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 semiconductors companies with some continued profit taking

Tom Riley
Portfolio Manager, Robotech strategy

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[1] 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[1] 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.

[1] IPO: Initial Public Offering

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.

whole or in part, in any way without the prior written consent of AXA IM Asia. They are not intended for distribution to any persons or in any jurisdictions for which it is prohibited.

If any fund is highlighted in this communication (the "Fund"), its offering document or prospectus contains important information on selling restrictions and risk factors, you should read them carefully before entering into any transaction. It is your responsibility to be aware of and to observe all applicable laws and regulations of any relevant jurisdiction. AXA IM Asia does not intend to offer any Fund in any country where such offering is prohibited.

The offer, distribution, sale or re-sale of fund units/shares in Taiwan requires approval from and/or registration with Taiwanese regulatory authorities. To the extent that any units/shares of the Funds are not so licensed or registered, such units/shares are made available in Taiwan on a private placement basis only to banks, bills houses, trust enterprises, financial holding companies and other qualified entities or institutions (collectively, "Qualified Institutions") and other entities and individuals meeting specific criteria ("Other Qualified Investors") pursuant to the private placement provisions of the Rules Governing Offshore Funds. No other offer or sale of such units/shares in Taiwan is permitted. Taiwanese purchasers of such units/shares may not sell or otherwise dispose of their holdings except by redemption, transfer to a Qualified Institution or Other Qualified Investor, transfer by operation of law or other means approved by the Taiwan Financial Supervisory Commission.

In Korea, AXA Investment Managers Asia (Singapore) Ltd is a registered Cross Border Investment Advisor/Discretionary Investment Management Company under the Financial Investment Services and Capital Markets Act (the "Act"). The activities referenced under the Act are 5-2-2 Investment Advisory Business and 6-2-2 Discretionary Investment Management Business, respectively. Its financial services are available in Korea only to Professional Investors within the meaning of Article 10 of Enforcement Decree of the Financial Investment Services and Capital Markets Act.

To the extent that any fund is mentioned in this document, neither the fund nor AXA IM Asia is making any representation with respect to the eligibility of any recipients of this document to acquire the units/shares in the fund under the laws of Korea, including but without limitation the Foreign Exchange Transaction Act and Regulations thereunder. The units/shares have not been registered under the Financial Investment Services and Capital Markets Act of Korea, and none of the units/shares may be offered, sold or delivered, or offered or sold to any person for re-offering or resale, directly or indirectly, in Korea or to any resident of Korea except pursuant to applicable laws and regulations of Korea.

For Malaysian investors: As the recognition by the Malaysian Securities Commission pursuant to Section 212 of the Malaysian Capital Markets and Services Act 2007 has not been / will not be obtained nor will this document be lodged or registered with the Malaysian Securities Commission, the shares referred to hereunder (if any) are not being and will not be deemed to be issued, made available, offered for subscription or purchase in Malaysia and neither this document nor any other document or other material in connection therewith should be distributed, caused to be distributed or circulated in Malaysia.

For Thailand investors: Nothing in this document shall constitute in any manner whatsoever a proposal to make available, offer for subscription or purchase or to issue an invitation to purchase or subscribe for any securities in Thailand or a proposal to implement any of the foregoing in Thailand nor has this document been approved by or registered with the Securities and Exchange Commission of Thailand ("SEC"). No person receiving a copy of this document may treat the same as constituting an invitation or offer to him in Thailand and such person shall not distribute or make available this document in Thailand. The issuer of this document shall not be liable in any manner whatsoever in the event this document is distributed or made available to any person in Thailand receiving a copy of this document. Since no application for approval has been or will be made to the SEC for the offering of the securities, or for the registration of this document, the securities shall not be offered for subscription or purchased or made available, whether directly or indirectly, in Thailand. It is the sole responsibility of recipients wishing to take any action upon this document to satisfy themselves as to the full observance of the laws of Thailand, to comply with all relevant government and regulatory approvals, and to comply with all applicable laws, including but not limited to exchange control laws.

For Investors in People's Republic of China (PRC): This document does not constitute a public offer of the product., whether by sale or subscription in the PRC. The product is not being offered or sold directly or indirectly in the PRC to or for the benefit of, legal or natural persons of the PRC. Further, no legal or natural persons of the PRC may directly or indirectly purchase any of the product or any beneficial interest herein without obtaining all prior PRC's governmental approvals that are required, whether statutorily or otherwise. Persons who come into possession of this document are required by the issuer and its representatives to observe these restrictions.

MSCI: Neither MSCI nor any other party involved in or related to compiling, computing or creating the MSCI data makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the MSCI data is permitted without MSCI's express written consent.