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## Greetings from Comgest's Global Equity Investment Team!

In Q1 2023, members of **Comgest's Global Team** hit the road, criss-crossing the **US, Japan, Korea and Taiwan** in search of new ideas and meeting up with some of the companies driving sector trends in our global equities portfolio. A few of our engagements marked the first in-person meetings since the pandemic. Overall, we gained valuable insights into local sentiment and expectations for 2023 and beyond. Artificial intelligence (AI) remains a hot topic across industries like healthcare, data providers and semiconductors. Below are key takeaways from our on-the-ground perspective of the themes driving our quality growth companies.

### UNITED STATES

#### Cautious Optimism in Healthcare and Technology

On the west coast of the US, Kira Huppertz was one of 8,000 attendees that descended on the J.P. Morgan Annual Healthcare Conference in downtown San Francisco. The Bay Area isn't known for amazing January weather, but the hordes of attendees braved especially torrential 152-year-old record rainfall to connect with the 600+ companies participating in the world's largest healthcare conference. At a high level, the meetings and presentations reflected cautious optimism in the healthcare sector. However, certain bottlenecks such as inflation and healthcare staffing are likely to persist for several quarters.

One recurring conference theme was bioprocessing (biological drug manufacturing) demand, which seemed healthy at the beginning of the year, but has since come under pressure based on the earnings reports that we've seen from companies such as **Danaher**,<sup>1</sup> a large US life sciences conglomerate. Other topics included the earnings potential and timing of pipeline assets (**Eli Lilly**, **Johnson & Johnson**, **AstraZeneca**), product launches (**Alcon**) and the ubiquitous question of recession resilience (**Envista**, **Medidata**, **Lonza**, **Intuitive Surgical**).

Apart from attending the healthcare conference, Kira also met up with a few well-known Bay Area businesses that we either hold in our portfolios or investment universe. **Intuit**, a leader in tax and financial management software for small- and medium-sized companies and consumers, expressed confidence in the continued success of their legacy software and uptake in recent additions to their ecosystem such as the acquisition of **Mailchimp** and incremental payments services. **Nvidia**, a leader in high-end graphics processing units (GPUs) which improve image and video quality, highlighted their dominant competitive

<sup>1</sup> Companies highlighted in green are held by Comgest. Portfolio holdings are subject to change without notice. Reference to these companies should be not considered a recommendation to buy or sell any particular security/investment.

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position, the strongest in their 20-year history, across gaming GPUs, data centre infrastructure and software (i.e., AI applications), and the automotive sector. **Equinix**, a leading provider of data centre and interconnection services, reiterated conviction in their growth and profitability potential, despite rising power costs and a tighter spending environment.

Further south, Alexandre Narboni visited Los Angeles and the Silicon Valley area to engage with companies across several sectors, including technology, medical devices, life sciences, clean technology, entertainment and a certain bank that made headlines around the globe, First Republic Bank. This visit also inadvertently coincided with the immediate aftermath of the collapse of Silicon Valley Bank. Although Comgest rarely invests in banks, we like to meet with companies across sectors to boost our understanding of the economic environment.

Aside from the 2023 banking crisis, California seems to be booming with long-term growth opportunities. There is tangible excitement around AI among technology companies like the above-mentioned Intuit and Nvidia, as well as **Ziprecruiter** (a competitor of the job search engine “Indeed”, which is owned by the Japanese company **Recruit**, one of our holdings since 2019) and **Synopsis** in the semiconductor industry. Momentum in sustainability can also be felt after a boost by the **2022 Inflation Reduction Act**, which provides significant incentives for US companies to decarbonise. In the short term, companies expressed that they were not seeing a major slowdown in demand, but with the end of the Covid “free money” period and cost inflation, companies are generally more cost conscious and slowing recruitment.

