

TSMC

Sustainable Growth Hypothesis:

TSMC is the largest independent manufacturer of semiconductors, which are used in every electronic and connected product. TSMC's scale and dependability make it a critical partner in the semiconductor value chain, enabling faster and more efficient innovation which benefits society. TSMC aligns with our **prosperity** theme, through what its **products** do to support innovation for growth.

1. Growth: How likely is the company to deliver 10% p.a. profit growth over the next decade?

- TSMC's strategic positioning, operational efficiencies, and the growing demand for semiconductors across various high-growth sectors suggest a strong likelihood of achieving 10% p.a. profit growth over the next decade.

2. Resilience: How much control does the company have over its own success?

- Significant degree of control over its own success. This is due to its strategic positioning in the supply chain, operational flexibility and ability to produce various types of chips. TSMC faces geopolitical risks, particularly related to tensions between China and Taiwan, however the company's importance to the global economy and its potential for overseas expansion provide some level of mitigation.

3. Valuation: What is our insight?

- The need for cutting-edge silicon will be much greater than market anticipates due to underappreciated growth in AI benefits. TSMC will be in a unique position to be able to meet a lot of that need.

4. Products: To what extent will the core products & services create value for society over the next decade?

- Poised to make a significant positive difference to society over the next decade, primarily through enabling faster and cheaper technological innovation across various sectors.

5. Practices: Does the company show leadership in its business practices?

- Ethically run and customer-focused business, but the growing environmental impact of semis manufacturing is material to consider.

6. Ambition: What is the company's purpose, and how ambitious are they?

- Ambition to continually improve the efficiency of manufacturing and enable innovation in semis is top notch. However the company is fundamentally constrained by its physical environment.

7. Trust: Should we trust the company with our clients' capital?

- No issues here. TSMC has been one of capitalism's great success stories and created a lot of value for clients along the way.

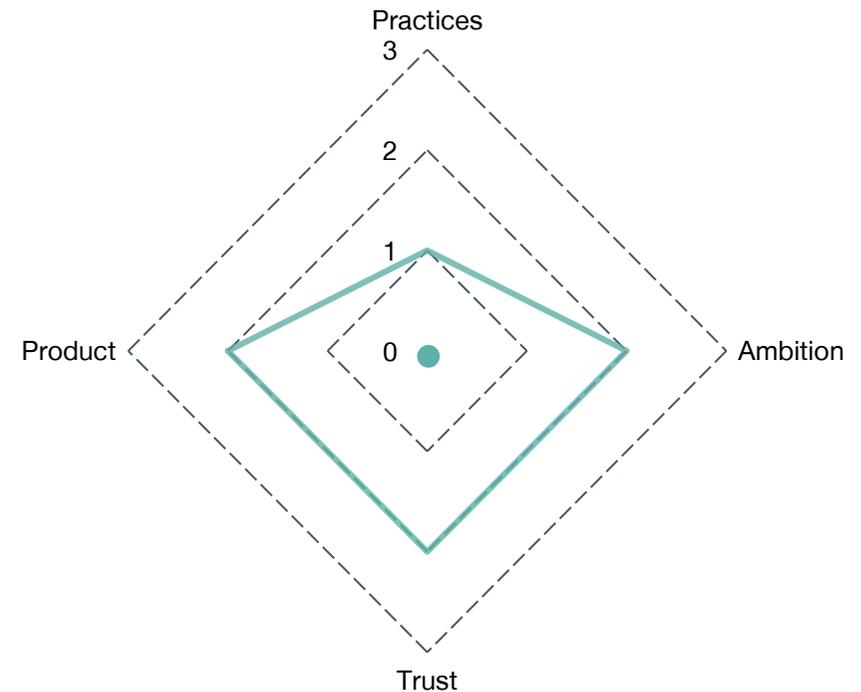
8. Engagement: No company is perfect, what should be our engagement priority?

- Decarbonisation - we want TSMC to be doing the best it can in Taiwan given the geographical constraints.

9. Milestones: What developments should we pay most attention to? Where could we be wrong?

- Success of international expansion.

Compass Scores



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