27 July 2026

June Monthly Report

Dear Investors

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

(1) Update our performance for June 2026
(2) Describe our macro views
(3) Update changes to portfolio positioning

Performance Update

The Fund continued to grow modestly in June, delivering a return of 2.4% for the month. Performance was driven primarily by five core holdings: SK Hynix, Kingboard Laminates, Ampoc Far East, Kioxia and Murata. The AI supply chain investment theme continued to perform strongly throughout June, validating our conviction in the sector. Over the past three years, the Fund has compounded investor capital at 30.4% per annum after fees.

Jun-26	1 Mth	3 Mth	1 yr	3 Yrs	5 Yrs	SI (ann)	SI (cum)
Fund (Net)	2.4%	11.8%	85.3%	30.4%	20.1%	19.3%	148.5%
Blended Index	0.4%	2.5%	4.9%	7.4%	5.5%	5.8%	33.4%
All Ords	0.4%	4.0%	5.7%	10.4%	7.4%	8.1%	49.5%
RBA Cash	0.4%	1.1%	3.9%	4.2%	3.1%	3.0%	16.7%

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

Our macro views have evolved over the past month, and the Fund's positioning has evolved alongside them. From a top-down perspective, we have become increasingly concerned about the risk of renewed tensions surrounding the Iran conflict.

What has become increasingly apparent is that the temporary compromise embedded within the Memorandum of Understanding (MOU) is unlikely to prove durable. Iran continues to reject any arrangement that would weaken its control over the Strait of Hormuz.

Clause 5 of the US-Iran MOU requires Iran to discuss the "future administration and maritime services" of the Strait with Oman and other Persian Gulf states in accordance with applicable international law. On 11 July, CNN reported that Oman had proposed two fully operational shipping corridors: an unrestricted southern route through Omani waters and a northern route through Iranian waters that would require Iranian approval but would not impose transit tolls. The following day, Iran's English-language state media warned that any attempt to establish an alternative maritime route or escort vessels through the southern corridor would undermine "Iran's security arrangements." Iran has categorically rejected relinquishing control of the Strait of Hormuz.

While there is broad disagreement across Iran's political factions on many issues, there is near-unanimity on one point: the conflict cannot end without Iran retaining sovereign control over the Strait of Hormuz. On 8 July, two senior Iranian sources told Reuters that relinquishing control of the Strait would be tantamount to "surrender." Senior Iranian officials have consistently framed the issue as one of regime survival. For example, Supreme Leader Military Adviser and former IRGC Commander Major General Mohsen Rezaei described the Strait as "more important than dozens of atomic bombs." From Iran's perspective, control of the Strait represents its most important strategic source of leverage and security.

At the same time, it is becoming increasingly apparent that the US cannot accept exclusive Iranian control over the Strait. The MOU temporarily deferred this issue by employing deliberately ambiguous language, allowing both sides to claim that their interests had been protected while postponing the substantive dispute to later negotiations. However, when oil tankers transited via the Omani corridor and the US did not deliver the expected sanctions relief or release frozen Iranian assets, Iran moved to close the Strait once again. The US subsequently responded with strikes across Iran. In our view, this sequence of events demonstrated that the US administration is unwilling to accept an arrangement under which international shipping is effectively dependent on Iranian-controlled transit. Ultimately, actions carry greater weight than words.

Both sides, then, cannot accept the other’s fundamental position. Iran must have control over the Strait for existential survival and the US cannot live with Iranian control over the Strait.

To be sure, Iran requires access to capital to sustain its economy, and this was likely one of the factors underpinning its willingness to agree to the initial ceasefire. However, it is becoming less clear that Tehran ever intended for the arrangement to endure. Recent developments suggest an alternative interpretation that we believe warrants serious consideration. Under this hypothesis, Iran agreed to the ceasefire primarily to allow approximately 50 million barrels of its own oil to transit the Strait before hostilities resumed. At prevailing prices, this would have generated roughly US$4 billion in revenue, potentially providing sufficient funding to stabilise the economy for at least several months.

Notably, Iran permitted shipping through the Omani corridor for approximately three weeks following the signing of the MOU before renewing military action. We do not believe this timing was coincidental. Rather, it may have represented the minimum period required to generate enough export revenue to sustain the economy beyond the US mid-term elections.

We remain sceptical that the recent negotiations can produce a durable agreement for two reasons. First, the strategic objectives of each side remain fundamentally incompatible. Second, the underlying trust required to implement any agreement appears to be absent.

