As the month progressed, there were growing signs that both the US and Iran were stepping back from the brink, reducing the likelihood of more severe escalation scenarios. Equity markets responded positively to these developments and rallied over the month.

At a high level, we took profit in our oil positions and rotated capital toward our existing and new AI-related equities exposures. That decision has, so far, proven beneficial in May. We discuss the outlook in greater detail in the following sections.

Apr-26	1 Mth	3 Mth	1 yr	2 Yrs	3 Yrs	5 Yrs	SI (ann)	SI (cum)
Fund (Net)	-0.1%	17.1%	69.3%	33.6%	27.6%	17.3%	17.3%	122.1%
Blended Index	1.3%	-0.4%	7.0%	6.9%	7.0%	5.7%	5.7%	31.9%
All Ords	2.4%	-1.9%	10.0%	9.4%	9.6%	8.0%	8.0%	47.2%
RBA Cash	0.3%	1.0%	3.8%	4.1%	4.2%	3.0%	3.0%	15.8%

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.

So far, May has been a strong month, led primarily by gains in AI-related stocks. While financial markets remain volatile, we continue to monitor developments closely.

Micro Views

Artificial intelligence (AI) technology continues to advance rapidly. At a broad level, we believe this will remain the dominant structural theme in markets for years to come, and we aim to position the Fund on the right side of that change. In this note, we zoom in further than we have previously to explore some of the opportunities we see emerging within the AI supply chain.

Broadly speaking, there are two types of investments within the AI supply chain that we find particularly attractive. The first involves components where shortages have emerged and supply is difficult to scale. The second involves new technologies that are adopted in the production of next-generation AI chips. Of course, as a discipline, we will only invest where we believe valuations remain attractive.

It is also worth noting that the vast majority of the semiconductor supply chain is concentrated in Asia, particularly across Taiwan, South Korea, Japan and China. We are fortunate to work with experts both within the jurisdictions in which we invest and across the relevant technologies. We are extremely grateful for their contributions and value the collaborative relationships we have built with them.

We track datacentres that are either under construction or planned globally. Based on the current pipeline, datacentre capacity continues to grow at an exponential rate, with industry forecasts consistently being revised upward rather than downward. At a minimum, we are confident that there will be a major wave of corporate automation that drives sustained demand for AI infrastructure.

Let’s dive in.

While the surge in AI compute demand has created pressures across the supply chain, no component appears to be in greater shortage than glass. Printed circuit boards are primarily composed of fibreglass layered between sheets of copper clad laminate, while specialised glass materials also form a critical part of advanced chip architecture. To improve energy efficiency and enable higher performance, this glass must be exceptionally smooth and possess very low dielectric properties, meaning it absorbs minimal electrical energy. This allows chips to communicate at significantly higher bandwidth speeds.

The sharp increase in chip production volumes driven by AI demand is creating severe shortages in both fibreglass yarn and finished glass products. Our channel checks suggest that inventories of fibreglass yarn have fallen from a typical two months of supply to effectively zero. Equally importantly, based on the manufacturing capacity expected to come online over the next two years, demand for specialised glass is likely to continue materially outpacing supply. Manufacturers have already implemented multiple price increases this year.

Kingboard Laminates is uniquely positioned within the supply chain. The company is vertically integrated and manufactures the full suite of components required for printed circuit boards. As a result, increases in the prices of these components have a direct impact on profitability, giving the business meaningful operating leverage. The company also produces several other products currently experiencing shortages within the semiconductor supply chain, including copper foil and copper clad laminate. In addition, it has been qualified to supply T-glass used in NVIDIA GPUs. The business should therefore benefit both from rising volumes across its product range and continued pricing strength. At our entry price earlier in the month, we believe we acquired exposure to a rapidly growing business trading on a price-earnings multiple in the high teens.

Another shortage beginning to emerge is in multi-layer ceramic capacitors (MLCCs). Capacitors are electronic components that temporarily store and release electrical charge, helping to stabilise power flow within electrical systems. This function is particularly important for AI accelerator chips, where electricity demand can fluctuate materially depending on compute intensity. MLCCs therefore play a critical role in regulating power delivery to GPUs and preventing system instability.

Looking ahead, AI infrastructure is expected to require substantially more MLCCs than traditional electronic applications. A typical smartphone contains around 1,000 MLCCs, while a standard electric vehicle requires approximately 20,000. By comparison, a standard NVIDIA Vera Rubin rack is expected to require more than 1,000,000 MLCCs. Given the projected growth in AI infrastructure, demand for MLCCs is therefore likely to rise dramatically. In addition, as future AI chips become increasingly power intensive, the number of MLCCs required per chip is also expected to increase.

