Fairlight Alpha Fund LP

Q3 2025 Letter

Dear Partners,

Fairlight Alpha Fund's returns in the third quarter 2025 were 16.8% net of fees. This compares to 8.1% for the S&P 500 Total Return index. Overall, since inception the fund has returned 814.1% net of fees and 39.9% 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 2019-2025 (YTD), 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)	…………………………	51.2%	14.1%	37.1%

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)	…………………………	814.1%	166.8%	647.3%
Annualized Gain	…………………………	39.9%	16.1%	23.8%

[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 for nine months of 2025 by a good margin. Several positions have performed well across the portfolio, including the junior gold miners. We will discuss in more detail later, but gold appreciation has been a tailwind for the fund this year. But looking across the rest of the portfolio the performance has been broad, across several sectors.

Market Outlook

During the quarter, the S&P 500 continued to perform well, led by the Technology, Communication Services, and Consumer Discretionary sectors. Within these sectors, the so-called "Magnificent Seven" stocks had trailed the index for most of the year but began to outperform again from early September, ultimately surpassing the index's average year-to-date performance.

Increasingly, talk of a bubble and concerns over the high AI-technology stock valuations have increased the levels of fear around the market. Many have compared the current situation to the late 1990s, but we see a key difference here in that there is current and increasing demand already for many areas of AI technology. Although use cases are still being determined across many sectors, the potential for the technology is clear. Open AI and LLM technology is just one aspect of these technologies, it's worth keeping in mind that there is an as yet largely untapped potential for a robotics boom that hasn't yet even begun.

In parallel with this the gold price has continued to rise. Starting the year around $2,650/oz and rising to $3,800/oz by the end of the quarter, it now stands, as at the time of writing, at $4,020/oz. Our investments in the junior mining sub-sector have performed well, even though the valuations lag the gold price itself and at current price levels are still exceptionally cheap. By our estimates they lie in the 2.0-2.5x free cash flow range.

As an early indication of additional rerating potential, the price action for Monument Mining after their earnings release on October 15, is worthy of note. The company announced several very positive developments in its release, including: a near doubling of revenue to over $98 million up to fiscal year-end 2025 (June 30); net income of $37.5 million for the year, up from $6.4 million in the prior year; reduced cash costs and AISC; and increased production and efficiency. This led to the shares rerating by 50% in a few hours, but which still undervalues the company at this point.

Serabi Gold by comparison has just reported its Q3 2025 operating results (to September 30), and will report full financial results at the end of November. If they show as good execution on the financial side, given the tailwind from gold prices, that could also begin to rerate as the operating leverage of effects of such high gold selling margins show through. It's also worth highlighting that this unreported Jul–Sep position is already *locked in*, as well as the first month of Q4, at much higher gold selling prices than previous quarters.

Portfolio Performance

However, the portfolio returns this quarter have been broad-based with several positions contributing to performance. This appeared as idiosyncratic changes that didn't necessarily correlate with particular market movements. In spite of this performance, because of portfolio rotation and optimization, the internal measures that we use show that our portfolio is cheaper now than it was at the beginning of the quarter.

Beng Kuang Marine (BEZ.SI) is a Singapore-listed marine engineering firm that has executed one of the most striking turnarounds we've seen in the companies that we have analyzed. Under a new CEO since 2021, the company has transformed from a capital-intensive, debt-laden shipyard operator into a service-oriented, highly cash-generative business. Non-core and asset-heavy divisions have been sold, debt has been cut from over S$40 million to just S$8 million, and cash now exceeds S$22 million, leaving the balance sheet in a net cash position. The focus is now on higher-margin Infrastructure Engineering and Corrosion Prevention services, particularly maintenance and refurbishment of FPSOs; an aging, high-value global fleet where recurring contracts and technical trust create unusually sticky revenues.

The results have been dramatic. Gross margins have expanded from the mid-teens to well over 30%, revenue has doubled since 2020, and free cash flow exceeds reported earnings. Despite this, the company trades on a mid-single digits earnings multiple, implying little recognition of the structural shift already achieved. BKM is now a growing, asset-light services business with a durable competitive niche and strong financial discipline. This idea is somewhat redolent of McCoy Global when we first encountered it, even operating in a related sub-sector. We believe the market is still anchored to its past, leaving substantial upside as the company continues to execute and allocates its growing cash balance.

Currently the market cap of Beng Kuang is S$71 million. Revenues in 2024 were S$111.9, net income S$11.5 and free cashflow estimate at S$13.6 million. Taking net income to a ratio of 12x gives an implied value of S$138 million. Noting that the company has net cash of $S15 million, we could also add this in to get a total value of S$153 million. Even given the price appreciation this year this is significantly more than the current valuation.

