Fairlight Alpha Fund LP

Q4 2025 Letter

Dear Partners,

Fairlight Alpha Fund's returns in the fourth quarter 2025 were 9.9% net of fees. This compares to 2.7% for the S&P 500 Total Return index. Overall, since inception the fund has returned 904.9% net of fees and 40.1% 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, 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	…………………………	66.2%	17.2%	49.1%

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	…………………………	904.9%	173.9%	731.0%
Annualized Gain	…………………………	40.1%	15.9%	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 outperformed the S&P 500 total return for 2025. This result was driven by a combination of factors. This includes the significant appreciation of our junior gold and silver miner positions, the successful realization of our investment theses across several sectors as well as an opportunistic short position.

Markets

The year 2025 was an extraordinary one across many markets. Global equity markets initially rose, continuing the bull theme of the prior year, until early April when “liberation day” ushered in a new era of competitive globalization with the new US administration announcing a range of tariffs across more than 180 countries and territories. This was explained as a strong, positive move for the US to take back control of trading relationships and obtain a fairer deal, partly to help the US improve its trading deficits with other large economic powers.

The equity market projected forward and saw this as a huge negative for the US and the global economy, predicting that a global recession would ensue and that tariffs would be paid by the US consumer and curtail growth in the US, as well as potentially cause a surge in inflation. Following these April 2nd announcements the S&P 500 fell by 12.1% bottoming out on April 8th. However, as time passed the negative effects of the tariffs didn’t materialize and the market continued its rally until the end of the year, finishing up with a positive return of 16.4%.

In the Rates and Fixed Income world, the story was one of stabilization after the period of higher rates for longer; the Fed started to slowly reduce rates and US corporate bonds had a minor rally. Inflation remained stubbornly above the arbitrary 2% target of the major economies but remained stable in most western economies over 2025. The ECB struggled with stagnation and cut rates more aggressively, and Japan as an outlier raised rates (from very low levels) to effectively end the "Zero Interest Rate Policy" (ZIRP) era for good.

Commodities across a range of elements had historic price action, with gold rising from $2,650/oz to $4,400/oz, silver from $30/oz to $72/oz, and platinum from $900/oz to more than $2,100/oz. The cause and effect of the gold rally has been the subject of much debate. However, whether you believe this has been driven by central bank purchases, is a fear-driven rally, or is caused by a complete change in sentiment and perspective on precious metals, the bottom line is that it happened. Oil held steady throughout the year with seemingly opposing forces acting upon it. Demand continues to increase and let’s not forget that this isn’t just energy driven, because oil is a critical input into industrial processes, petrochemicals, plastics, fertilizers, pharmaceuticals, and a wide range of modern materials. Even if all energy generation switched away from fossil fuels, at this point the modern world can’t function without oil. Meanwhile OPEC has increased supply, but incremental supply elsewhere increasingly depends on capital-heavy sources such as shale (fracking) and deepwater projects, where decline rates are steep, costs are higher, and sustained output requires continuous investment.

For cryptocurrencies, 2025 was a year of maturation. The bulls would have wanted large double-digit increases across Bitcoin and other cryptocurrencies, but the story of the year appeared to be stabilization. Ultimately this may prove to have been a good turning point for this new market and highlight cryptocurrencies as a store of value, or it may signal the end of an era. Taken together, these market outcomes represent second-order effects rather than primary drivers of our investment process.

Macro volatility, narrative shifts, and policy uncertainty can obscure underlying fundamentals, creating security-level pricing distortions. And businesses that are growing, generating cash flow, and improving fundamentally can remain mispriced because they sit outside prevailing narratives, are misunderstood, or are in the early stages of inflections that have yet to be recognized by the market. Our approach is designed to take advantage of all such dislocations wherever they arise, whether they are created by macro themes, as seen in parts of the precious-metals complex this year, or micro-distortions from misunderstood lines in a financial statement, overlooked disclosures, or trends in key operating metrics.

Portfolio Performance

The top performers for us in 2025 include Monument Mining Limited, Serabi Gold plc, Logic Instrument S.A., Shelly Group SE, and BranchOut Food Inc., among others. We will discuss the first two together as they relate to the junior gold miner subsector. They both benefitted from increasing gold sale prices, increased production and optimization, as well as excellent management.

Starting with Serabi Gold, we would point the interested reader towards an excellent interview with the CEO Mike Hodgson released on September 13, 2024 by Crux Investor.[2] This discussion covers the future plans and projects for the company to reach a targeted 60,000oz of gold production, noting that for 2024 they reached 37,520oz. Their strategy to achieve this growth includes commissioning an ore sorter to enhance processed grades through color-based ore sorting, expanding exploration activity, and improving the efficiency of ore transportation and logistics.

The ore sorter is now online and operating, and exploration continued through 2024 and 2025, with some results still outstanding, and continued ramp up of the Coringa mine. Production for 2025 was 44,169oz with management guiding for 53,000oz to 57,000oz of gold production in 2026. The story here, as with the other junior miners that we have invested in, is of increasing production against a backdrop of high gold prices. It should be highlighted that our original thesis did not depend on rising gold prices; they could have remained the same, or even fallen and the valuations would still have been cheap.

