



Notes from the Road

October 2024

Recent research travel sent Causeway analysts to Tokyo, Hong Kong, Europe, and Las Vegas. Here are highlights of what they learned. We invite our clients to contact us for detailed discussions on any of these subjects.

A Mixed Outlook from an Asia Technology Tour

Naveen Bobba, Senior Fundamental Research Analyst, Information Technology and Communications

I met with semiconductor manufacturing equipment, precision processing tools, electronic components, and IT services companies in Tokyo and Hong Kong. Below are four themes I believe are topical in the market:

- 1. Slow and Uneven Recovery in Semiconductor and Hardware Markets:**
Markets like industrial, automotive, smartphones, and PCs are recovering more slowly than we previously expected. Companies exposed to these markets, particularly automotive, report subdued demand, prompting cautious inventory management and cost-reduction measures.
- 2. Generative AI and Japan IT Services are Bright Spots:**
Companies tied to Generative AI currently expect revenue growth from AI infrastructure investments in 2025. Japan's IT services market is mostly experiencing robust demand, including from government initiatives to support Japan's digital transformation. Many Japanese IT service companies report rising backlogs. In contrast, Western IT service markets are generally recovering more slowly, though discretionary spending in areas like financial services is starting to pick up.
- 3. Caution on Consumer and Business Spending:**
Weak consumer confidence and lower business budgets are further delaying a technology spending recovery, particularly in areas like corporate PC refreshes. Many companies expect seasonal consumer demand in the second half of the year to be, at best, normal or slightly below average, reflecting general market caution.
- 4. Inventory and Utilization Challenges Across Sectors:**
Below-average utilization rates and lingering inventories remain a common problem across





industries. Companies are carefully managing shipments to avoid inventory build-up, with many noting they are still at the trough of the recovery cycle. In the memory market, some stocks have been impacted by concerns over DRAM price increases, though many think demand for memory in PCs and smartphones should rise as these devices become AI-enabled.

Despite areas of strength in generative AI and Japan's IT services, the overall recovery in semiconductor, hardware, and related sectors remains uneven. The combination of weak consumer confidence, cautious business spending, and inventory challenges is keeping many companies on a slow path to recovery.

Healthcare Adapts: Emerging Technologies and Targeted Strategies

Nate Klein, Senior Fundamental Research Analyst, Health Care and Consumer

I spent a week in Europe meeting with pharmaceutical and consumer health firms. The management teams I met with are developing integrated workflows and AI advancements while navigating challenges from regulatory hurdles and ongoing supply chain constraints.

1. Focus on Innovation and Integrated Solutions: Many companies are increasingly improving workflow and productivity, rather than just precision engineering equipment. This shift reflects a broader trend toward integrated healthcare solutions that address complex patient needs and improve health care providers' operational efficiency. For example, embedding AI imaging technology into MRI equipment can halve the time required for the most complex heart scans.



2. Aging Populations Growing Healthcare Demand: The healthcare market is generally experiencing growth driven by an aging population and a rising prevalence of chronic disease. Alongside this, staffing shortages and increasing costs of healthcare delivery are prompting many medical device and services companies to develop products and services to meet these challenges. Patient monitoring, for instance, has evolved from bed-side sensors to integrated device platforms that remotely provide a panoramic view of a patient's health.

3. Regulatory and Operational Barriers in Vaccine Production: The vaccine industry is characterized by high barriers to entry, including heavy regulation, the complexities of large-scale manufacturing and long development lead times. Pharmaceutical companies with established infrastructure and integrated operations often have scale to maximize profit margin while capitalizing on growth opportunities.



4. Emerging Technologies in Healthcare: The integration of AI and automation in production and operational processes is generally improving efficiency and quality control, through enhanced product inspection and streamlined manufacturing processes. We visited a high-volume vaccine manufacturing campus that produces about 500 million doses per year. Integrating robotic arms and machine learning software into their manufacturing processes has materially improved inspection times.

5. Market Responding to Consumer Trends: The shift towards e-commerce and changing consumer behaviors post-COVID is reshaping product distribution strategies. Many companies are recognizing the need to adapt their marketing and sales approaches to meet evolving consumer preferences in various regions. One company said e-commerce in key emerging markets has risen from 20% of sales pre-pandemic to 50% today. E-commerce enables more targeted online advertising and promotion, which should boost both sales growth and returns on marketing spend.

