Fairlight Alpha Fund LP

Q1 2025 Letter

Dear Partners,

Fairlight Alpha Fund's first quarter 2025 returns were 18.7% net of fees. This compares to -4.9% for the S&P 500 Total Return index. Overall, since inception the fund has returned 617.6% net of fees and 38.2% on an annualized basis. These results are presented for informational purposes only and do not represent a solicitation or offer.

Performance vs. the S&P 500

We track the net asset value of Fairlight Alpha Fund (the "Fund") over time as calculated by our fund administrator based on our portfolio positions and prices over time on a dollar basis. The fund financials are also audited each year by an independent auditor with the assistance of the Fairlight management company and the fund administrator.

The tables below show the S&P 500 total return and partnership net returns, after fees, for each year 2019-2024, followed by the compounded returns over the same period, as well as the annualized gains.

Annual Returns

Year		Fairlight Alpha Fund	S&P 500 (Total Return)	Difference
2019[1]	………………………........	38.1%	17.9%	20.1%
2020	…………………………	26.3%	18.4%	7.9%
2021	…………………………	146.5%	28.7%	117.8%
2022	…………………………	15.8%	-18.1%	33.9%
2023	…………………………	6.9%	26.3%	-19.4%
2024	…………………………	13.6%	25.8%	-12.2%
2025 (YTD)	…………………………	18.7%	-4.9%	23.6%

Compounded Returns

Year		Fairlight Alpha Fund	S&P 500 (Total Return)	Difference
2019[1]	………………………........	38.1%	17.9%	20.1%
2020	…………………………	74.4%	39.6%	34.7%
2021	…………………………	329.9%	79.7%	250.2%
2022	…………………………	397.9%	47.2%	350.7%
2023	…………………………	432.2%	85.9%	346.4%
2024	…………………………	504.6%	133.8%	370.8%
2025 (YTD)	…………………………	617.6%	122.4%	495.2%
Annualized Gain	…………………………	38.2%	14.0%	24.2%

[1] The Fairlight Alpha Fund was launched on 01-Mar-2019 and so the 2019 performance and returns are presented for a 10-month period.

(1) The S&P 500 returns represent the total return index, i.e., with dividend reinvestment included. Increases in value arise from stock price appreciation as well as dividend reinvestment. This provides a fairer comparison to the fund.
(2) The Fairlight Alpha Fund performance is shown net of partnership fees and expenses.

The fund has outperformed the S&P 500 total return year-to-date in 2025. Several positions in particular showed a high level of outperformance and weren't correlated to the general market. And others held up well due to their margin of safety and cheap valuations. We will discuss these in more detail in the next section, as well as some of the more recent market volatility and current positioning of the fund.

Market and Portfolio Performance

The beginning of the year appeared to mark the beginning of a new regime in global markets and the economy in general. We will discuss the events of recent weeks shortly, but focusing on the first quarter it became increasingly clear that stocks like the Magnificent Seven were beginning to feel the effects of their lofty valuations as headwinds began to appear for AI. For instance, the emergence of models like DeepSeek—which delivers competitive performance using a fraction of the compute power required by systems like GPT, Claude, or Gemini—underscores how quickly the technological landscape can shift. This kind of rapid evolution makes it nearly impossible to forecast long-term trends such as GPU demand with any confidence. Large Language Models (LLMs) remain in their infancy, and significant gains in hardware efficiency are still to come—developments that will materially shape the growth trajectory of companies like Nvidia over time.

As of the time of writing the Magnificent Seven have returned between -12.7% (Microsoft Corporation) and -40.2% (Tesla, Inc.) since the end of 2024. An equally-weighted basket of the Magnificent Seven stocks has returned -22.0%[2]. This group has a combined market cap of $13.9 trillion and so this has had a major impact on the stock market indices over this period.

Overall, in the first quarter, the index declined as valuations and broader market concerns finally began to weigh on sentiment. The initial drop in January was sparked by inflation worries, following a CPI increase to 3.0%, though these concerns eased somewhat in February and March. However, early tariff threats from the new administration reignited volatility, further unsettling markets. Adding to this, the Federal Reserve signaled a delay in the anticipated rate cuts for 2025. As a result, defensive sectors such as utilities and consumer staples began to outperform technology and consumer discretionary stocks[3], marking a potential reversal of the dominant trends of recent years.