Serabi and many of the other miners still remain cheap, arguably as cheap as when we first purchased them as the market catches up to the current reality of the cash flow that is being generated by these companies. If we assume the lower end of management guidance for production and assume a 20% drop in gold prices, combined with the historical AISC, this gives an operating cash flow of $111 million (with no change in gold price this would be $162 million). Compare this to the enterprise value of Serabi which currently stands at $340 million[3].

Similarly, Monument Mining has been ramping up production of gold from their sulphide ore mine (having smartly switched from oxide ore processing several years ago). They reached a level of production of 13,092oz in Q1, 2026 (quarter ending September 30, 2025), as well as reaching a level of cash of $62 million. Again, management has been excellent here, increasing operational efficiency, production levels, as well as funding new exploration from cash flow. The hidden optionality here is the Murchison mine complex in Australia. Even if we assign zero value to this asset we still reach the conclusion that this name is currently too cheap.

Monument Mining is also exceptionally efficient having achieved AISC levels in the region of $1,000/oz to $1,100/oz. Taking the current production run rate (which of course may vary), current

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[2] See the video link here: https://www.youtube.com/watch?v=-TX7D100r1c

[3] Please bear in mind that all valuations, prices, and market cap calculations were correct at the time of writing. The market is moving so quickly now that these may have changed substantially by the time you read this.

gold sale prices give an approximate 2026 operating cash flow of $192 million. Monument currently trades at an enterprise value of $250 million.

Investors may instinctively fear a stock that has risen 600%, assuming the 'easy money' has been made. In the case of Monument, we believe this is a mistake. In August 2024, investors were paying ~1.1x operating cash flow for what was arguably a more risky business than today, because it hadn't fully optimized and ramped up production and operations. Today, after the stock has appreciated by 600%, we are still only paying ~1.25x operating cash flow for a fully operational mine that has now re-ramped up gold production using sulphide ore.

The market is offering us a paradox that is sometimes seen in deep value stocks: the stock price has risen by a large margin, but the valuation remains very similar to 18 months ago. We are effectively buying a de-risked asset today for the same 'distress' multiple paid before. This return may seem large and perhaps deter new investors, but was largely a result of the equity market catching up with gold price movements. There is also one other gold mining name that we believe is extremely undervalued, we won't mention it here just yet, but interested readers can refer to our recent Substack posts.

Looking at the rest of the portfolio, there were several other contributors to performance in the last year across a variety of sectors including technology, energy, and consumer discretionary. Starting with technology the largest contributor was Logic Instrument, a manufacturer and distributor of robust laptops, tablets, and other devices. We have discussed this name elsewhere but we believe this business has a very strong moat within a niche subsector.

Their salesforce has built up a unique set of relationships with a customer base across Europe that is revealed periodically when new deals are announced. In addition, the nature of the business is such that new entry is difficult because of the high level of certification requirements for these devices in terms of their ability to withstand high temperatures, pressures, and shocks within inhospitable environments. These products sell into military, exploration, research, and industrial applications and use cases. Geographically, their competition is also reduced due to the embedded nature of the company across Europe, with any similar companies having different market focus and niches within the industry. There has been some comparison to generic device manufacturers and distributors, but this misses the niche requirements of this business.

The valuation for Logic Instrument is still extremely cheap, even with the price having run up 96% since we first started purchasing. In that time, sales have increased from €27 million to an approximate run rate now of over €40 million. It should be highlighted that the CEO, Loïc Poirier, is very bullish on the company, but has had a recent tendency to overpromise on growth (perhaps understandably he is overly optimistic). In 2025 he stated that revenues would be €40 million, but they fell short to €32 million.

For 2026 he has stated that sales will be more than €75 million. This may seem like a stretch in terms of the growth that would be required to reach this figure, but bear in mind the company will now be including full-year revenues from their Distrame purchase (estimated to add €26 million alone), billing from the German defense sector (some of which slipped from 2025, hence the reduced revenue), and additional sales from the GLACIER and Artic businesses.

Even if sales fall short of these estimates they will have increased significantly from 2024 levels. With the market cap under €17 million, this is a significantly undervalued company. For a company of this size, it is reasonable to estimate that pre-tax earnings margins could increase above 8% at a conservative 2026 revenue of €50 million, or €4 million pre-tax earnings. In a more bullish scenario with revenues of €75 million, and increased margins of 10%, we get to around €8 million pre-tax earnings. Reaching this level would make the valuation disconnect hard for the market to ignore.

Shelly Group has been discussed extensively elsewhere and is more of a well-known name. Suffice to say it shows all the hallmarks of being a long-term compounder, having grown revenues by 40.2% in 2024 and 44.0% 1H 2025 year-on-year. It has some competition, but within its pricing model looks capable of dominating residential IoT.

