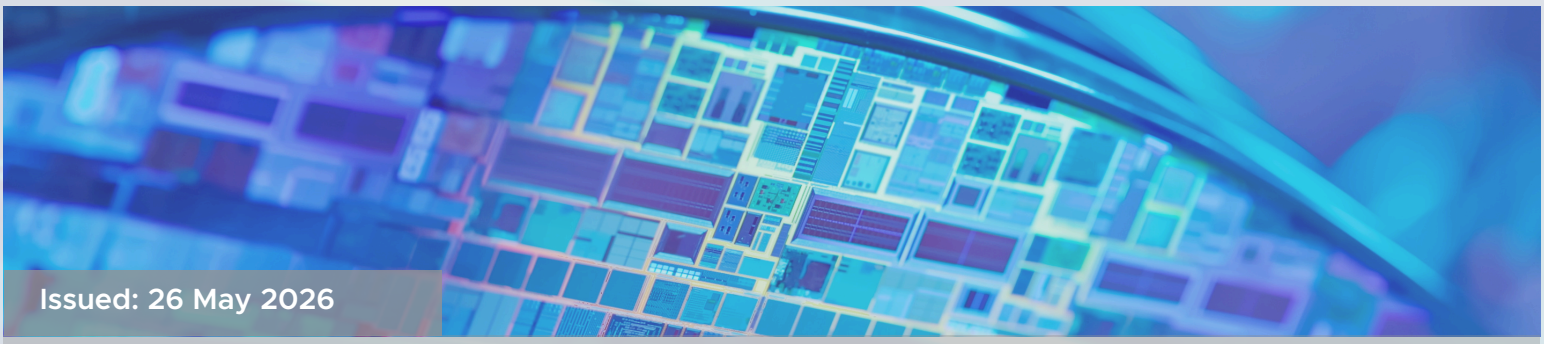

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Auto semiconductors 2.0: the new chapter(s) of growth

by Mikhail Zverev, Fund Manager

Auto semiconductors 2.0: where next for growth

When we think about automotive semiconductors, it's easy to focus on how the narrative has shifted; EV adoption normalising, self-driving timelines evolving, and demand becoming more cyclical over recent years.

But stepping back, both from company meetings and what we're seeing across industrial environments, the more relevant question today is: what comes next?

From where we sit as investors, the answer is increasingly clear. The next phase of growth for auto and industrial semiconductors is broader, more resilient, and in some ways more attractive than the first.

A reset, but not the end of the story

The early part of the decade was defined by optimism around electrification. EV adoption accelerated quickly, supported by policy, capital and a strong narrative around the energy transition. Since then, reality has set in.

- Subsidies have been reduced or withdrawn in some markets
- Western OEMs have scaled back investment plans
- New entrants have struggled financially
- Chinese competitors have gained significant share
- Autonomous driving progress has been slower than expected

At the same time, the industry went through a sharp semiconductor shortage, followed by a period of weaker demand.

That combination has created a more challenging backdrop. but crucially, it hasn't removed the structural drivers of semiconductor demand.

Three core drivers of semiconductor content growth

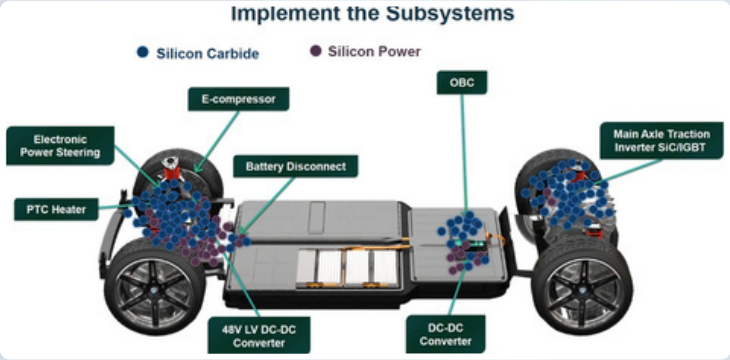
What we focus on is not just car volumes, but semiconductor content per vehicle, which continues to rise. There are three key areas that matter most:

1. Power semiconductors

As vehicles electrify, the power requirements increase dramatically. We've moved from:

- 12V systems → 48V architectures
- 400V EV drivetrains → 800V and beyond

This drives demand for more advanced materials such as silicon carbide (SiC) and gallium nitride (GaN), a step change from traditional silicon.



2. Sensors

Modern vehicles are becoming increasingly "aware," both internally and externally.

