

The Reindustrialization of North America

Continuing the thoughts our Founder & Chief Investment Officer Chris James shared in his February 2023 letter, we further explore the investment opportunities in what we believe is one of the defining macroeconomic themes of this decade: the reindustrialization of North America.

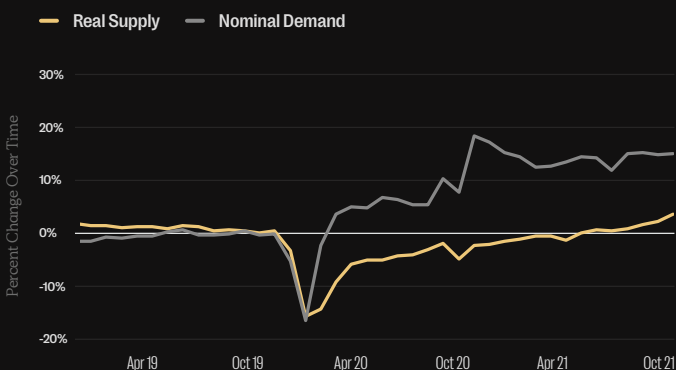
1 The Challenge

Over the past 75 years, the world built supply chains with the lowest possible direct manufacturing costs. This shifted production to low-cost regions abroad. As a result, from 1970 to 2019, the U.S. lost 6.7 million manufacturing jobs, representing a 34% decline in manufacturing employment.¹

Events like the COVID-19 pandemic, the war in Ukraine, the China-U.S. trade war, the Suez Canal blockage, and other geopolitical tensions have further illuminated how fragile our supply chains are, as everyday Americans sometimes struggle to access basic goods. The realities of today are different than what they were a few decades ago: China is beginning to lose its labor cost advantage, companies are doubling down on decarbonization, and globalized supply chains are seen as material risks.

The fragility of supply chains has exposed critical business disruptions and created environmental and labor arbitrage

Supply and Demand for Manufacturing Goods in the U.S.



\$3.5 Trillion

in global income was eliminated by the COVID-19 pandemic, demonstrating the need for companies to rethink their supply chains²

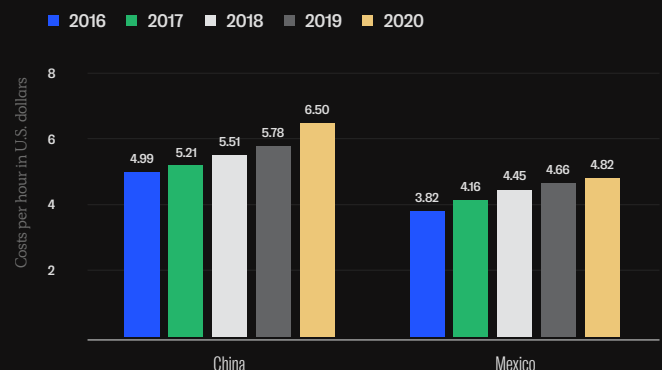
The Suez Canal blockage, which affected over 400 vessels, delayed the transportation of

~\$15-17 Billion

in critical goods³

China's manufacturing cost advantage is shrinking – labor is cheaper in Mexico

Manufacturing Labor Costs for China and Mexico⁴



2 The Solution

We are seeing companies respond to these challenges by shifting parts of their supply chain back to the U.S., which will lead to a North American manufacturing renaissance. North American manufacturing is an attractive solution because of the structural advantages it offers:

- 1 U.S. critical trade partnerships with Mexico & Canada,
- 2 inherent geological advantages,
- 3 availability of critical resources and commodities,
- 4 innovation and leading-edge IP protection,
- 5 energy security, and
- 6 government support.

We believe that this will position the U.S. to have a more resilient supply chain, allow us to decrease the carbon emissions associated with producing and transporting goods, and increase the number of North American manufacturing jobs.

U.S. companies were on a record pace to re-localize

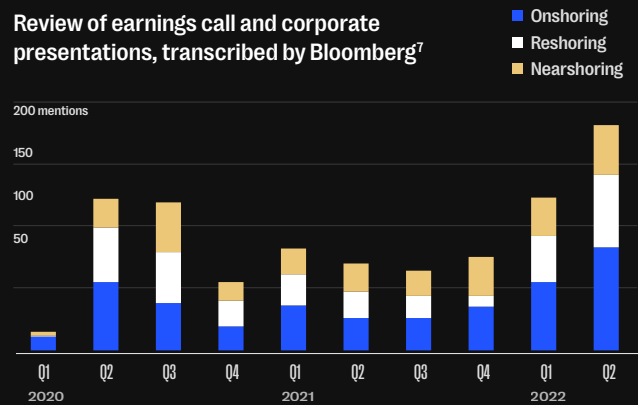
350,000
jobs in 2022⁵

Bringing manufacturing, transportation, and warehousing jobs to the U.S. creates a

5.1x employment multiplier⁶

Supply chain shifts get more attention during U.S. corporate presentations

Review of earnings call and corporate presentations, transcribed by Bloomberg⁷



3 Investment Opportunity

We believe there is massive investment opportunity in the companies that will benefit from the systems transformation driven by the revitalization of North American manufacturing. This investment opportunity is characterized by breadth in that it is an all-encompassing multi-sector opportunity and that it is supported by regulatory tailwinds. Through the IRA, the CHIPS and Science Act, and the IIJA, the U.S. has committed nearly \$2 trillion build out domestic manufacturing infrastructure and develop lower cost renewable energy sources while decarbonizing the economy.^{8,9}

These investments will impact the U.S. power grid system, solar and wind energy development, electric vehicle usage, energy storage capabilities, domestic infrastructure investment, and microchip development. Among the beneficiaries of these investments are businesses operating within the following value chains: manufacturing, construction, mining, automation, electrical equipment, transports, and semiconductors.