By our estimates, AI-related demand for MLCCs could account for between 10-15% of total global MLCC supply within the next 18 months, up from roughly 2% today. Beyond 2027, AI infrastructure will likely require even greater volumes. We are already beginning to see signs of this emerging in the book-to-bill ratios of the major MLCC manufacturers. Based on the latest quarterly data across the five largest producers where figures are available, demand appears to have increased by roughly 30% above normal levels over the past year.

Within this context, we believe the industry is at the beginning of a multi-year structural growth cycle, not dissimilar to previous cycles seen in NAND and DRAM memory. Given the oligopolistic structure of the industry, we expect the major manufacturers to benefit broadly from tightening supply conditions. As the market does not yet appear to fully reflect this emerging growth cycle, we continue to favour companies leveraged to the shortage, including **Yageo Corporation, Murata Manufacturing** and **Taiyo Yuden**. Based on expected pricing increases and earnings growth, we estimate that we acquired these businesses at forward price-earnings multiples in the high teens.

There also remains a broad-based shortage of the equipment required to manufacture semiconductors. We have written about this previously and will not repeat the full thesis here, but we continue to believe that **Metasurface Technologies** remains materially undervalued.

We continue to believe that memory chips will remain in structural shortage. This is largely a function of the supply strategies being pursued by the major manufacturers. Historically, memory pricing has been characterised by boom-bust cycles driven by fluctuations in consumer electronics demand. However, with AI now representing a rapidly growing share of DRAM and NAND demand, the industry appears to be shifting from a cyclical to a more structural growth dynamic.

The major memory fabricators, including **Samsung Electronics, Kioxia, SK Hynix** and **TSMC**, continue to signal capital expenditure plans that remain materially below projected end-demand growth. For example, despite NAND demand growing at triple-digit year-over-year rates, there appears to be little meaningful new supply expected to come online over the next 18 months. Trading at single-digit price-earnings multiples, we continue to view the major memory manufacturers as attractively valued.

We also believe the industry may be at the beginning of a significant CPU shortage, which could ultimately prove larger than the current shortages in DRAM and NAND. Looking ahead, AI infrastructure is likely to require substantially more CPUs. This is because CPUs are generally better suited to sequential logic and are therefore expected to play a larger role in large language model inference workloads relative to training. While the current ratio of GPUs to CPUs is roughly 10:1, we believe a future state may require closer to one CPU per GPU. Such a shift would represent a substantial demand shock relative to existing supply dynamics, potentially exceeding what has already occurred within memory markets. Based on our estimates of the magnitude of this imbalance, CPU pricing could ultimately rise more sharply than memory pricing has to date. Our preferred exposure to this theme is **Intel**.

In summary, we believe we have assembled a portfolio of attractively valued companies positioned to benefit from severe shortages across critical parts of the AI supply chain, including fibreglass, memory, multi-layer ceramic capacitors, copper foil, semiconductor manufacturing equipment and CPUs. Our core exposures **include Kingboard Laminates, Kioxia, SK Hynix, Yageo, Murata Manufacturing, Metasurface Technologies** and **Intel**. We believe this portfolio has the potential to materially outperform broader equity markets over time. We have also identified additional shortages and emerging technological shifts and are continuing to conduct research into further investment opportunities that may ultimately be added to the portfolio.

Macro Update

It now appears increasingly likely that the US and Iran will move toward a prolonged ceasefire arrangement while pursuing a negotiated settlement. The conflict has already extended for three months and evolved into a war of attrition. The American view appears to be that sustained economic pressure can weaken Iran sufficiently to force concessions from the Islamic Revolutionary Guard Corps. While Donald Trump appears to have accepted this logic, there are historical examples, such as Hugo Chávez's Venezuela, where regimes remained in power despite severe economic deterioration. Iran, meanwhile, appears to believe it can outlast the US by exerting upward pressure on gasoline prices for American consumers, which are already approaching historically elevated levels. The outcome may therefore depend on which side is ultimately more capable of enduring prolonged pressure.

For risk markets, there are several constructive implications from this emerging equilibrium. First, with both sides having stepped back from the brink and appearing to be settling into strategies of attrition rather than escalation, the probability of a broader Middle Eastern conflict appears to have declined materially. Second, while higher oil prices remain a risk, our sense is that crude prices around US$125 per barrel would still be manageable for both the economy and financial markets, even if politically uncomfortable. At those levels, pressure at the gasoline pump may become sufficient to encourage a negotiated outcome.

We had previously adopted a more balanced positioning given the uncertainty surrounding the conflict. Of course, there remains a risk that any prospective agreement ultimately fails to hold, and we will continue to monitor developments carefully. However, as the macroeconomic outlook becomes clearer, we believe the time has come to lean more fully into the opportunities presented by the AI theme. In our view, the risk-reward profile for equities has improved now that downside scenarios appear less open-ended. Given the potential for AI to generate extraordinary returns across certain areas of the market over the remainder of the decade, we intend to remain positioned on the right side of that trend.

Kind Regards,
Fawkes Capital Management

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