A driver of our returns for the first quarter was again our junior gold mining stocks: Monument Mining Limited and Serabi Gold plc, as well as another smaller undisclosed position. These appreciated by 60.7% and 43.3%, respectively, during the quarter. These businesses have obviously benefited from the increasing gold prices, with the price per ounce of gold now standing at $3,341 versus $2,629 from the prior quarter. But they also have tailwinds from increased production, improvements in production efficiency, and higher gold ore grades.

We have discussed in posts elsewhere our model for looking at these types of business (see our Substack articles for more details). In essence these are businesses that sell at a price tied to the commodity price and have total pre-tax income statement expenses approximated by the All-In Sustaining Cost per ounce. The variability and increases in the gold price gives these types of

---

[2] Perhaps the boom in AI and related technologies may be going through a similar stage to the UK railway boom in the 19th century. This is evident in London, particularly around King's Cross and the early stretch of the A4, where five major railway stations are clustered within a few miles of one another.
[3] See for example www.visualcapitalist.com/charted-how-every-sp-500-sector-performed-in-q1-2025

business enormous optionality on future price movements. And at current gold prices there is a very large margin of safety built into these stocks.

Now these businesses are generating huge amounts of cashflow. In Serabi's case this is surpassing all of the CapEx plans they had in place last year for their ore sorter, efficiency improvements, and exploration of the mine sites. This ore sorter, which uses X-ray and high-resolution color imaging to separate high-grade ore from waste, has significantly improved efficiency, reducing the volume and weight of material processed while substantially increasing the average grade. Over the past six months, this has helped lift mined grades from 5.3–5.4 grams per tonne (g/t), closer to 10 g/t.

Serabi's CEO Michael Hodgson had already stated in various interviews that if gold prices remained at Q4 2024 levels (or increased) then they would have excess cash that they would need to return to shareholders. Additionally, the following was disclosed in a company filing on April 14:

"In light of the excellent operational performance, strong prevailing gold price, cash position and anticipated cash growth ahead, the Company is currently assessing appropriate mechanisms to return capital to shareholders."

We see this as extremely bullish and from our experience, it always pays to listen to great company managers when they make statements of intent like this. It is also interesting to note in a filing a few days prior to this letter that a long-term shareholder has sold a block of stock to a leading Brazilian Private Equity firm (Starboard Asset Ltda.). Their involvement may also accelerate the value realization for Serabi Gold.

Monument has not specified how it plans to deploy its excess cash flow, but it is likely to support growth and expansion at its Murchison project in Western Australia. As part of this effort, the company has already begun leasing access to its Burnakura mill to third-party miners, including Odyssey Gold and Great Boulder Resources, which could help accelerate the eventual restart of mining operations at the site. The site is not currently operational due to a combination of prior capital constraints and a strategic decision to defer restart until more favorable economic or partnership conditions are in place.

Brave New World

Given the rapid pace of change this year we will discuss some recent events that took place after the quarter end. First of all we will extend the gold price table from our Q4 2024 investor letter:

Table: Historical gold price (COMEX)

Period	Gold Price Range ($/oz)	Median ($/oz)
Q3 2023	1,848 – 1,978	1,913
Q4 2023	1,817 – 2,082	1,949
Q1 2024	1,990 – 2,217	2,104
Q2 2024	2,237 – 2,434	2,335
Q3 2024	2,323 – 2,700	2,496
Q4 2024	2,566 – 2,789	2,677
Q1 2025	2,638 – 3,123	2,881
Q2 2025 (to 17-Apr-25)	2,951 – 3,327	3,139

The gold price per ounce now stands at $3,341, having risen since the start of the quarter amid increasing volatility. Recent tariff announcements have contributed to this, pushing up the VIX

index, often called the "Fear Gauge", and driving broader market turbulence across asset classes. These moves suggest the start of a new era in which the US will take a more proactive stance in defending its global interests, while signaling to other nations that they should no longer rely as heavily on American military or economic support. And with every piece of news or wave of uncertainty, gold has gained additional momentum.

Recent headlines have stirred volatility across global stock markets, and the stocks within our universe have been no exception. While the fund has outperformed the broader index so far this year, relative performance continues to shift day by day. As we navigate this evolving landscape, we're placing greater emphasis on new dimensions of the businesses we analyze, and are adapting our approach accordingly.

