

## Fairlight Alpha Fund LP

### Q4 2024 Letter

Dear Partners,

Fairlight Alpha Fund's fourth quarter 2024 returns were -0.5% net of fees. This compares to 3.0% for the S&P 500 Total Return index. Overall, since inception the fund has returned 504.6% net of fees and 36.1% on an annualized basis.

#### 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

<u>Year</u>	<u>Fairlight Alpha Fund</u>	<u>S&amp;P 500 (Total Return)</u>	<u>Difference</u>
2019 <sup>1</sup>	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%

#### Compounded Returns

<u>Year</u>	<u>Fairlight Alpha Fund</u>	<u>S&amp;P 500 (Total Return)</u>	<u>Difference</u>
2019 <sup>1</sup>	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%
Annualized Gain	36.1%	15.6%	2.4%

<sup>1</sup> 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 performed less well than the S&P 500 (Total Return) for full-year 2024. Some positions worked out well through the fourth quarter, but there was some year-end selling and pullback in several names. This has already reversed in 2025 with the fund up significantly since the beginning of the year. We will discuss some of our current ideas in the next few sections that are driving current returns and we believe will perform well going forwards.

Market and Portfolio Performance

The market continued in the same bullish vein since our last letter, through the remainder of 2024. The Magnificent 7 stocks performed well up to year end, helping the S&P 500 drive to new highs. This pattern has reversed to date, with five of the seven names falling since the beginning of the year. But it remains to be seen if this is the beginning of the end for the exuberance in that corner of the financial markets. Perhaps the CapEx requirements of AI, or reversal of that expenditure, will start to introduce an element of realism into the valuations of these stocks. And perhaps not.

This is not an area of the market we focus on at Fairlight, we primarily mention it here because the S&P 500 Total Return is used as a benchmark for our returns (as a comparison of something else an investor could invest in within the equity asset class). Our correlation is low to this index and so we would expect that our future returns will not be strongly tied to this index, and as ever we will try and beat it over the medium and long-term on an absolute basis.

One area of investment for us that has performed well and had a low correlation to the general market are the junior gold mining stocks we own (Monument Mining Limited and Serabi Gold plc, as well as another smaller undisclosed position). These businesses are typical of the kind that we look for, but a variation versus some of those we have looked at in the past. They are similar in that they are experiencing inflections in their business growth and cashflows, but different in that they are fundamentally commodity businesses.

Commodity businesses are not typically liked by Value and GARP investors, and we have not invested in these kinds of businesses in the past. But, as they say, the exception proves the rule. Commodity businesses are often not very good performers, in that they take prices and have little or no control of the price at which they sell to the market. The flip side is that in a bull market, prices rise across the board, competition is irrelevant, and all businesses selling that commodity get broadly the same increasing price. The selling price of gold doesn't vary much by region or type of gold or gold ore sold.

**Table: Historical gold price (COMEX)**

Period	Gold Price Range (\$/oz)	Median (\$/oz)
Q3 2023	1,848.10 – 1,977.50	1,912.80
Q4 2023	1,816.60 – 2,081.90	1,949.25
Q1 2024	1,990.30 – 2,217.40	2,103.85
Q2 2024	2,236.50 – 2,433.90	2,335.20
Q3 2024	2,323.00 – 2,699.90	2,496.45
Q4 2024	2,565.70 – 2,788.50	2,677.10
Current (08-Feb-25)	-	2,886.10

Serabi and Monument sell into the market prices (selling at a commercial discount) shown in the table above and so their revenue is directly related to the difference between the selling prices achieved each quarter, minus the AISC (All-In Sustaining Cost). For Serabi the AISC is in the range \$1,600/oz–\$1,800/oz and for Monument it's lower at \$1,200/oz for the last quarter. Monument is one of the lowest cost gold producers out there. It should also be noted that Serabi has increased production and introduced an ore sorter into their operations and so it is highly probable that their AISC will drop significantly in coming quarters (estimated to drop to \$1,400/oz) as higher grade gold ore is shipped after going through the sorting process<sup>2</sup> and production volumes increase sharply.

Both of these companies are currently enjoying the benefit of being in a commodity business. There is no new competitor that will reduce gold prices, or a new technology that will disrupt them. The gold price can be observed by all investors and one can see from the table the price versus AISC has been steadily increasing. Each quarter (with Q4 prices now already achieved as can be seen in the table above) will have record revenues for both these companies and record cashflows. We think of this financial situation akin to being able to receive a call option on gold prices struck at the AISC for each company and settling at the quarter end gold price. The benefit of this accrues both as time passes and new call options are received and if there are any increases in the gold price itself.

