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# GLOBAL STEWARDSHIP STOCK STORY - TSMC

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Mike Gush, an investment manager of Global Stewardship, discusses why he champions investing in TSMC

*All investment strategies have the potential for profit and loss, your or your clients' capital may be at risk. Past performance is not a guide to future returns.*

*This film was produced and approved in August 2019 and has not been updated subsequently. It represents views held at the time of recording and may not reflect current thinking.*

**Mike Gush:** TSMC is an example of an emerging markets business that has been in the Global Stewardship portfolio since inception. Indeed, in my opinion it is one of the best companies in the world and certainly was the first name I put forward. It is a semiconductor foundry, making many of the silicon chips that go into consumer products today, be it smartphones, laptops, TVs... even cars.

When analysing an investment idea for Global Stewardship we use a consistent research framework to both calibrate and make comparisons. The first part focuses on stewardship. *Is the company run in a long term and responsible manner?* And the second part, which we call GEARS, focuses on five fundamental factors: growth, edge, alignment, returns, and the probability of success.

I view TSMC as an enabler for progress in the world today. The multi-billion dollar investments each year into the next generation technology allows ever more important advances in human endeavour; it is clearly adding value to society. At the same time, it has balanced the needs of its stakeholders, ensuring excellent returns for shareholders whilst working closely with its customers to provide an industry-leading capability, and also behaves in a responsible manner.

Turning to our GEARS framework. TSMC operates within a growth industry, driven by the advent of new products and applications. This is a powerful, long-duration driver, albeit cyclical in its nature.

One of the most impressive things about the company, however, is its edge. TSMC is utterly dominant in advanced technologies, and by our estimates, generates over 90% of industry profits from its 50% revenue share. It can outspend its competitors for new capacity and also research and development, leading to a widening edge over time.

Alignment is critical to any business with long investment cycles. The management team at TSMC has a 30-year history of responsible leadership and investment skill.

We believe the financial returns at TSMC are exceptional. There are very few businesses globally that are capable of investing the billions of US dollars that TSMC does each year at such high levels of incremental returns, whilst also managing to pay out a healthy dividend.



Putting this all together, you have a business capable of delivering worthy growth across the cycle, that is getting stronger through its value-added investments, and appears to us to be undervalued. It is what we call a true global champion.

#### Annual Past Performance to 30 June each Year (%)

|  | 2017 | 2018 | 2019 | 2020 |
|--|------|------|------|------|
| Baillie Gifford Global Stewardship Composite (net) | 32.5 | 22.2 | 5.2  | 29.7 |
| MSCI AC World Index                                | 19.4 | 11.3 | 6.3  | 2.6  |

Source: StatPro, MSCI. Composite inception date 31 December 2015. Figures in USD.

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