The first aspect to consider is the direct, first-order effects of the tariffs themselves. Increases in tariffs from the US, China, and other countries are likely to reduce global trade and introduce greater friction into supply chains. While this could contribute to higher inflation, the impact is not clear-cut. What does seem more certain is that any business heavily reliant on cross-border trade, supply chains or international partnerships, will face rising costs, unless explicitly exempt from the new tariffs.

Through this lens, we've re-evaluated all existing positions in the portfolio and are also examining new positions that we are considering in this way. What we are now searching for are quality businesses that can grow and flourish in this environment. A key category within these types of investments is strong domestic, national, or regional businesses, those with limited or no exposure to cross-border tariffs and the ability to grow within their own markets. An example of this would be Shelly Group, which is extremely strong in Europe, but has not yet begun to expand into the US. Within the European region they are unlikely to have any major constraints on their recent, exceptional growth.

Another example is Logic Instrument which is a robust device manufacturer and distributor based in France. The company operates across Europe and has recently received contracts from the French and German military. In this new world of increased military spending outside of the US they are a likely beneficiary. Similarly, companies positioned to gain from trends in onshoring and nearshoring, whether within the US or other key regions, are becoming increasingly attractive. Community and regional banks also offer potential defensiveness in this environment, though careful selection is essential. The most promising are those with conservative business models, strong regional focus, and limited exposure to broader global economic vulnerabilities.

Our strategy going forward is to combine high-quality, well-aligned businesses with targeted hedging and select junior gold mining positions, as discussed earlier. This approach is designed to protect capital while capturing upside from undervalued stocks in sectors we believe are poised to outperform in the years ahead. In future quarterly letters, we'll take a closer look at some of these key sectors, highlighting where we see the strongest opportunities for growth and resilience.

Crude Awakening

In previous letters, we discussed McCoy Global, an energy sector name that has performed very well. McCoy is a business that has largely de-linked from direct oil price dependence, thanks to its suite of technologies—such as Case Running Tools and integrated data capture and analysis systems.

Historically, we've avoided pure oil or energy plays, and given the current economic uncertainty, this might seem like poor timing to reconsider that stance. However, the exception may prove the rule: it's hard to overlook the deep value in a company like Valeura Energy Inc. (TSX: VLE).

This is a company we've recently begun to look at and are now monitoring closely, alongside developments in the oil price. Previously focused on operations in Turkey, Valeura expanded in 2022 by acquiring two of KrisEnergy's Thai offshore licenses: G10/48 (which includes the Wassana oil field) and G6/48 (containing the Rossukon oilfield). The initial purchase price was $3.1 million, with potential additional payments of up to $7 million tied to future development milestones. This was a strikingly low entry price for producing offshore assets, reflecting both the distressed nature of the seller and a broader lack of competition for Southeast Asian energy assets at the time.

Fast-forward to 2024, and the company has restructured its operations, consolidating its assets into a single subsidiary. This streamlining not only improves efficiency but also enables the company to make full use of previously accumulated tax losses—something the CEO estimates could contribute an additional $200 million in annual cash flow. Valeura has also initiated a share buyback program for 7.5 million shares and has already repurchased nearly 1 million shares, or about 1% of its outstanding stock, in Q1 2025. The company holds $238 million in cash, carries no debt, and has a market capitalization of $543 million.

Production increased by 12% in 2024, accompanied by a 2P reserves replacement ratio of 245%, meaning the company replaced more than double the volume of oil it produced over the year. Revenues for 2024 totaled $679 million. Additional exploration drilling is planned for 2025, which should further increase reserves. We'll revisit this as results come in, but based on assets, earnings, and cash flow, the set-up appears highly compelling.

<u>Certainty in Uncertainty</u>

Thank you for taking the time to read what we have to say, we hope that you find the discussion useful. We've also recently launched a Substack, where we share more frequent updates, deeper dives into individual stock ideas, and the kind of analysis described above in more detail. These are names we're actively researching and considering in real time. Going forward, all of our quarterly letters will also be published there, as well as the Letters section of our website.

The one thing that is certain, is uncertainty.