In addition, one relatively small short idea has been added to the portfolio[2]. A particular corner of the market that is excessively valued, and where investor expectations do not match what the future holds for this and several other similar companies. We don't discuss short positions publicly, as doing so can sometimes generate more emotion than analysis. Our objective is to be directionally right over time, not to influence prices or participate in the noise that often surrounds short ideas. We hope that these companies do succeed from a societal perspective, but we think in the short-term that they will struggle financially.

<u>"Things done well and with a care, exempt themselves from fear"</u>
— *William Shakespeare, Henry VIII*

Much has been spoken about the current AI boom and whether there are any parallels that we can draw from the past to inform what is happening. Are we in the 1979–1980 Gold Mania? Or, looking at the private credit funds and PE continuation vehicles, are there echoes of the Global Financial Crisis from 2006-2009? There may be elements of all of these, but focusing on the AI and data center aspect of the current market, it seems to mirror a segment of the technology crash from 2000. Specifically, the communications technology CapEx that created the backbones of the internet: long-haul fiber, optical, undersea cable, routers and switches.

For those that don't recall using the internet in the mid 1990s, a typical experience would have been something like the following. Get a modem to connect your computer to the internet first of all. Let's say we have gone for top of the range "blazing" fast 56K U.S. Robotics modem costing around $250 and have signed up with America Online paying $19.99 per month for their standard pricing plan. It's 1996 and so no limits to access (unless peak hours usage caused bottlenecks in your access speeds).

2 This has been executed as a deep out of the money long put position with medium term. Limiting any downside, but will provide a meaningful return if the thesis plays out.

After a minute or two, your computer has finally switched on and the Windows 95 logo appears, powered by an Intel Pentium I 100MHz CPU, you launch AOL sign-on and click through. After telephone ringing sounds, followed by high-pitched screeching-scratching you see the connected message and can access all of the AOL portal features, such as email, news sports, games, and entertainment. There is no Google, so your access is through the portal pages, unless you leave their ecosystem and try Yahoo!, Alta Vista or Ask Jeeves to search web pages..

Revisiting that experience highlights how many bottlenecks there were in terms of speed of access to the internet back then. Communications occurred via the same copper wires used for landline telephones, if a member of the household picked up the phone it would cut off the internet. And even with a continuous connection web surfing was incredibly slow, web pages would load line by line, crude graphics, gifs pushed the boundaries of what was possible, and the idea of having more than one tab open was science fiction.

But the potential could be seen, the ability to connect to any customer anywhere in the world, expanding across geographies more easily than ever before, and the potential for new businesses to exploit the huge network effects of the web. Businesses like Amazon, eBay, Google, and Facebook, took root in this environment. But first the data and communication bottlenecks had to be overcome and so huge amounts of CapEx were invested across several domains to solve this problem.

As described above most residential users were on 28.8–56 kbps modems. Corporate networks leased faster lines like T1/T3 (1.5–45 Mbps), but these were extremely costly.
To begin to solve these problems long-haul fiber was put in place by Global Crossing[3], Level 3, Qwest, and Worldcom laying millions of miles of fiber globally. Optical equipment was put in place by JDS Uniphase, Nortel, Ciena, Lucent and Corning. Routers and switch infrastructure was built by Cisco, Juniper, and undersea cables laid by Alcatel and Tyco (and Global Crossing). Data centers were built by PSINet, Exodus, and AboveNet. During this period global fiber capacity grew by 100×, while internet traffic “only” grew ~2–3× per year.

In particular the development of DWDM technology (Dense Wavelength Division Multiplexing) allowed engineers to send many distinct wavelengths (colors) of laser light down a single fiber each carrying an independent data stream. Before this technology a single fiber could carry a few Gigabits per second (Gb/s), but afterwards this became hundreds of wavelengths each carrying 2.5-10 Gb/s or more of data. This increase occurred on the existing fiber network and required no new cables to be laid. Vendors had built capacity on the basis that the bandwidth was scarce, and overnight there was a glut, causing a 90-99% price drop in bandwidth costs and triggering a wave of bankruptcies. This huge, sudden overcapacity meant that most of the fiber went “dark” for years, sitting unused until it was “lit up” much later into the 2000s or 2010s.

This overbuild became the backbone of the modern internet and the foundation of what we use today. The low bandwidth costs that had resulted from the above overcapacity-induced collapse enabled businesses like YouTube (2005), Netflix streaming (2007) and cloud computing (AWS, 2006) to flourish. The survivors like Level 3, Verizon, and AT&T bought assets for pennies on the dollar. All told, the internet crash wiped out a huge amount of market value (more than $2 trillion).

