AXA Investment Managers

For professional clients only
March 2022
Monthly Perspectives
AXA IM Equity

Robotech strategy

In many industries, labour scarcity presents an opportunity for automation to help ease these pressures

- Equity markets rose during March
- Geopolitics and rising Energy prices again dominated market sentiment
- We saw some stronger performance from our healthcare companies

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What's happening?

Equity markets rose during March (MSCI ACWI Index in USD terms), with a weaker start to the month followed by a rebound as the month progressed. The Robotech strategy rose during the month, but lagged the MSCI ACWI Index. During the month, Energy and Materials were amongst the best performing sectors of the global equity markets – areas in which the Robotech strategy has no exposure.

Geopolitics and rising Energy prices again dominated market sentiment during the period as a result of the Ukraine conflict. The international community has continued to impose significant sanctions on Russia and this has led to higher input costs which have further complicated and already difficult supply chain and inflationary environment. In March, the federal reserve initiated at 0.25%[1] hike to interest rates, which starts the normalisation process of interest rates following the cuts at the onset of the COVID pandemic.

Portfolio positioning and performance

During February, we saw some stronger performance from our healthcare companies, including Dexcom, a leader in Continuous Glucose Monitoring for Diabetic patients and Axonics, a US company which have developed a device for sacral neuromodulation, to aid incontinence. We added a new position to the fund in February, Bentley Systems, and this has performed well since we bought it.

We saw weakness in semiconductor company Ambarella at the start of the month. Ambarella indicated that results over the next 2 quarters would be softer than anticipated due to issues getting its products manufactured at Samsung's semiconductor fabrication plant. Ambarella aren't alone in struggling to access enough manufacturing capacity to meet

[1] Source: Bloomberg – March 2022

demand at present – whilst it is disappointing they will see revenue shortfall as a result, we are encouraged that demand for product continues to be healthy.

Our position in US Automotive component supplier Aptiv was weaker in March. Aptiv does have some manufacturing exposure in Ukraine which has impacted their ability to delivery product, but they have made efforts to move this to other facilities unimpacted by the conflict so this should be mitigated in due course. Kion, a manufacturer of warehouse automation solutions and fork lift trucks was weaker on concerns around the supply chain and input costs.

We initiated in March a small position in Tandem Diabetes, a diabetes pump manufacturer that complements our existing and longstanding holding in Dexcom. We see significant opportunities for Technology to better monitor and manage patients with diabetes and see Dexcom and Tandem as being well positioned in this space.

We exited our position in IPG Photonics, a US manufacturer of fiber lasers used for metal processing. IPG Photonics has a small production facility in Russia as well as an R&D[2] center and we through it prudent to exit the holding as the impact of potential sanctions remains unknown and the business will likely incur disruption if it needs to alter the location of production.

We increased our position in Bentley Systems, a US engineering software company and trimmed our position in Viavi, which held up well in the market volatility and we see better opportunities elsewhere.

Outlook

Inflationary pressures have continued to build over the last few months with the Ukraine conflict contributing to rising energy prices and raw materials. This presents headwinds to industrial companies that will either need to absorb these increases themselves, pass the impacts on to customers or most likely, a combination of the two. The recent events in Europe have added to an already complicated situation for supply chains. 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.

At the end of October 2021, 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.

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.

[2] R&D: Research and development

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