

# Here be dragons: The future AI gatekeepers hidden among Asian mid-caps

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Over the past two years, excitement about the future of AI has reshaped equity markets and the semiconductor supply chain has taken centre stage. In the U.S., leaders such as **NVIDIA (NVDA)** and **Broadcom (AVGO)** dominate headlines and command premium valuations. In Emerging Markets (EM), attention naturally gravitates to **TSMC (TSM)**, the world's leading foundry. The intense spotlight on the company is understandable given its large weighting in the benchmark and the key role it plays in enabling leading edge AI infrastructure.

At the same time, concerns about an AI bubble are growing. Sam Altman, one of the most prominent figures in the AI boom, has warned that valuations look frothy and that *"someone will lose a phenomenal amount of money."* The key takeaway is not that AI itself is over-hyped, more that some pockets have become crowded and may be fully priced. Hunting for alpha in semiconductors today feels like searching for treasure on a well-worn map. The big **"X"** has already been circled, dug up, and turned into a tourist attraction. **But across Asia, in South Korea, Taiwan, and China, there are still smudged corners and half erased trails leading to potentially overlooked bounty.**

Medieval cartographers used to write "Here Be Dragons" on these unexplored territories. This is where we believe investors should be venturing to escape the mega-cap premiums.



Just as treasure hunters seek deserted islands, investors must look beyond the obvious landmarks. In semiconductors, this means focusing on mid-cap, niche products and services providers, such as **ASIC designers** (application specific integrated circuits), **AI chip testing solutions**, **advanced packaging**, **HBM** (high bandwidth

memory), **liquid cooling**, **remote control chips for servers** (BMCs) or **server connectivity solutions** among others.

**These firms sit at bottlenecks with scarce capacity, long qualification cycles, and unique IP, which gives them pricing power and allows them to earn per rack and per device economics as deployments scale.**

For investors seeking AI hardware exposure, Asia's mid-cap semis offer access to essential enablers at reasonable multiples, with diversification and durable structural growth. NVIDIA's leadership is real, but at today's valuations a significant portion of the optimism may already be reflected. As a result, the treasure chest is comparatively lighter than two years ago. Asian mid-caps are not substitutes for the giants, but do offer strategic infrastructure at the choke points of the global AI build out. Potentially less headline grabbing haul, but ultimately still very valuable.

**As GPU supply normalises, incremental margin is migrating to new choke points**

## **Deployment gatekeepers: Asia's mid-cap niche champions**

Digging slightly deeper, we believe this cohort of Asia mid-caps will be deployment gatekeepers at the AI hardware bottlenecks. These firms specialise in baseboard management controllers (BMCs), custom ASIC design services, sockets and high-speed interconnects, substrates/laminates and interposers, advanced packaging and testing. Scarce capacity and multi-year qualification cycles make design wins sticky, raise switching costs, and confer durable pricing power.

As GPU supply normalises, incremental margin is migrating to these choke points where Taiwanese and South Korean vendors hold structural advantages in cost, yield, and time-to-qualification. The result is volume-linked, recurring revenues with less headline risk and better diversification.

For long-term investors, these gatekeepers offer structural growth, high entry barriers, and resilient earnings, a fertile ground for differentiated alpha.



Some examples of niche enablers we've identified through our investment process:

#### Product:

- **AI Chip Testing Sockets (South Korea):** Small but essential components used to test AI chips under high heat and speed. Though a tiny part of the overall cost, they're critical for ensuring quality and scale with chip complexity
- **Server Management Chips (Taiwan):** These chips help monitor and manage servers remotely. As AI servers become more powerful, demand for these chips will grow

#### Services:

- **Custom Chip Design (Taiwan):** Firm dedicated to designing specialised, high-performance chips using advanced packaging techniques. These tailored projects take time to execute and involve deep technical knowledge, which helps keep customers loyal and leads to repeat business
- **Precision Cleaning Services (South Korea):** A company providing cleaning and refurbishment services for advanced chipmaking tools. These services are deeply integrated into the manufacturing processes, switching providers is difficult, making them long-term partners

## Why our compass points to Asia semi mid-caps

While mega-cap leaders in AI hardware trade at lofty valuations, often exceeding 35× Forward P/E, many of Asia's mid-cap semiconductor firms remain priced in the high teens to low twenties. This valuation asymmetry is striking, especially given their superior return on equity and long-term growth potential.

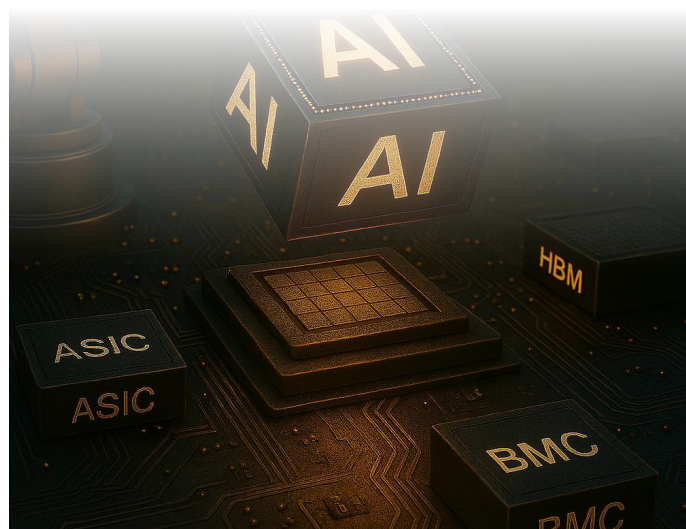
As the GPU supply chain begins to normalise, the profit pools are shifting. Pricing power and margin expansion are migrating to the bottlenecks, the strategic chokepoints where these mid-cap firms operate. These companies are able to monetise every incremental rack shipped, capturing value in the most constrained and essential parts of the

