Robotech strategy

Signs of a rebound in industrial activity and strong order books for industrial robotics companies bode well for a recovery in 2021

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- We saw some weakness in the semiconductor sector due to component shortages
- We added to some Japanese automation companies in the month

Tom Riley
Portfolio Manager, Robotech strategy

What's happening?

Equity markets rose in March 2021 (in USD terms), with a notable rotation out of growth names in to value sectors seen during the month. This rotation meant that stocks in sectors such as Energy, Financials, Utilities and Consumer Staples performed well at the expense of typical faster growth sectors such as the Technology which was weaker. This backdrop was unfavourable for the Robotech strategy given its positioning in various secular growth themes, however the Industrials exposure of the portfolio did provide some resilience during this rotation.

Globally, the roll out of COVID-19 vaccines continued during the month with a notable increase in the US that bodes well for economic activity normalising in the region, coupled with the announcement of the 1.9 trillion USD COVID Relief Bill to support the economy. Whilst vaccine progress in the EU and other economies remains slower, we see prospects for a global economic recovery and associated resumption consumer spending as this improves in the coming months.

Portfolio positioning and performance

In March, we saw some weakness in the semiconductor sector during the period due to component shortages, particularly in the Automotive sector – there have been reports of automotive facilities seeing temporary shutdowns due to the lack of available components. In addition, the winter storms in the southern states of the US seen in February impacted production at some facilities in Texas which has contributed to these shortages. We take a longer term view on the sector and see supply/demand becoming more balanced over the coming quarters and the strong demand continuing due to an improvement in automotive sales as well as a healthy environment for consumer electronics. Interestingly, we believe the component shortages adds some additional pricing power to the semiconductor companies which should be supportive to profit margins.

TeamViewer, a German software company focussed on connectivity was weak during the period after announcing a major sponsorship deal with Manchester United. The shares sold off as a result of margins going down to fund this investment, whilst it remains to be seen the ultimate value that a partnership like this brings in terms of brand awareness, the company is confident that the investment is prudent. Our position in Kion, a German manufacturer of forklift trucks and automated warehouse solutions, performed well on signs that the strength in ecommerce orders continues to be strong in to 2021.

We initiated a new position in Altair, a US software company that specialise in simulation technology used for the design and engineering space. Simulation is used in areas like auto and aerospace manufacturing to test products digitally and iterate the design before testing physically – this can save significant costs, increase safety/reliability and also speed up time to market for new products.

We added to some Japanese automation companies in the month - Fanuc and Daifuku. We see strong order trends at Fanuc at present and used some volatility in Daifuku's share price to add to our existing holding. Similarly, we used recent volatility to increase our exposure to the semiconductor space, adding to ON Semiconductor, Ambarella and AMD.

Outlook

Signs of a rebound in industrial activity and strong order books for industrial robotics companies bode well for a recovery in 2021 post the COVID-19 disruptions. At present, this is particularly apparent in terms of Chinese activity, with the US starting to recover too, whilst Europe and Japan are a little further behind.

In addition to the pent up demand post COVID, we believe that there are also elements of pent up demand coming thorough post the US China trade war of 2019/2020 – we were starting to see signs of this recovery at the end of 2019 and early 2020 before COVID put companies investment plans on hold. If this does start to materialise, this could signal a more prolonged period of higher industrial activity and CAPEX[1] investments, supportive to a range of automation companies.

Ecommerce has seen volumes rise significantly during the lockdowns and companies with a strong online presence have benefitted whereas companies that have been slower to adopt ecommerce have often struggled. Whilst some of this current shift to ecommerce is temporary, we do believe that some spending habits will be permanently altered. To support this shift towards ecommerce going forward, we anticipate major spending for logistics and fulfilment centres as companies need to reinforce their capabilities in this area. This increase in CAPEX[1] will likely be beneficial to a wide range of automation suppliers.

It is increasingly recognised that Electric Vehicles (EVs) are starting to get more interest from consumers as the costs of the vehicles come down, battery technology improves, and consumers focus on environmental trends. What is perhaps less focussed on is the significant investment that is needed to manufacture these new EVs and their batteries. It is important to note that CAPEX[1] decisions are being made currently for vehicles that will be produced in 12-24 months' time, so the prospects for companies supplying equipment such as industrial robots, lasers and vison systems is improving.

No assurance can be given that the Robotech Strategy will be successful. Investors can lose some or all of their capital invested. The Robotech strategy is subject to risks including; Equity; Emerging markets; Investments in specific sectors or asset classes; Global investments; Investments in small and/or micro capitalisation universe; ESG.

[1] CAPEX: Capital Expenditure

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