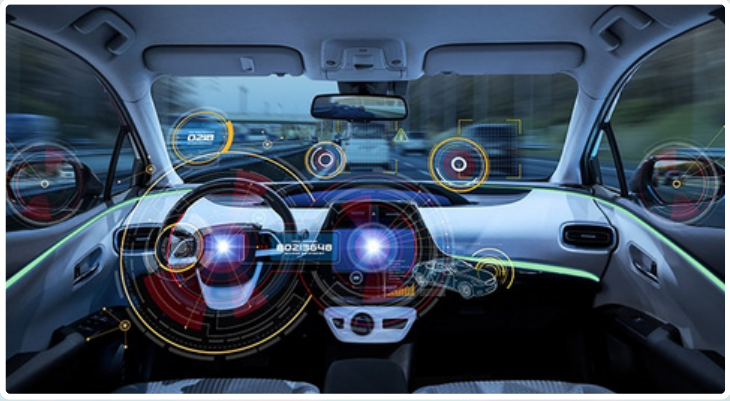
- External: radar and LiDAR supporting driver assistance and autonomy
- Internal: sensors monitoring battery performance, current flow, positioning and safety

This creates a broad and growing requirement for sensing technologies across the vehicle.

3. Processing power ("the brains")

The modern car is increasingly a computer on wheels.

This requires ruggedised processors capable of operating in extreme conditions, handling everything from safety systems to infotainment and advanced driving functions.



AI is creating a new end market outside the car

One of the most important developments we're seeing is that these same technologies are now being deployed beyond automotive.

In particular, AI data centres are emerging as a major new source of demand, especially for power semiconductors. The parallels are striking:

- High voltage power conversion
- Multi-stage power management
- Efficiency at scale

This is directly benefiting companies we hold.

- Infineon: now expecting c. €2.5bn of data centre power revenues in the coming years, up from almost nothing a few years ago
- Allegro MicroSystems: seeing sharp increases in semiconductor content per data centre rack (rising several-fold), alongside strong growth in automotive

Even areas like cooling, often overlooked, are becoming meaningful semiconductor opportunities, with chips used to manage fans and pumps in increasingly power-hungry environments.

Auto Is recovering, but in a different way

While EV adoption has slowed relative to early expectations, electrification has not stopped, it has broadened. We're now seeing what could be called "electrification by stealth":

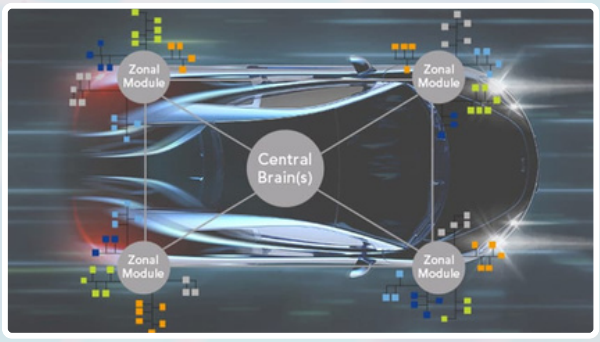
- Hybrid and extended-range vehicles gaining traction
- Electrification of individual functions ("X-by-wire")
- Rising semiconductor content across all vehicle types

By 2025, around a quarter of vehicles already fall into electrified categories—and that figure is expected to rise significantly over the next decade.

At the same time, ADAS (automated driver assistance systems) continue to proliferate, with penetration rising steadily, bringing further semiconductor demand.

The next major shift: software-defined vehicles

We're also at the early stages of another important transition: software-defined vehicles. Today's cars use hundreds of individual control units. These are gradually being consolidated into zonal architectures, effectively turning the car into a platform running software.



The implications are important:

- Lower complexity in hardware and wiring
- Much higher demand for processing power
- Greater scope for software-led functionality and updates

From an investment perspective, this reinforces a key trend: more value shifting into semiconductors and software.

Industrial demand Is reinforcing the same trend

What's particularly encouraging is that we're seeing similar dynamics play out beyond automotive.

From what we've observed, both through company results and industry engagement, industrial automation is driving strong demand for:

- Sensors
- Power management semiconductors
- Robotics-related components

Structural shifts such as reshoring and supply chain reconfiguration are accelerating automation investment, pulling through additional semiconductor demand.

We're starting to see It in the numbers

Importantly, this isn't just theoretical. Recent results are beginning to reflect these trends:

- Texas Instruments has reported strong industrial growth and improving demand
- Allegro MicroSystems continues to grow automotive revenue despite flat vehicle volumes—driven by higher content per car

This is a key point: growth is no longer dependent on unit volumes alone.

Positioning: structural and cyclical tailwinds

From a portfolio perspective, we remain constructive. We currently have meaningful exposure (c. 6–7% of the fund) to auto and industrial semiconductors, including holdings such as:

- Infineon (power semiconductors)
- Allegro MicroSystems (sensing and power management)

Looking ahead, what is compelling is the potential alignment of:

- Structural drivers (electrification, AI, software-defined systems)
- Cyclical recovery (normalised inventories, early signs of demand improvement)

We don't try to time the cycle, but when both forces begin to move in the same direction, the opportunity set becomes more attractive.

Final thought: a broader, more durable growth story

The first phase of this theme was centred on EVs. The next phase is more diversified:

- Automotive electrification (in multiple forms)
- AI infrastructure
- Industrial automation
- Software-driven systems

For us, that broadening of demand is important. It reduces reliance on any single outcome and increases the range of potential winners.

In short, while the narrative around autos may have cooled, the underlying semiconductor story is becoming broader, deeper, and, in many cases, more investable.

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