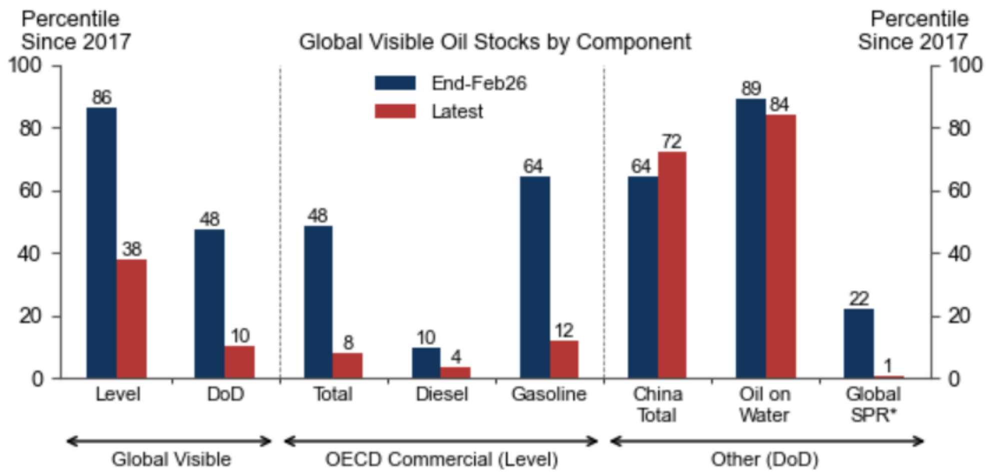
If the proposed arrangement was for the US to provide sanctions relief and financial concessions in exchange for an open Strait, then both sides now have reasons to question the credibility of the other's commitments. More importantly, the incentive structure itself appears problematic. Even relatively modest financial concessions from the US, when compared with the potential economic value of controlling traffic through the Strait, could provide Iran with sufficient funding for an extended period. Once those concessions had been made, what mechanism would prevent Iran from subsequently restricting access to the Strait? Conversely, if the US were to exhaust its military leverage by targeting Iranian infrastructure, what meaningful tools would remain to compel the Strait to reopen? Similarly, if Iran agreed to de-mine the Strait, what leverage would it retain to preserve its nuclear programme? The MOU attempted to address these issues through a "reward for progress" framework. However, without a significant degree of mutual trust, each major concession leaves one side vulnerable to the other reneging on its commitments.

These structural challenges are compounded by Israel's domestic political incentives. Prime Minister Benjamin Netanyahu continues to have strong political reasons to maintain pressure on Iran. We also remain unconvinced by recent claims regarding the relocation of Iran's nuclear programme to Pickaxe Mountain. Based on the information currently available, we believe the evidence supporting this assertion is limited, despite it having become an important part of the case presented to President Donald Trump.

Why does the direction of oil prices matter? The answer lies in the implications for interest rates. With the Federal Reserve beginning to signal the possibility of a rate hike in September, any sustained oil price shock is likely to generate a renewed inflationary impulse, placing further upward pressure on bond yields. If the combination of higher oil prices and tighter monetary policy were to push the US 10-year Treasury yield towards 5% or beyond, it becomes difficult to envisage meaningful further upside movements of equity markets. The key question, therefore, is whether oil prices are likely to move materially higher.

In our view, the supply-demand balance is becoming increasingly tight. Both crude oil and refined product inventories continue to tighten, and the shortage is becoming more acute over time. From a top-down perspective, we estimate that approximately six to eight weeks of oil inventory remains on the water.

We expect the Iranian side to know this. Global inventories of both crude oil and refined products have now fallen to some of the lowest percentile levels observed over the past decade:

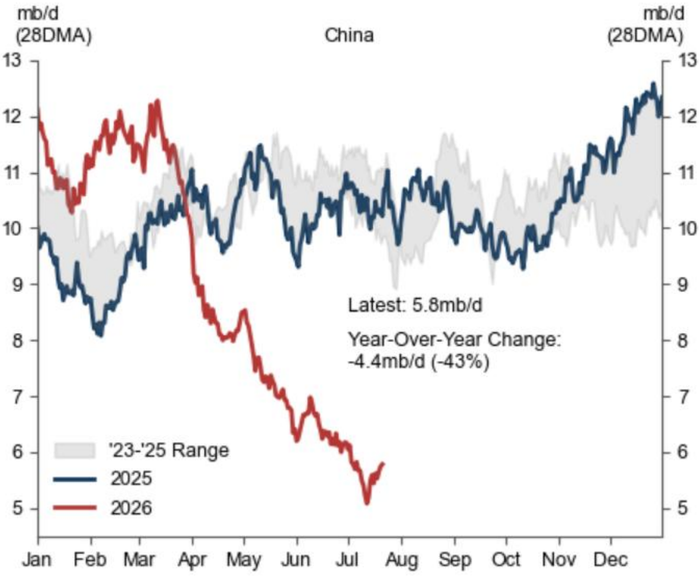


Source: Kpler, IEA, DOE, Euroilstocks, ARA, PJK, PAJ, Haver Analytics

The effective inventory overhang may be even smaller than our estimated six to eight weeks based on a couple of factors.