Yours,

A. Martin

Chief Executive Officer: Andrew Martin
Email: andrewm@fairlightcapital.com

Head of Marketing and Investor Relations: Michael Saunders
Email: michaels@fairlightcapital.com

Fairlight Capital LLC,
500, West Putnam Avenue,
Greenwich, CT 06830

203-542-7325 | info@fairlightcapital.com

THIS IS NOT AN OFFERING OR THE SOLICITATION OF AN OFFER TO PURCHASE AN INTEREST IN FAIRLIGHT ALPHA FUND LP (THE "FUND"). ANY SUCH OFFER OR SOLICITATION WILL ONLY BE MADE TO QUALIFIED INVESTORS BY MEANS OF A CONFIDENTIAL OFFERING MEMORANDUM AND ONLY IN THOSE JURISDICTIONS WHERE PERMITTED BY LAW.

AN INVESTMENT IN THE FUNDS IS SPECULATIVE AND INVOLVES A HIGH DEGREE OF RISK. OPPORTUNITIES FOR WITHDRAWAL, REDEMPTION AND TRANSFERABILITY OF INTERESTS ARE RESTRICTED, SO INVESTORS MAY NOT HAVE ACCESS TO CAPITAL WHEN IT IS NEEDED. THERE IS NO SECONDARY MARKET FOR THE INTERESTS AND NONE IS EXPECTED TO DEVELOP.

THE FEES AND EXPENSES CHARGED IN CONNECTION WITH THIS INVESTMENT MAY BE HIGHER THAN THE FEES AND EXPENSES OF OTHER INVESTMENT ALTERNATIVES AND MAY OFFSET PROFITS. NO ASSURANCE CAN BE GIVEN THAT THE INVESTMENT OBJECTIVE WILL BE ACHIEVED OR THAT AN INVESTOR WILL RECEIVE A RETURN OF ALL OR PART OF HIS OR HER INVESTMENT. INVESTMENT RESULTS MAY VARY SUBSTANTIALLY OVER ANY GIVEN TIME PERIOD.

THE PERFORMANCE DATA SHOWN HEREIN REPRESENTS THE PERFORMANCE OF THE FUND. THE RESULTS REFLECT THE DEDUCTION OF: (I) AN ANNUAL ASSET MANAGEMENT FEE OF 2%, CHARGED QUARTERLY; (II) A PERFORMANCE ALLOCATION OF 20%, TAKEN QUARTERLY, SUBJECT TO A "HIGH WATER MARK;" AND (III) TRANSACTION FEES AND OTHER EXPENSES ACTUALLY INCURRED BY THE FUND. THE RESULTS REFLECT THE IMPLEMENTATION OF THE INVESTMENT STRATEGY DESCRIBED IN THE FUNDS' OFFERING DOCUMENTS AND APPLIED IN THE FUNDS' TRADING ACCOUNTS. ALL INVESTMENTS INVOLVE RISK, INCLUDING THE LOSS OF PRINCIPAL.

RESULTS ARE COMPARED TO THE PERFORMANCE OF THE S&P 500 TOTAL RETURN INDEX (THE "COMPARATIVE INDEX") FOR INFORMATIONAL PURPOSES ONLY. THE FUND'S INVESTMENT PROGRAM DOES NOT MIRROR THE COMPARATIVE INDEX AND THE VOLATILITY OF THE FUND'S INVESTMENT PROGRAM MAY BE MATERIALLY DIFFERENT FROM THAT OF THE COMPARATIVE INDEX. THE SECURITIES OR OTHER INSTRUMENTS INCLUDED IN THE COMPARATIVE INDEX ARE NOT NECESSARILY INCLUDED IN THE FUND'S INVESTMENT PROGRAM AND CRITERIA FOR INCLUSION IN THE COMPARATIVE INDEX ARE DIFFERENT THAN THOSE FOR INVESTMENT BY THE FUND. THE PERFORMANCE OF THE COMPARATIVE INDEX WAS OBTAINED FROM PUBLISHED SOURCES BELIEVED TO BE RELIABLE, BUT WHICH ARE NOT WARRANTED AS TO ACCURACY OR COMPLETENESS. UNLESS NOTED OTHERWISE, THE RETURNS OF THE COMPARATIVE INDEX PRESENTED HEREIN DO NOT REFLECT FEES OR TRANSACTION COSTS, BUT THOSE RETURNS DO REFLECT NET DIVIDENDS, IF ANY.

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.