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# Robotech strategy

## We saw some resilience in our healthcare holdings

- Equity markets fell during February with geopolitics dominating market sentiment
- Strong performance from our healthcare companies exposed to elective surgery trends
- Weakness from semiconductor companies with some continued profit taking

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### What's happening?

Equity markets fell during February (MSCI ACWI Index in USD terms), continuing the weakness seen in January. The Robotech strategy declined during the month, alongside broader markets, with the Technology Sector seeing some weakness, but countered by some resilience in our healthcare holdings. During February, the best performing sectors of the global equity markets were Energy and Materials – areas in which the Robotech strategy has no exposure.

Geopolitics dominated market sentiment during the period following Russian forces entering Ukraine. In response, much of the international community imposed significant sanctions on Russia and related parties and at the time of writing the situation remains very uncertain. With Russia being a large supplier of gas to Europe and Ukraine being a major transit route for Russian gas in to Europe, Energy prices spiked sharply which have added to inflation concerns. However, investors are also considering that this uncertainty may mean that the pace of interest rate hikes previously anticipated by the Federal Reserve in 2022 may moderate as the Fed attempt to mitigate the impact on the economy.

With the current uncertainty raised by the geopolitical situation, it is not surprising to see an increase in volatility and some profit taking. From an investment perspective, we have no direct exposure to Russian or Ukrainian companies and do not believe that any of our investments have meaningful sales deriving from those areas. We continue to monitoring these events and if fundamentals for the sector continue to be robust, we will use any weakness in share prices as an opportunity to invest.

### Portfolio positioning and performance

During February, we saw some stronger performance from our healthcare companies exposed to elective surgery trends. Axonics, a US company which have developed a device for sacral neuromodulation, to aid incontinence, performed well as surgical volumes are improving post the recent COVID disruption in hospitals. We have seen similar encouraging trends at other healthcare holdings such as Conmed (component supplier for surgical robots) and Globus Medical (robots for spinal surgery).

Our semiconductor holdings were weaker during the period, with some continued profit taking seen following the strong performance of the group in the second half of 2021. Earnings results for the group have been robust during January and February as the secular trends of AI, High Performance Computing and the growth of semiconductor content in cars continue to see healthy growth.

We initiated a new position in Bentley Systems, a US software company focused of software for the construction market, with a particular focus on infrastructure. We have been monitoring the company since its IPO<sup>1</sup> in September 2020 and have used the recent share price weakness to initiate a small position.

We topped up our position in Autostore, a Norwegian robotics company which focusses on retrieval systems for automated warehouses. We participated in the IPO<sup>1</sup> of the company in October 2021 and have used market volatility from some ongoing disputes with former customer Ocado to top up the position. Autostore reported very strong results in the period indicating that demand for warehouse automation solutions is currently very robust.

## Outlook

As we look to 2022, we continue to believe that inflationary pressures and supply chain challenges will continue to have an impact on companies operations as well as labour shortages in certain parts of the economy contributing to rising wage pressure. According to the US JOLTS figures (Job Openings and Labour Turnover Survey), there are around 11 million jobs that are currently being advertised for in the US compared to 6-7 million which was the average in the years pre-pandemic. This high level of job openings indicates that companies are trying to source employees, but are struggling to find them. In many industries, labour scarcity presents an opportunity for automation to help ease these pressures, particularly in areas like manufacturing and we see this being a key driver of automation demand whilst these issues persist.

The topic of inflation continues to be a source of debate both as to the magnitude and potential duration of its impact. It is ultimately hard to forecast the effect here, due to the unpredictability associated with the ongoing COVID pandemic, the Omicron wave and more recently the geopolitical crisis in Eastern Europe. It is worth paying attention to the recent and rapid wage inflation that is being seen in parts of the economy, notably warehousing employees. Warehousing is one of the areas that is seeing the large labour challenges at the moment. The growth of ecommerce, both long term structural growth of the industry, coupled with the additional surge seen during the pandemic, has accelerated the shift to online consumption which likely leads to a large increase in demand for automation technologies associated with warehousing and logistics. We have long invested in this space in the Robotech strategy, with companies like Kion & Daifuku (material handling solutions), Cognex & Keyence (vision systems) and Ocado (Automated Grocery). In 2021 we added 2 new names to the portfolio that are also exposed to this trend - GXO Logistics (warehouse operator specialising in automation) and Autostore (a manufacturer of automated storage and retrieval solutions for warehouses).

At the end of October, The International Federation of Robotics, a leading industry research group that track deployments of industrial robots around the world, released their figures of industrial robot deployments. This confirmed, that despite the disruption seen by COVID, shipments of industrial robots were higher in 2020 than in 2019. They also released their forecasts for robot installations out to 2024 which showed continued solid growth for the industry. We are optimistic for the growth of Robotics over the coming years – in addition to the pent up demand for automation equipment post COVID-19, we believe that there are also elements of pent up demand coming through 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 investments, supportive to a range of automation companies.

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<sup>1</sup> IPO: Initial Public Offering

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