Systems transformations like these present an opportunity to unlock tremendous value and investors should carefully examine businesses with structural growth at their backs from the reindustrialization of North America.

Some estimate that over the next decade, there is potential for over

\$1.6 Trillion

of investments to support the goals of the IRA¹⁰

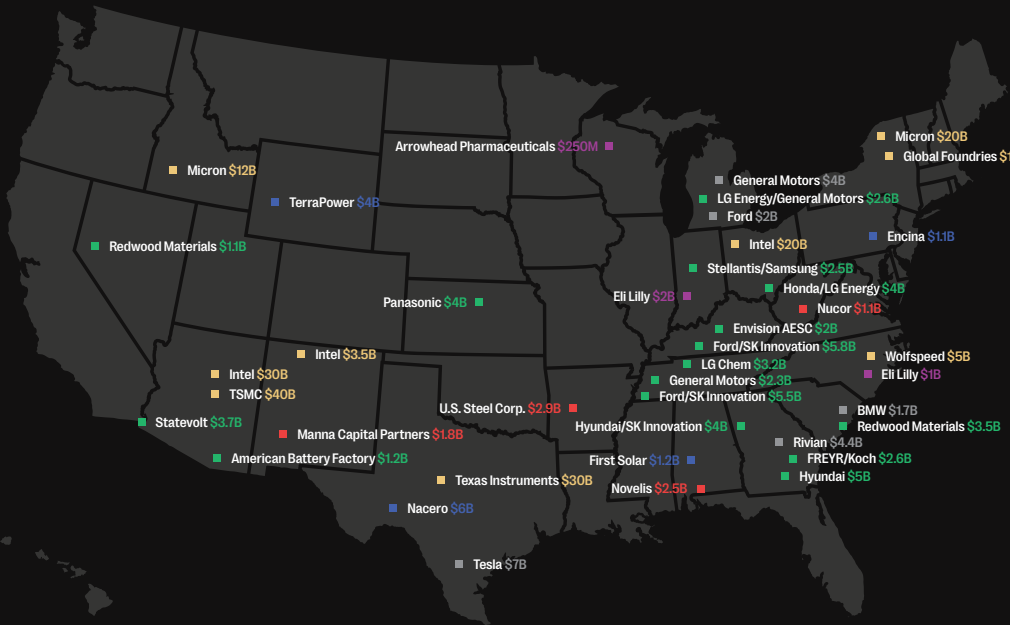
Through the CHIPS & Science Act, there's an estimated

\$52.7 Billion

investments in domestic semiconductor manufacturing, with companies already announcing intent to build fabs within the U.S. and bringing back thousands of jobs¹¹

U.S. Manufacturing is on the rise

Companies are responding to President Biden's investments in the industries of the future¹²



Note: Initial snapshot of just some of the companies announcing major investments in the U.S. since 2021

Other \$1B+ Investments sites to be determined

- SK Group \$22B
- Volkswagen \$7.1B
- Cytiva / Pall Corp \$1.5B
- CubicPV \$1B

Legend

- Battery Factory \$53B
- Auto/Electric Vehicle Plant \$26.2B
- Semiconductor Fab \$183.5B
- Biomanufacturing Facility \$4.75B
- Steel and Aluminum \$9.7B
- Other Clean Energy \$13.3B

Sources

¹ U.S. Bureau of Labor Statistics

² The Resiliency Compass: Navigating Global Value Chain Disruption in an Age of Uncertainty, [World Economic Forum](#)

³ Suez Canal blockage: an analysis of legal impact, risks and liabilities to the global supply chain, [MATEC Web of Conferences](#)

⁴ Manufacturing labor costs per hour for China, Vietnam, Mexico from 2016 to 2020, [Statista](#)

⁵ U.S. Companies on Pace to Bring Home Record Number of Overseas Jobs, [WSJ](#)

⁶ Updated employment multipliers for the U.S. economy, [Economic Policy Institute](#)

⁷ CEOs Start to Turn Supply-Chain Reshoring Talk Into Action, [Bloomberg](#)

⁸ The Inflation Reduction Act: Here's what's in it, [McKinsey](#)

⁹ Workforce Development In The IJJA, CHIPS And IRA, [NGA](#)

¹⁰ Goldman Sachs Research, [Marquee \(GS\)](#)

¹¹ The Inflation Reduction Act: Here's what's in it, [McKinsey](#)

¹² Reshoring Initiative, ZETA, SIA, and Alliance for Automotive Innovation

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