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Notes from the Road: Emerging Markets¹

One of the favourite things that the GuardCap Emerging Markets team likes to do as an investor is embark on road trips, making onsite visits with investee companies and meeting with management teams to help them gain valuable insights and build a deeper understanding of a business; such interactions form a critical part of their analytical process.

The Team do not limit their engagement to existing portfolio holdings and potential investee companies but expand their reach to include as many of the competitors, suppliers, customers and distributors of actual and potential holdings as possible. They use these trips as an opportunity to build a fuller picture of a particular company and its industry. The following commentary features a recent research trip, which is being provided as an example to demonstrate their investment process in action.

Destination: Korea and Taiwan

Recently we visited Korea and Taiwan, as both feature a heavy concentration of high-tech and semiconductor companies and so we designed our trip to expand our knowledge of these industries.

In Korea, we notably visited portfolio company, **Samsung Electronics**, and two other Samsung subsidiaries. In Taiwan, we visited the headquarters of another portfolio company, **Taiwan Semiconductor Manufacturing Company (TSMC)**. These visits enabled us to assess the strength and sustainability of each company's secular tailwind and competitive position. To gain a fuller picture, we also met with a large customer of TSMC and several suppliers of equipment, automation, and testing technologies.

We are, by no means, sector specialists and certainly not engineers or scientists. However, through speaking to this combination of companies in inter-related industries, we gained clarity around the common secular growth trends that underpin their future potential. These include: increasing demand for high-performance and energy-efficient computing power to process ever-increasing amounts of data, especially to support the new era of artificial intelligence (AI) applications; industrial automation; energy transition and climate change, electric vehicles to name a few.

In addition, meeting the management teams in person and visiting the company headquarters and facilities provided us with invaluable insight into the culture of these organizations. We highlight a few of our findings below.

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Innovative management teams: a focus on investing in innovation for long-term growth

Our trip began in Seoul with a visit to the offices of Samsung Electronics, a company which our strategy has invested in since the composite inception in 2015. Through our discussions with this company and two other Samsung subsidiaries, it became clear that long-term thinking is a common thread across the businesses. Once a long-term secular trend is identified, the company has the willingness, patience, and balance sheet strength to invest in that area for a very long time. Leveraging its robust balance sheet strength, they navigate the industry's ebb and flow, strategically seizing opportunities to gain market share, outmanoeuvre competitors, and enhance profitability. More broadly, we found that this patient, long-term approach was not limited to Samsung and that other companies we met in Korea shared similar traits. Another Korean company explained that because Korea is a relatively small domestic market compared to the US or China, they knew they would need to expand abroad if they wanted to reach scale. Accordingly, they have to compete with global developed market players from day one, hence the need to continuously invest and upgrade their technology and intellectual property (IP).



Ed Wallace (GuardCap) pictured outside of a Samsung store in Korea.

Sustainability is front of mind for companies and consumers

One other observation we had was that sustainability is front and centre for both companies and consumers in these countries. A Taiwanese electronics

manufacturer stood out for its long-standing commitment to environmental protection, spanning more than two decades. The company's dedication to sustainability is exemplified by the direct link between the Chairman's compensation and the company's environmental, social and governance (ESG) goals and ESG ratings. In addition, senior management, business managers, and regional heads also have ESG ratings and RE100 (a global initiative bringing together businesses committed to 100% renewable electricity targets) integrated into their respective key performance indicators (KPIs), demonstrating a company-wide commitment to reducing emissions and fostering sustainable practices.

It seems that Taiwanese consumers have also become more attuned to sustainability concerns, as observed in everyday practices such as restaurants and shops taking conscious measures to reduce plastic waste. Many establishments charge for paper bags to encourage environmentally friendly alternatives. We noticed that China Airlines, a Taiwan-based airline, has embraced sustainability principles. On our flight back from Taipei to London, the airline showcased its commitment to the Sustainable Development Goals (SDGs) and demonstrated efforts to invest in the latest energy-efficient and low-emission planes for its fleet.

Overall, the increased prominence of sustainability considerations, both at the corporate level and among consumers, underscores a growing recognition of the importance of sustainability and responsible environmental practices in Korea. These observations are taken into consideration as part of our proprietary "Foundations for Sustainable Growth" scoring and assessment.

A clear focus on the creation and protection of strong IP

We met with another one of our portfolio companies, TSMC, at their headquarters in Hsinchu Science Park in Taiwan. This science park is home to more than 300 high-tech companies and, as a result, the city has the highest income level in Taiwan and is the most populous city. The streets of this area are lined with row after row of manufacturing facilities and windowless 'fabs' (semiconductor fabrication plants). We found it incredible that this small science park powers a very significant part of the digital devices we use in our everyday lives globally.

It is clear that TSMC benefits from exposure to a wide range of secular trends, in particular artificial intelligence (AI), machine learning and ubiquitous



Our phone cameras were covered before entering an office – just one of the many efforts made to protect company IP.

computing, and that protecting their IP is a top priority. This was evident in the very strict security measures at their headquarters, even in the lobby, where TSMC actively reminds employees that confidentiality must be upheld, especially in public settings. We questioned management on their ability to retain staff and protect their technological advantage. Ultimately, whilst TSMC’s competitors will occasionally poach TSMC’s employees, we believe that the success of TSMC lies in its unique culture of pursuing excellence and pushing the boundaries of what is possible. It is not down to one individual or one team, nor just about specific IP but also operational excellence. This form of competitive advantage is much harder to replicate and, therefore, more sustainable in our view.



In TSMC’s lobby: “No confidentiality in public” notice.

We cast our net wide to identify those companies that have exposure to the emerging markets opportunity. Still, we focus our portfolio on a small number of companies that we believe offer a combination of growth and quality and are available to purchase at an attractive valuation.

Visiting these companies and immersing ourselves within the industry, country, and region in which they operate is a key part of our research. It is our view that it helps us identify the small number of companies that have the potential to generate strong returns over the long term.

We look forward to keeping you updated on our future research trips. Thank you for your continued support.

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