Both companies are building up cash with the increasing cashflows, have negligible debt and in both cases there are multiple choices as to where their capital can be allocated. For both there are opportunities to grow their businesses through mine exploration, which has the benefit of both finding additional deposits, or confirming existing resources to higher certainty reserves which are much more valuable, and more likely to be converted into future cashflows.

The higher revenues haven't just been driven by the gold price, both of these companies have been increasing production with Monument ramping up its sulphide ore production (opened up at the end of 2023) and refining their flotation tank processing. And Serabi as mentioned above is increasing production through its ore sorter and expects to produce 46–47 koz in 2025, and another \$20 million in cash generation (this estimate was given when the gold price was at \$2,512/oz). Ultimately their target is to reach 60 koz of gold production and they have a clearly defined plan to reach this level of production over the next 1–2 years.

### Buying Cashflows

A new idea for us is BranchOut Food Inc., a food-tech company. They produce freeze dried, healthy food using fresh produce from farmers, now mainly in Peru after the opening of their processing plant in Q4 2024. This company has been growing revenues for several years and looks set to continue its growth path this year powered by the much higher production capacity at its Peruvian production plant, coupled with continued, growing demand for its products. The company's customers include Walmart Inc. and Costco Wholesale Corporation, and the range of products and locations has expanded in recent quarters.

To give an idea of recent growth, the revenue of the company has grown from \$2.8 million in 2023 to a forecast \$8 million in 2024. In this time operating leverage has started to impact results and the company forecasts that it will turn cashflow positive in Q1 2025. In part this is because of \$4 million of sales forecast from the US's largest warehouse club. The company also highlights the increasing breadth of distribution of its products:

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<sup>2</sup> The amount of ore that then needs to be shipped is reduced by 45% to 50% once being processed by the gold ore sorter.

- Los Angeles Region: Chewy Banana Bites, Bell Pepper Crisps, Brussels Sprout Crisps
- Southeast Region: Pineapple Chips
- Bay Area Region: Bell Pepper Crisps
- Texas Region: Crunchy Strawberry Halves, Bell Pepper Crisps, Brussels Sprout Crisps

We have monitored various news items and social media posts from BranchOut. This has highlighted that shipments started in early January 2025 to fulfill some of these new payment orders. From our estimates the container shipments should be related to at least \$2 million in sales already, and demonstrate the ongoing operations at the Peru facility.

Given that the company is taking produce (fruit and vegetables) from local farmers, processing in Peru and shipping to the United States it will likely have a cost advantage over other competitors with operations in the US. It also has what appears to be an increasing moat given its customer base and increasing geographic footprint. The new facility is also stated to have total annual capacity of \$40 million.

Year-on-year growth was 186% from 2023 to 2024 and BranchOut is projecting \$3.8M in net revenue for Q1 2025: an increase of 150% from the prior year. Based on this increasing revenue and the related earnings increases the company is trading in the region of a 6x EBITDA valuation. There is some complexity in the capital structure given an investment of \$3.9 million comprising of a convertible note (to Kaufman Capital) of \$3.4 million and common stock investment by the CEO, CFO and company President. However, the company plans to be debt free by the end of 2025. If they can achieve this goal, with little or no dilution to shareholders then the company is likely to drastically revalue through 2025.

#### Other Ideas

Logic Instrument S.A. recently announced its full-year revenues for 2024 coming in at EUR 27.4 million or an increase of 68% versus the prior year. Mr. Market was not happy with this result, partly because the CEO had stated that he was targeting EUR 30 million for the full-year. The reason given for this was that some logistical issues had occurred towards the year-end pushing back the delivery of some of their goods. Now, while overpromising and underdelivering is not ideal, we believe the actual performance of the company has been exceptional.

For 2025 the CEO has stated that they are targeting revenue of EUR 50 million from their business of rugged devices and laptops. This is a high target and we believe that even if the company falls short of this that they will have another exceptional year of growth and performance ahead of them. Before readers go to check the financials and market cap of this company, think to yourself how you might value a company like this in a niche market with niche products and few competitors. What multiple of earnings and cashflow would you be prepared to pay?

We can debate how large their ultimate SAM and SOM will be. The TAM for the whole market we estimate to be at least \$3.4 billion for 2023. And the component they might reasonably address (SOM) is \$595 million based on their geographic (Europe) and sector focus (defense and industrial). We believe that they will have high growth for many years ahead. One might estimate that such a business might trade between 12-15x earnings (given their small market cap, and niche business) and perhaps 2–2.5x revenues. Currently Logic Instrument S.A. trades for 0.38x full-year 2024 revenues.

And Finally

Thank you for reading this letter. If you would like to know more about Fairlight Capital, reach out to us using our contact details below. I hope everyone has a happy and prosperous year.

Yours,

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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.**