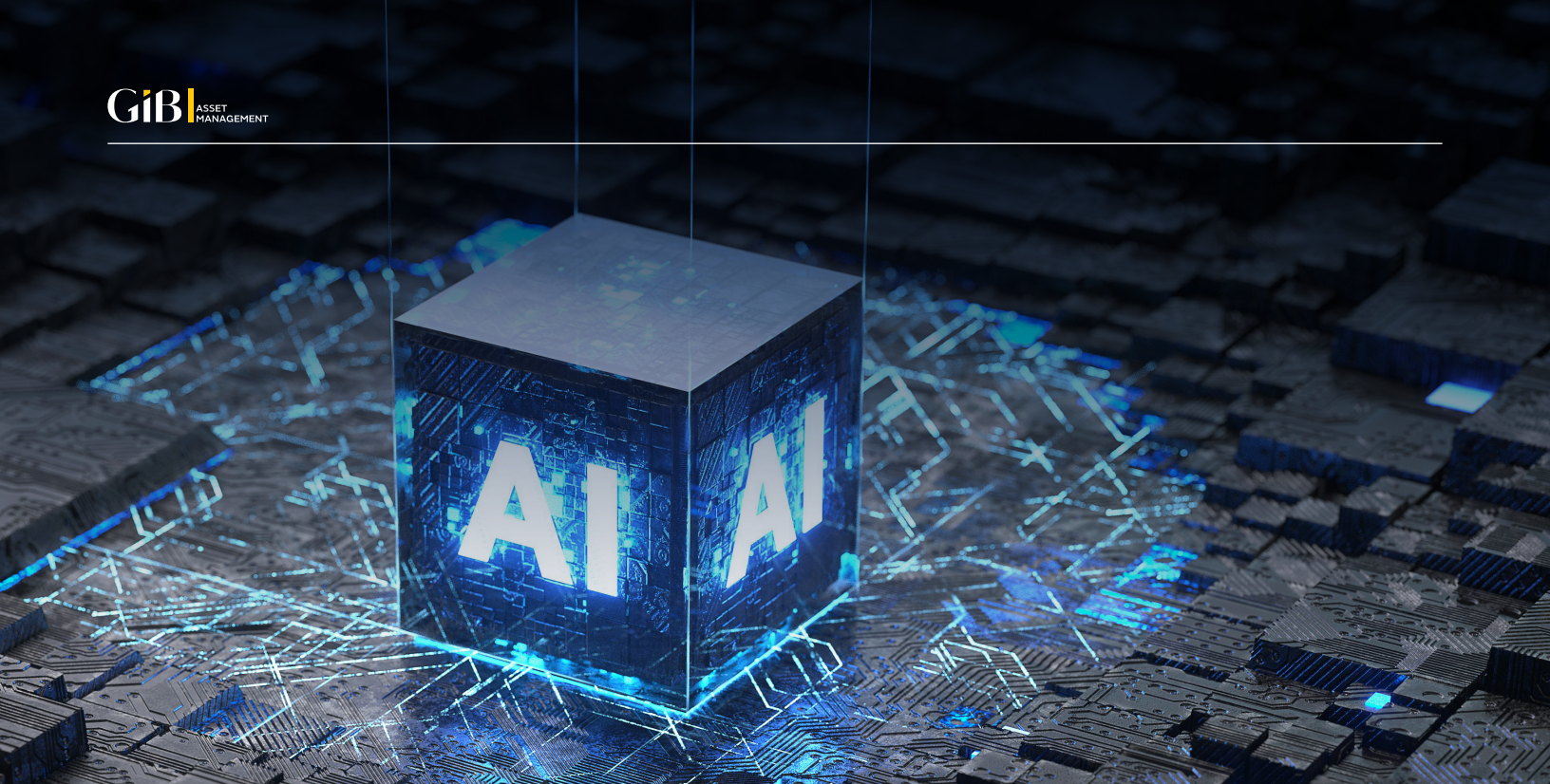
AI build-out. Importantly, the opportunity is not limited to GPUs alone. Multiple adoption streams, from ASIC design services and server controllers to high-bandwidth memory, advanced packaging, and edge AI PCs, expanding the total addressable market. **This diversification reduces reliance on any single product cycle, broadening the map for investors and increasing the chances of uncovering differentiated alpha.**

Finally, these mid-cap enablers offer lower concentration risk. Rather than betting on a single mega-cap priced for perfection, investors gain exposure to a portfolio of essential suppliers spread across customers, geographies, and technologies. Each contributes to a resilient and diversified treasure trove of AI hardware growth.

## Discovering new lands: Where AI's next profit pools will be found

Finding alpha in semiconductors today is less about chasing the obvious and more about uncovering what others overlook. The headline names have claimed the spotlight, and valuations reflect that reality. But once you move past the crowded space of mega-cap companies, the landscape starts to look very different. In South Korea, Taiwan, and China, niche players operate in the bottlenecks of the AI build out where scarcity creates pricing power. These are not the glittering treasures grabbing the headlines, but the quiet hauls of the more seasoned hunters. For investors willing to navigate less familiar paths, this is where new profit pools are being unearthed.





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