The clever move here has been the pivot from 'hobbyist' roots into the professional infrastructure channel. The DIN-rail 'Pro' line is fast becoming a standard for electricians in the DACH region. The software strategy is also excellent, integrating with ecosystems like Home Assistant and KNX rather than fighting them, which we think positions Shelly as the pragmatic winner in a fragmented market.

Finally, BranchOut Food is a very interesting situation. This company, founded by Eric Healy[4], a former mechanical engineer at Boeing, is a producer of dried foods using a novel technique called GentleDry™. This process combines a partial vacuum with gentle microwave heating to dry out and create a variety of foods such as salted bell pepper chips, crunchy strawberry halves and crunchy pineapple chips. As opposed to freeze drying, the chips retain more color, flavor and nutrients (95% of the original is preserved) and the process is lower cost.

The company is based in Oregon, but its manufacturing base is in Peru near the farms that create this produce, so shipping and production costs are reduced and food is fresh. They buy "ugly" produce that reduces costs, increases farm income, reduces waste, and has no impact on the final dried product. They have three business segments: branded retail, private label (for the largest retailer in the US and the largest warehouse club[5]), and ingredients. Each of these areas has been expanding rapidly. With production only starting late 2024, the company has roughly doubled sales each year since 2022. In 2024 sales were $6.5 million, estimated sales for 2025 should be in the region of $14 million, and the potential is for $30 million in 2026.

They are scaling rapidly to achieve this with sales across an estimated 4,000 locations. One of their main challenges to date has been keeping up with demand. Several times in 2025 they had to resort to air shipping products to retailers to meet deadlines, which has caused costs to be higher than under a more optimal production-shipping cycle. In spite of this they reached breakeven in September 2025 and with increasing volumes and reduced additional marginal costs (they can increase production at the same facility) more of the value of these sales will drop to the bottom line.

In spite of this rapid growth, national-level partnerships, and unique food technology, the company is priced as a risky startup. It currently trades at $40 million, or around 30% above this year's projected revenues, with a high likelihood of free cash flow generation this year. It also has a great series of moats, with 17 patents on food production processes, unique national level customer partnerships, and license protections from the REV machine manufacturer, EnWave.

This story continues, but management has achieved a huge amount of progress and seems to be on the cusp of enjoying the fruits of all their labor. By the end of this year this could be a business that is trading on a current basis of 60-70% of revenues, 6-8× earnings, and growth far north of 50% per annum.

The Hidden Recession

We follow a process whereby we look through name by name, across the major exchanges of the world, for good investment ideas. We use several approaches, but focusing on the manual A-Z search

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[4] Eric also has the pedigree of coming from the family that created Kettle chips and the Kona Brewing company.

[5] Guess who.

process yields some interesting insights. After reading through thousands of financials, filings, web pages, and company announcements there are glimpses of trends hidden when looking at traditional news sources, financial press, or market commentary.

One striking observation is the surprisingly robust economy and economic results that are being produced in the US and other members of the G-10. This is usually, and correctly, assigned to the growth in the use of AI, related technologies and the money flowing into those areas of the economy. But this is not the picture that is revealed from looking at revenue growth, or lack thereof, and income statements of companies operating in diverse countries, and across many other sectors. There, the picture, time and time again, is of slowing growth, companies losing steam, or growth that has stalled and started to contract.

This is a very striking pattern. Outside of AI and related tech, apart from some notable exceptions, the majority of companies are facing strong headwinds with increasing costs and reducing revenues. Perhaps this is partly the supply chain whiplash effect playing out after several years of gains post-Covid, but there seem to be other forces at work.

Turning to the mainstream media appears to provide some clues. This week, coverage of Davos has flooded the news networks. The agenda was predictably dominated by AI, robotics, energy requirements, and compute power constraints. In stark contrast, scant attention was paid to the foundational pillars of the real economy: housing construction, food, consumer goods, and retail.

It is clear that CapEx is being diverted from across the non-technology areas of the global economy to fuel the AI boom and infrastructure rollout. It appears that this is driving a near-recession in all other sectors across the globe. At this point, this trend shows no signs of stopping or slowing, so it will be very illuminating to continue to monitor it as we review individual investments. It seems wise to focus on areas benefitting from this large spending wave, either within related technologies, or in adjacent industries that will grow due to the creation of local LLMs, Edge AI, and Embodied AI.

Outlook and Partnership

We continue to navigate the market, filtering stocks to unearth fresh ideas, analyze their fit, and optimize the portfolio. We pursue investments that combine high growth, exceptional value, and have strong inflection drivers, all while remaining anchored by disciplined risk management.

Our mandate is to compound capital over the long term, with aligned co-investors, while protecting the downside. If this approach resonates with the way you or your institution calibrates risk and reward, and you would like to partner with us, feel free to reach out.

For more frequent investment ideas please visit our Substack, which is free for our investors. We welcome any enquiries, questions, or feedback.

Yours,

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