On the east coast, Laure Nègiar attended the Verisk Investor Day in New Jersey and, across the Hudson River, the J.P. Morgan Industrials Conference in New York. **Verisk**, the leader in the provision of essential data to US property and casualty insurers, held their first Investor Day in more than four years – leaving us delighted to engage with management face-to-face instead of our previous video calls. It was a great event, with product demonstrations and informal one-on-one chats with divisional and product heads. The formal presentation reinstated medium-term growth targets for Verisk as a stand-alone, insurance-focused company, following their divesting of assets in the areas of energy and financial services. As shareholders in the company since 2021, we have engaged significantly with them on governance and execution issues and are so far pleased with their progress.

We interacted with many companies at the J.P. Morgan Industrials conference, including several in small group settings, such as HVAC players **Carrier**, **Trane** and **Watsco** (competitors to **Daikin**), chemical company **Westlake** (a portion of its business competes with **Shin-Etsu Chemical**), water treatment company **Ecolab**, **Otis** (a global leader in elevators and escalators) and gas and chemical company **Air Products** (a **Linde** peer). A few key themes emerged from our meetings: 1) the 2022 US Inflation Reduction Act (IRA) is attracting major investment in the US; 2) the onshoring / nearshoring / reshoring trend largely caused by geopolitics and post-Covid supply chain challenges is real and creating significant business opportunities for a number of US industrials companies; and 3) ESG is big business for US industrials companies, which they have mostly acknowledged and embraced.

## KEY MEETING THEMES:

### – 2022 US INFLATION REDUCTION ACT (IRA):

attracting major investment in the US

### – ONSHORING / NEARSHORING / RESHORING:

significant opportunities for US industrials

– **ESG**: big business for US

## ASIA

### A Dominant, But Shifting Semiconductor Market

A mainstay of modern life, semiconductors drive nearly everything around us – smartphones, computers, transportation, medical equipment, manufacturing and more. These tiny powerhouses also have one of the most complex supply chains in the world, worth around half-a-trillion in US dollars, with demand projected to rise in the future (see figure 1).<sup>2</sup> Due to the industry's critical infrastructure importance and ongoing US-China geopolitical tensions, 2023 headlines have been rife with macro headwinds about retaliatory export curbs by each country.

<sup>2</sup> [Oliver Wyman](#), May 2023.

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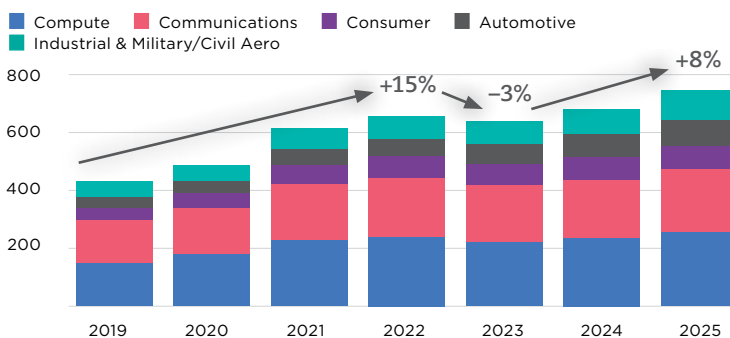
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Deciding to delve deeper into the industry's supply chain, Zak Smerczak participated in a tech-focused Asia trip to Japan, South Korea and Taiwan in February. Following meetings with local companies and representatives, it was clear that despite some temporary turbulence in the supply chain with ASICs (Application-Specific Integrated Circuits), GPUs (Graphics Processing Units) and other logic chips, semiconductor industry volumes and prices are expected to return to 2022 levels due to growing demand across industries, which was conveyed by several regional leaders:

**Figure 1. Semiconductors sales by end market**

In billions of dollars, 2019 - 2025E



Source: [Oliver Wyman](#), May 2023.

