Fairlight Alpha Fund LP

Q2 2026 Letter

Dear Partners,

Fairlight Alpha Fund's returns in the second quarter 2026 were -12.6% net of fees and -8.6% for the first half of 2026. This compares to a return of 10.2% for the S&P 500 Total Return index for the first half. Overall, since inception the fund has returned 835.1% net of fees and 35.6% 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 2019-2026 (YTD), followed by the compounded returns and annualized gains over the same period.

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%
2026 (YTD)	…………………………	-8.6%	10.2%	-18.8%

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%
2026 (YTD)	…………………………	835.1%	201.9%	633.2%
Annualized Gain	…………………………	35.6%	16.2%	19.4%

[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.

Markets

The year has continued with the S&P 500 on a strong growth streak, driven by the 'Magnificent 7', AI, and tech themes reversing some earlier weakness in those sectors. Volatility remained through the quarter with the news flow from the Middle East driving rapid changes in sentiment across equities, oil, and energy markets. During this period a lot of the cheap stocks we own became even cheaper, with the market regime causing depression in the prices across several names, although there was a lot of business progress across the portfolio.

Gold seemed to find a floor above the $4,000/oz level and now seems to be building a base from that point. Along with a lot of the rest of the metals and precious metals, some of the volatility and strong spikes in prices settled out of the market. We are continuing to monitor certain junior metal producers to determine if there are any good entry points as we go through the rest of this year. Similarly oil prices were very volatile early in the quarter, with some of that volatility settling out of the market more recently.

It remains uncertain how the geopolitical events of this year will resolve and so we remain focused on our niche areas of the market, with a bottom-up perspective in order to find mispriced stocks. In the portfolio section we will discuss some areas of value we are finding in Europe and Asia. One place where we aren't finding much value is in AI, technology, and space stocks. We don't rule anything out when reviewing names, but many stocks have reached difficult valuation levels and are not investable for us.

A recent example of this would be SpaceX which IPO'd and attained a peak valuation of almost $3 trillion. On that basis it was trading at a level of 158x revenues (not earnings). This means that the company would have to return all cash received (without any expenditures) for 158 years, at which point you would then break even as an investor. Granted it is an exceptional company, achieving extraordinary things, but financial reality must always catch up with the stock market eventually.

Portfolio Performance

The fund performance was not as good as we aim for in the first half of the year, however we are now seeing some signs of recovery and better performance. The fund entered some Korean positions with one in particular falling to even cheaper levels during the period, driven by retail investor deleveraging and general market sentiment, rather than business fundamentals.

Dong A Eltek is a manufacturer of the equipment that deposits organic molecules on OLED and OLEDoS screens. It provides the equipment (along with its main competitor Canon Tokki) to manufacture the next generation of OLED screens for TVs, smartphones, laptops, tablets, and automotive displays. In the OLEDoS market it has perfected the same technology for VR and AR headsets screens that have pixels that are 10x smaller than OLED. In this market it currently has a monopoly in terms of commercial scale and quality of production.

The company provides these services through a subsidiary, Sunic System, of which it owns 47%. In addition to this it has large cash balances, a VC arm focused on related technologies with significant businesses owned, as well as their original OLED and OLEDoS testing business. Simply taking the sum of the parts of these businesses gives a valuation of KRW 420 billion (given Sunic System's current market capitalization of KRW 714 billion), compared to the market cap for Dong A Eltek of KRW 100 billion. Even for a Korean Holding Company discount this is extreme.

Taking a look at earnings, the picture is similarly extreme. In 2025 Sunic System had revenues of KRW 516 billion with DAE taking a share of this of KRW 243 billion. Adding in DAE's own revenues gives a total of KRW 312 billion. In terms of earnings this was KRW 96 billion for DAE in 2025. The picture looks like it might be similar for the full-year 2026, because in the Q1 2026 report they showed contract liabilities of KRW 134 billion, and reported a total contract value at that point of KRW 612 billion (total figures, not attributable). These contract numbers are similar to those in early 2025.

The company is also building a new facility that will enable them to switch seamlessly between OLED, OLEDoS machine manufacture, as well as a potential new line of revenue: Perovskite solar panel production. We won't go into too much detail here, but this is essentially a solar panel where a similar technology is used (as per OLED deposition) to layer organic molecules that absorb, rather then emit light. These molecules absorb the bluer end of the spectrum (as opposed to the standard silicon panels that primarily absorb red light), meaning efficiencies could climb from 21% to above 30%; a huge increase in efficiency given that solar panel improvements have been incremental in the last few years.

Elsewhere, Valeura Energy continued to have excellent results. This is a low-cost oil and gas producer in the Gulf of Thailand, which we owned since Q2 last year, when it was operating well, even before any of the recent geopolitical events. It is growing production, drilling new and existing oil fields, in an area that is extremely shallow compared to other offshore fields and has very low costs. Only the Middle East and onshore Saudi fields are cheaper. This has now been given a strong tailwind, that we think will persist to some extent, irrespective of the ultimate outcomes in the Middle East, and the stock would be cheap even if the pre-war state returned (which appears unlikely).

As a measure of this, during the writing of this letter they reported their last set of results for the three and six months ending June 30, 2026. They realized oil prices averaging $106/bbl in Q2 and produced revenue of US$260 million in one quarter. This is likely to be exceptional given the timing, but it is worth noting that they were pegged to Dubai Brent, and are now pegged to Brent prices which have tended to have a premium to WTI crude of several dollars in this environment. As of the time of writing this is still the case with elevated prices above $85/bbl.

As well as additional drilling and exploration, they have expanded credit facilities to enable continued growth, and after generating $105 free cash flow (after growth CapEx) they now have cash balances totaling $316 million. This is set against a market cap of $880 million. It is not straightforward to estimate what "true" free cash flow or earnings are here, but it seems clear that an excess of cash is being steadily built up, even after growth expenditure is factored in to output cash flow. It seems to us that the business is taking advantage of prices to grow more quickly while also building an extremely safe balance sheet.

Elsewhere, CEMATRIX recently announced record 2026 Q2 results. A niche producer of low-density cellular concrete[2] and provider of specialized slurry-foaming services they have been a steady grower for many years, supported by periodic bolt-on acquisition. One of their key business advantages lies in their concrete foaming mobile units, which allow high-volume, on-site production that drastically reduces material transport costs over traditional concrete filling processes. For Q2 2026, revenue grew 76% year-on-year, with lines below operating income growing more than 100%.

[2] Low-density cellular concrete is 80% lighter than ordinary concrete, as well as conferring many useful advantages relating to soundproofing and thermal insulation.

The period was flattered by some project timing, but overall the company has been growing since a pullback in 2024. Given infrastructure tailwinds in the U.S. and their operational performance we think the rest of the year will be strong. Again with a cash positive balance sheet, this is another company we think is cheap with a durable business advantage that will persist.

Other businesses in the portfolio have also performed well. BranchOut Foods has just reported continued growth, operational progress, and additional sales to large food retailer clients. Beng Kuang has now had one month of consolidation of ASOM's results, and so H2 should show improving results. Prenetics closed a $1 billion financing deal with a large Value Fund to accelerate growth and boost the adoption of their IM8 supplement.

Outlook and Partnership

We continue to research and find new ideas. Searching across Europe, Asia, and the rest of the world, there are a lot of good ideas to be found. Even with the CapEx drag from the old economies into tech and AI there are many pockets of exciting businesses across a variety of sectors.

For some of our latest ideas take a look at our Substack (https://substack.com/@fairlightcap) and if you would like to contact us, our details are listed below. We wish everyone a great remainder of the year.

Yours,

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