The primary research I conducted included current Causeway fundamental portfolio holdings. From facilities visits and product demonstrations to discussions with product specialists and supply chain leaders, my research reinforced our conviction that these companies continue to innovate across product development, manufacturing, and quality, which should improve customer and end-patient support, and we believe, boost valuations.

Shifting Risks and Fresh Opportunities for European Insurers

Spenser May, Senior Fundamental Research Analyst, Financials

In London, I met with European insurers to build a bottom-up view of the insurance landscape.



1. Retail Property & Casualty (P&C) Insurance Faces

Slower Recovery: In many European countries, retail P&C insurance has been slow to recover, due to claims inflation from rising car part prices and delivery delays. Exacerbating this situation, companies only reprice insurance policies annually. We expect a return to normal profitability in 2025 based on our analysis.

2. Mixed Conditions in Commercial P&C: While prices in certain areas like cyber insurance have fallen, most commercial P&C lines are holding up well with steady rate dynamics. Property insurance pricing may now be driven more by weather patterns than economic cycles.

3. Reinsurance Pricing is at Peak Levels: Reinsurance pricing is currently at its cyclical peak, particularly for

property coverage. Major reinsurers are maintaining discipline, especially on attachment points (the level of damage before they pay claims).



4. Life Insurance Earnings Stabilization: New international accounting standards aim to smooth earnings for life insurers, but companies moving toward capital-light products may see this growth potential disguised by these new accounting treatments. This is particularly relevant for European insurers that shifted toward non-guaranteed products in the zero-interest rate environment. If investors inadvertently undervalue these companies, it could create opportunities to invest in businesses that are growing in less capital-intensive, higher-return, and lower-risk market segments.

5. European Pension Reforms Open Opportunities: European pension reforms are making it easier for insurance companies to offer retirement products and annuities. The Netherlands government may require retirees to purchase individual annuities with their accumulated defined contribution (“DC”) investments, an outcome that could transform the earnings profiles of Dutch life insurers from long-term run-off to stable or growing. In the UK, many life insurers are investigating how to attract DC customers through post-retirement savings options. This could multiply the current multi-hundred-million-pound market for individual annuities and drawdown products.

The insurance landscape faces challenges with slow recovery in retail P&C and cyclical peak reinsurance pricing, but commercial P&C remains generally stable, and opportunities are emerging for life insurers.

Mining Looks Ahead: Emerging Electrification and Automation

Allison Liegner, Fundamental Research Analyst, Materials

At a recent conference in Las Vegas, I researched sector trends around electrification, decarbonization, and automation. I brought these findings to my colleagues who cover industrials, because these capital expenditure decisions could translate into higher value orders for mining equipment suppliers.

1. Decarbonization and Electrification of Mining Fleets:

Decarbonization is becoming a key focus for major miners, some of whom are setting targets for “Real Zero” emissions or electrified fleets. The financial returns and feasibility of these conversions remain unclear, as they are highly dependent on mine-specific factors and the technology continues to evolve. Meanwhile, hybrid alternatives like trolley-assist systems are generating interest for their ability to reduce diesel consumption in the near term.



2. Evolving Electric and Hybrid Technology:

The mining equipment sector is offering a mix of electric and hybrid options. Skepticism remains over the economics of fully electric trucks, with some industry players noting high battery costs and shorter



lifespans in certain mine environments. Despite these concerns, hybrid systems and improvements in battery technology are seen as intermediate steps toward full electrification.

3. Autonomous and Remote-Operated Trucks:

Automation continues to be a significant trend, with one company estimating autonomous trucks could provide 15-30% operational cost savings. Autonomous trucks have been in use for over a decade, and their remote operation capabilities are advancing. Major manufacturers are pushing for more autonomous and electric-ready machines, allowing for a future where mines can operate with fewer personnel on-site.

The mining industry is moving toward electrification and automation with sector leaders developing fully electric haul trucks. However, the path to decarbonization remains uncertain, with hybrid solutions and evolving technologies bridging the gap in the near term. While autonomy offers operational efficiencies, the industry continues to grapple with the economics of large-scale electrification.

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