



TSCM: Inside the Investment Room

TSCM: Inside the Investment Room is a bulletin offering the Firm's perspectives on current market developments.

Global Shift: From Efficiency to Security

The ongoing conflict in the Middle East has further underscored a critical multi-year theme the investment team has been focused on for some time: the growing need for national resiliency. We believe that many regions are undergoing a re-evaluation of global supply chains and energy dependencies. Global priorities are shifting from efficiency toward resilience and strategic autonomy. Europe and Japan are responding to economic and energy pressures with increased investment in infrastructure, defense, and secure energy systems to a scale not seen in recent history. Across Asia Pacific, governments are playing a more active role in shaping supply chains and resources, creating a growing sovereignty premium. Capital is increasingly being directed by strategic necessity, not just economic returns. We believe this dynamic will continue to shape equity and financial markets for some time to come.

Regional Perspectives — Takeaways

Europe

- **Energy shock & demand destruction:** High input costs are challenging GDP growth, with 2026 forecasts revised down for the Eurozone. Less growth and higher inflation can lead to demand destruction.
- **Large scale strategic investment:** to address the needs in energy, defense, and technology infrastructure:
 - **The Grid Overhaul:** Implementation of a ~€1.2 trillion plan to upgrade and digitize the EU's power grid by 2040, prioritizing cross-border connectivity and high-capacity renewable integration.
 - **Defense Industrialization:** The €1.5 billion European Defense Industry Program (EDIP) is now addressing urgent production bottlenecks to ensure the domestic industry can meet immediate security challenges.
 - **Technological Sovereignty:** A strategic mandate continues to drive incremental domestic investment in technology infrastructure, specifically focusing on sovereign cloud and AI services.

Japan

- **Government Spending:** The administration is prioritizing strategic growth over immediate debt reduction. Prime Minister Takaichi has accelerated the 2% GDP defense spending target, now set to be achieved as early as Fiscal Year 2026.
- **Glocalization:** Japan is moving toward a glocalized model, balancing global efficiency with localized, resilient production hubs.

22

AVERAGE YEARS
OF EXPERIENCE

18

INVESTMENT
PROFESSIONALS



- **Energy Resilience & Security of Supply:** Under the 2026 mandate, Japan's energy strategy was shifted to a nuclear-led and national resilience-focused model. New utility-scale renewable projects are increasingly required to include co-located BESS (Battery Energy Storage Systems) to prevent grid curtailment and manage peak demand. As a result, grid-scale BESS applications in Japan have surged, reaching over 170GW as of March 2026¹.
- **Soft Power:** The "Cool Japan" initiative has seen a resurgence through Japanese Anime. Now a mainstream staple on Western platforms like Netflix and Disney+, the sector represents a high-growth vertical in digital content exports and international licensing.

APAC x Japan

- **Strategic Mining:** Australia is evolving from a raw material exporter to a supply hub for the Western alliance.
- **The Sovereignty Premium:** We are seeing unprecedented government backstopping of once-uneconomic projects. By de-risking critical minerals and energy extraction, the state is creating a new sovereignty premium for infrastructure assets in the region.
- **Structural Resilience:** Beyond resources, the country benefits from a favorable domestic environment, characterized by positive demographic shifts and a resilient fiscal environment.
- **Financial Ecosystem Evolution:** The increasing scale of Superannuation funds and the fast-growing and increasingly complex Managed Accounts market are creating significant opportunities for consolidators and specialized service providers.

Key Macro Trends

- **The Surge in Defense and Infrastructure Spending:** Continued strategic infrastructure build-out and supply chain decoupling. Capital is flowing into domestic and local processing hubs to insulate vulnerable global supply lines.
- **Energy & The Derivative Implications:** We view energy as a strategic industrial input rather than a mere commodity.
- **Metals & Mining:** Government backstopping of once-uneconomic projects, particularly in critical minerals and energy, creating a new sovereignty premium for infrastructure and extraction assets. Investors are pricing in the security of ally-sourced minerals over the lowest-cost global spot price.

The Bottom Line

We are operating in a world where capital is increasingly shaped by strategic necessity as much as by return potential. Energy, defense, infrastructure, and critical supply chains are no longer just sectors; they are central to national policy. This shift is driving multi-year investment cycles across regions like Europe, Japan, and Australia, creating both volatility and opportunity. In Europe, structural transformation and sector dislocations, particularly in energy, are uncovering resilient companies that may be overlooked by broader market narratives. In Japan and Australia, rising investment in infrastructure, electrification, and evolving financial ecosystems is opening new avenues for growth, including downstream opportunities in areas like renewable energy and battery storage.

Against this backdrop, we believe a disciplined, bottom-up approach is essential. As geopolitical fragmentation and policy-driven capital flows reshape markets, opportunities are increasingly concentrated in businesses with strong fundamentals, durable competitive advantages, and aligned management teams. Small- and mid-cap companies, in particular, are well positioned to benefit as primary recipients of this strategic capital. By combining deep local expertise with a broad, cross-sector perspective, we aim to identify companies capable of compounding value through shifting macro conditions and translating this complexity into attractive, risk-adjusted returns.

¹ "Japan's grid-scale BESS market: Turning market hype into reality", Institute for Energy Economics and Financial Analysis, March 02, 2026, <https://ieefa.org/resources/japans-grid-scale-bess-market-turning-market-hype-reality>



Performance*

	1Q	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception	Inception Date
U.S. Small Cap Growth (Gross)	-6.47	10.37	8.06	1.56	10.10	9.13	9/30/00
U.S. Small Cap Growth (Net)	-6.71	9.29	6.99	0.55	9.02	8.05	
<i>Russell 2000 Growth</i>	-2.81	23.58	12.25	1.62	9.78	6.21	
U.S. Mid Cap Growth (Gross)	-7.53	5.40	10.07	5.69	12.28	9.73	9/30/00
U.S. Mid Cap Growth (Net)	-7.72	4.56	9.21	4.86	11.40	8.87	
<i>Russell Mid Cap Growth</i>	-6.35	9.56	12.73	5.37	11.68	6.89	
U.S. Focused Mid Cap Growth (Gross)	0.96	13.20	18.25	12.23	15.10	13.49	8/31/05
U.S. Focused Mid Cap Growth (Net)	0.75	12.26	17.22	11.20	14.01	12.30	
<i>Russell Mid Cap Growth</i>	-6.35	9.56	12.73	5.37	11.68	9.89	
International Small Cap (Gross)	-4.32	19.15	9.77	1.54	5.61	7.81	3/31/12
International Small Cap (Net)	-4.53	18.16	8.76	0.57	4.59	6.77	
<i>MSCI EAFE Small Cap</i>	-1.25	25.55	12.64	4.43	7.42	7.80	
Global Small Cap (Gross)	-4.58	17.93	9.86	3.55	-	5.91	12/31/17
Global Small Cap (Net)	-4.78	17.01	8.97	2.67	-	5.00	
<i>MSCI World Small Cap</i>	1.36	26.22	13.40	5.51	-	7.41	

*Composite performance as of 03/31/26.

See important disclosures on the following page.



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