

# Pathfinder Investment Outlook

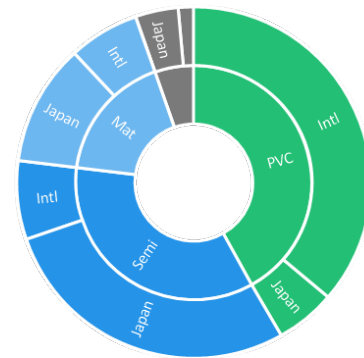
For the week ending October 11<sup>th</sup>, 2024

## Meeting Management in Japan: Shin-Etsu

As mentioned in our previous [Outlook](#), we recently met more than 20 companies during our research trip in Japan. This week, we will focus on Shin-Etsu Chemical Co Ltd. (4063 JP), a company that you probably have not heard of, but makes products that all of us use every day.

Shin-Etsu Chemical Co Ltd (“Shin-Etsu”) started as a fertilizer company in 1926 and developed into a major chemical business in the 50’s, manufacturing metallic and semiconductor silicon. Eventually it expanded outside of Japan in the 70’s with a joint venture in the US with a PVC manufacturing company. It is now the largest PVC maker in the world, accomplishing this through straight forward growth and competition, no M&A activity, which seems to be the way that so many other large companies have grown. Concurrently, they also built out a distinct and totally separate world class semi-conductor business. Shin-Etsu is one of the largest companies in Japan by market cap, has 26k employees, manufactures in 19 countries and has a full 80% of its sales are outside of Japan, a truly global enterprise.

**Figure 1: Shin-Etsu Revenue Breakout** October 10, 2024



Source: Bloomberg Markets LP, Pathfinder Asset Management Limited

There are four divisions at the company and the first 2 produce a significant amount of uncorrelated cash flow. The other two are small in terms of revenue, but critical in terms of setting the company apart from competition:

- 1) **Infrastructure Materials:** is primarily PVC production (i.e. the plastic plumbing pipes in your house). Its products are sold for infrastructure, housing, agriculture, and other everyday use goods. Most production is in Texas (low energy & input costs, good location for shipping & logistics) but also in Europe and Asia.
- 2) **Electronic Materials:** design and manufacture substrate silicon wafers, photoresists, photomasks and blanks as well as rare earth magnets for auto, robotic, power and home appliance. Very high tech.
- 3) **Functional Materials & Specialized Services:** 5,000 different types of silicones that support general day-to-day products used in electronics, auto, construction, cosmetics and food services & safety but also, critically, internal design which is applied to process, engineering and equipment maintenance. This is where they company drives its best-in-class vertical integration and efficiency across the organization.

“**This means that**” we will continue will remain proactive in meeting with companies, identifying new investment opportunities, as well as reassessing those currently in our portfolio. This is a critical part of our process.

Michael Rudd, CFA | President, CEO & Portfolio Manager

Adam Kim, CFA | Portfolio Manager

Fang Zhou, CFA | Portfolio Manager



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Sources: Bloomberg, Pathfinder Asset Management Limited

**Disclosure**

National Instrument 31-103 requires registered firms to disclose information that a reasonable investor would expect to know, including any material conflicts with the firm or its representatives. Doug Johnson and/or Pathfinder Asset Management Limited are an insider of companies periodically mentioned in this report. Please visit [www.paml.ca](http://www.paml.ca) for full disclosures.

**Changes in Leverage.** We are increasing the asset ceiling to 2.0 times the market value of equity for [Pathfinder International Fund](#) and [Pathfinder Conviction Fund](#) to be consistent with [Pathfinder Partners' Fund](#) and [Pathfinder Resource Fund](#).

For more information, please follow the links above to review the fund term sheets.

\*All returns are time weighted and net of investment management fees. Returns from the Pathfinder Partners' Fund and Pathfinder Real Fund are presented based on the master's series of each fund. The Pathfinder North American Equity Portfolio and The Pathfinder North American Income Portfolio are live accounts. These are actual accounts owned by the Pathfinder Chairman (Equity) and client (High Income) which contain no legacy positions, cash flows or other Pathfinder investment mandates or products. Monthly inception dates for each fund and portfolio are as follows: Pathfinder North American Equity Portfolio (January 2011), Pathfinder North American High-Income Portfolio (October 2012) Pathfinder Partners' Fund (April 2011), Pathfinder Real Fund (April 2013), and Pathfinder International Fund (November 2014).

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