- **UMC**: Taiwan's second largest chipmaker and the world's third-largest foundry
- **Renesas**: Japanese chipmaker; will **produce next-generation power semiconductors** made of silicon carbide in 2025
- **Global Wafers**: Taiwanese chipmaker; produces silicon wafers
- **Tokyo Electron**: Japanese chip equipment maker; sees benefit from **competition for generative AI**



Taiwan Semiconductor Manufacturing Company (**TSMC**), the world's and country's largest foundry as well as a long-term holding of Comgest since 2007, supplies companies such as **Apple** and **Nvidia** with the microchips that run their devices and processors. TSMC expects stronger performance in the second half of 2023 due to their industry-leading node progression. Their technology process nodes, which are 2- and 3-nanometres (nm) in size (around 30,000x smaller than a human hair), can hold billions of transistors, increasing their density. This results in higher processing speeds overall. With increasing demand – smarter smartphones or from server and data centres, TSMC's forthcoming 2nm nodes are expected to provide up to 15% speed improvement and 30% power reduction.<sup>3</sup> Despite China's decision to restrict exports of two metals (gallium and germanium) widely used in semiconductors, TSMC has stated that they do not expect any direct impact on production.<sup>4</sup>

Within the semiconductor supply chain, extreme ultraviolet lithography (EUV) technology prints intricate patterns that house a chip's transistors. This technology remains the best to continuously improve nodes. Amid the ongoing US-China geopolitical tensions, lithography machines – consisting of numerous components and billions of dollars of investment – are crucial to future computing power.<sup>5</sup> We met with some top suppliers in this field, including: **Hoya** (Japan; produces mask blanks, a key component in semiconductors), **Gudeng** (Taiwan; provides transport solutions), **Lasertec** (Japan; develops inspection systems for chipmaking equipment).

Similar to ongoing discussions in other industries, the hype around the ability of Open AI and large language models to recognise, predict, translate and generate text and other content seems to be a gamechanger – but one that's hard to quantify in the chipmaking sector – although **Nvidia** is currently the

<sup>3</sup> [TSMC Press Release](#), 27-Apr-2023.

<sup>4</sup> [Reuters](#), 6-Jul-2023.

<sup>5</sup> [MIT Technology Review](#), 23-Jun-2023.

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most generative platform, with **Microsoft and Google racing each other for dominance**. Since more computer CPUs and GPUs will be required to enable generative AI to formulate comprehensive responses, it is unclear if this will be achieved via increased volume or an acceleration of technology. Companies focused on this niche market include: **ASpeed** (fabless IC design company), **AIchip** (fabless chipmaker specialised in ASIC solutions).

The importance of semiconductor chips was pushed to the forefront of government agendas as the pandemic's supply chain issues impacted the world and led to an ensuing global chip shortage. As a result, the onshoring of semiconductor manufacturing has become crucial to national importance worldwide, but particularly in the United States, where 2022's CHIPS and Science Act (CHIPS Act) and the Inflation Reduction Acts should boost US competitiveness and infrastructure. The European Union and Japan are also encouraging incentive-led onshoring.



Meanwhile, the memory chip market, which has substantial fixed costs and is a commoditised product, remains cyclical – with the lowest-cost producer across DRAM (which accelerates performance of computer processors) or NAND flash technology (non-volatile data storage used in portable devices) taking market share. South Korea, which dominates this field, is home to leading industry companies: **Samsung** and **SK Hynix**. The memory chip market is ripe for future growth as large language models, such as ChatGPT, need high-performance memory chips for their generative AI models in order to formulate human-like responses based on past conversations and user preferences.<sup>6</sup>

## CONCLUSION

From our varying vantage points around the world, we saw our internal conversations being reflected at local levels. Globally, we're in a post-Covid world where geopolitics and fiscal intervention seems to be driving capex, demand and fundamental investment decisions. Although the buzz of AI is strong, there's energy, uncertainty and cautiousness in equal measures across sectors as everyone seeks to understand its efficiencies and limitations.

In the semiconductor sphere, rivalries are challenging and re-shaping the landscape as companies make moves to secure their supply chains, aim to further innovate and fulfil increasing demand. Overall, we believe the outlook for global equities remains strong, particularly if you delve beneath the surface to seek out the companies benefitting from these long-term sector trends.

<sup>6</sup> CNBC, 6-Jul-2023.

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