This has parallels to today. There is a surge in CapEx being invested in data centers, GPUs, and compute for usage by AI, LLMs, originally for training new models, but now with a switch more towards inference, to use the outputs of these trained models. Early use cases like Google Gemini and MS Copilot are becoming more widely adopted across business, helping users with a wide

[3] Many of these names are now infamous because so many went bankrupt on the back of this expenditure to create the infrastructure that would take another 20 years to become fully utilized.

variety of tasks. And the take up in OpenAI GPT models has been extraordinarily fast: growing from zero to several hundred million weekly users in less than three years. Now there is a rush towards robotic technologies, AGI (generalized intelligence), and embodied AI models inside physical robots and vehicles. These latter emergent technologies could trigger new waves of demand.

The bottlenecks in compute are being removed, but it is impossible to say when this might switch to overcapacity. Companies such as Meta have openly stated that they are going to invest $100s billions into compute capacity, because to be left behind is to fail, and overinvestment is clearly seen as a necessary cost in order to succeed. What seems increasingly clear is that many of these businesses, and the smaller players within their ecosystems, face risks similar to those of the telecom companies during the internet boom and crash. Yet they appear to have little choice but to keep investing, with the scale of required spending difficult to quantify.

However, AI and AI-adjacent names should have several elements to the thesis. We look for growth, cheapness, as well as quality, and a momentum to the thesis. Cheapness can be measured via a variety of metrics, and quality gleaned from learning about the business and management. The momentum or freshness of each idea can also be determined from analysis of general investor interest, whether a name is being actively hyped, or is a relatively unknown name. Momentum in the price of the stock itself can sometimes highlight where a name is on its discovery journey.

As for growth, some of the AI names have seen huge growth in sales in the most recent quarters. We try to look beyond this, looking for any signs of weakness, whether temporary, and whether a particular business has other non-AI elements to its business strategy and growth. The ideal stock might be like a mini Comcast: benefitting from the tech boom, but with “old” economy elements. There are several infrastructure stocks that are still benefiting from these tailwinds, but still provide some downside protection, such as Smith Midland or Perma-Pipe Holdings.

Looking Ahead

In our ongoing attempts to look forward to where companies, the markets, and economies that we invest in, may be in 2–3 years time, we face a difficult challenge because of the number of moving parts. Navigating uncertainty is always challenging, and there are a lot of competing forces that are pulling in opposite directions. On the one hand AI has the potential to be a larger change than the internet, but valuations are getting stretched and CapEx becoming circular and excessive.

It is always illuminating in these, or any other circumstances to start from the bottom up and analyze what is happening on the ground, one company at a time. Looking through the financials, reports, press releases, and filings of thousands of companies gives a unique insight (albeit lagged) into the actual impacts of all of the things that are currently in the news on a day to day basis. It’s possible to ask for a particular country, region, sector, or company, what actually has the impact of AI been so far, did tariffs hurt this company yet, is uncertainty altering strategic direction, and how have all of these things impacted growth?

Often the impacts are much less than might be expected from just reading news pieces on the latest trends. A company that makes robust devices, IoT technology, or produces oil will likely be much more impacted by its own decisions and specific sector forces. Although, it can be generally interesting to consider macro forces, and long-term directions, the strongest force impacting our portfolio company valuations is always the businesses themselves. So we aim to spend the vast majority of the time looking at them through this lens.

Stories

As mentioned in previous letters we started Substack posts earlier in the year. There are a couple of variations in the types of posts we write — including posting quarterly letters and the occasional retrospective review of successful letters and articles — but they primarily focus on reviewing live or current ideas that we are investigating for the portfolio. The target was to review a brand new name at least once every two weeks, to help generate more ideas, and crystallize thinking on potential investments. This has worked well so far and we look to continue this process as an enhancement to our pre-existing idea generation.

One idea this has shone a light on, is that each stock is a story. When looking at any business, it's easy to focus primarily on financial results, returns, and forget that a company is a collection of individuals working towards a common set of goals. The company has a story: its history, how it got to where it is today, what is driving it forwards, and what this might mean for the future.

As the investor digs into the detail of the story, it becomes more three dimensional, the people involved become clearer and the reasons for decisions taken at each step start to make more sense. The better a job one can do of describing the story, the higher the likelihood that future estimates and predictions for the thesis will hold true.

Everyone has to write their own story for each business, and it is sometimes surprising how different those stories become. For the same background and set of facts one investor might go long and one might go short, or one might not invest at all. The biases, perceptions, and judgements of each person then come in to play as to what they see as most important. Then it is only a matter of time that will prove who has been the most accurate.

Sign Off

Thank you for reading these letters. We hope they provide you with some insights into our investment approach and thinking. We will strive to continue to implement and develop our ideas and achieve the best results possible in each market environment that we encounter. For more frequent investment ideas please visit our Substack pages, which are free for our investors. We welcome any enquiries, questions or feedback.

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

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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.