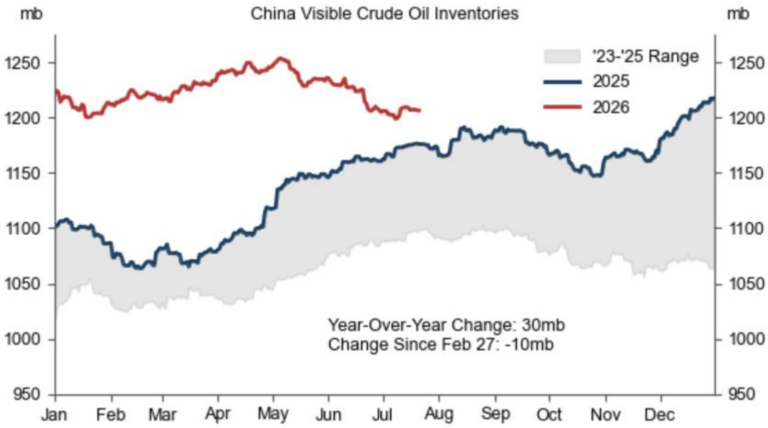
The first is the recent decision by the Houthis to close the Bab el-Mandeb Strait. As a result, many oil tankers are now being forced to take the much longer route around the Cape of Good Hope. This has two important implications. First, what was previously a 15-day one-way voyage to Asia becomes closer to a 45-day journey, materially reducing the effective supply of available shipping capacity. Second, the Suez Canal cannot accommodate the largest crude carriers (VLCCs) when fully laden. While the SUMED pipeline allows these vessels to temporarily reduce their weight by offloading part of their cargo, the pipeline has limited throughput. Taken together, we estimate that the disruption in the Red Sea could increase the global oil supply shortfall from approximately 6 million barrels per day, or around 6% of global supply, to roughly 8 million barrels per day.

The second factor is China's inventory policy. We believe there is a meaningful possibility that China reduces releases from its strategic petroleum reserves and instead increases crude imports. China appeared to anticipate the outbreak of conflict, having materially increased its strategic reserves before 28 February. During the conflict, it also significantly reduced crude oil imports, effectively drawing on those accumulated reserves. The following chart illustrates the decline in China's daily imports of crude oil and condensate:



Source: Kpler

The problem is that China's stock of visible crude oil inventories have now fallen back to levels close to where they stood prior to the breakout of the war:



Source: Kpler

If China decided to restart oil imports to levels prevailing pre-war, we estimate that the global supply shortfall would widen to approximately 12.5 million barrels per day, equivalent to around 12.5% of daily global supply. Under that scenario, the remaining global oil inventory before a meaningful supply cliff emerges could fall to roughly one month's worth of consumption.

Portfolio Update

We established a position in oil but decided not to express the view in rates. In our view, a rates position would simply introduce additional correlated exposure to the oil trade while offering a less attractive risk-reward profile. At the same time, we have reduced our net equity exposure materially, particularly across AI-related holdings. This decision reflects a combination of factors: our evolving macro-outlook, increasingly demanding valuations across parts of the AI complex, technical indicators suggesting the rally had become overstretched, increasingly one-way investor positioning, industry feedback and our own judgement.

At the time of writing, market conditions remain highly volatile, and performance so far this month has been weaker. Following our decision to increase AI exposure around the time of the ceasefire agreement, we estimate that the

Fund has experienced a low single-digit drawdown. As a result, while the Fund returned 2.4% in June, it is currently down by the mid-single digits in July.

In our view at least, for a low-single digit drawdown to result from a decision around the time of the ceasefire to add AI exposure prior to one of the largest corrections in a stock sector over the course of a month in history is a satisfactory outcome. This is especially the case when a wider perspective is taken based on how much value we've captured from the trend so far. Many of the stocks in the sector have since declined by approximately 40% to 65% in the space of a single month, one of the sharpest drawdowns the sector has experienced. Against this backdrop, our positions in macro markets such as oil has also helped to offset the AI weakness and contribute to returns in July. We are pleased to have largely preserved investor capital during this period and are encouraged by the prospect of rebuilding positions in selected holdings at materially more attractive valuations. We believe the opportunities are ahead of us in these trends.

Finally, the principal competing hypothesis to our current macro view is that President Trump ultimately accepts Iran's demands regarding control of the Strait of Hormuz. US gasoline prices have begun rising again, creating an incentive for a pragmatic solution. Under this scenario, the US could provide Iran with meaningful financial concessions in exchange for keeping the Strait open until after the mid-term elections, before attempting to resolve the broader strategic issues thereafter. However, Iran may choose not to offer that option. Moreover, providing Iran with substantial financial resources could ultimately strengthen its strategic position by increasing its ability to sustain a prolonged confrontation. Even so, a US concession remains an important alternative scenario that we are monitoring closely. Should that outcome begin to materialise, we would expect to rebuild our equity exposure through the election period.

Kind Regards,
Fawkes Capital Management

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