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Robotech strategy

Corporate earnings results have been generally good for the strategy

- Macro uncertainty weighed on global equity markets and investor sentiment
- 75%¹ of our companies reported earnings better than analysts forecast for Q2 2023
- Weakness in the semiconductors space after strong year-to-date performance

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What's happening?

Global equity markets gave back some of their year-to-date gains in the month of August with the MSCI All Country World Index declining +2.8%² in USD terms. Macro uncertainty weighed on investor sentiment during the period and the Robotech strategy lagged the broader market during the month, with some more notable weakness seen in its semiconductor and MedTech holdings.

Corporate earnings results have been generally good for the strategy with 75% of the holdings in the strategy beating earnings expectations in the current earnings season. This contrasts to the MSCI All Country World Index where 52% of companies beat their earnings expectations (source Bloomberg as of 31/08/2023). However, company outlooks have been framed with some caution with mixed trends seen in industrial activity and weaker conditions in China. Towards the end of August, the latest Chinese manufacturing PMI reading (Purchasing Managers Index) suggested signs of stabilisation in the manufacturing sector in China. However we would look to see more data points to confirm this trend before turning more optimistic for a recovery.

Portfolio positioning and performance

Results from Nvidia were very strong with record datacentre revenue driven by exceptional demand for chips to support Generative AI and Large Language Models. Whilst the share price returns for Nvidia have been very significant at 238% year to date (in USD to 31/08/23), consensus earnings expectations for 2024 have approximately tripled which has supported valuations. Investors are increasingly focussed on Nvidia's ability to scale production at its manufacturing partners to meet these surging orders whilst also questioning the ultimate sustainability of this demand. Elsewhere in the semiconductor space, after a period of strength, we saw weakness across a number of our holdings. This appears to have been driven more by macro-economic concerns rather than fundamentals in these businesses.

¹ Source : Bloomberg as of 31/08/2023

² Source : Bloomberg in USD as of 31/08/2023

We saw positive performance from Autodesk, a US software company focused on the design, construction and engineering end markets. Despite macro concerns, the company delivered robust results thanks to the resilience of its subscription model and solid execution.

Our MedTech holdings were weaker during the period, despite having a solid earnings season. The increased investor interest in GLP-1³'s (weight loss drugs, principally from Eli Lilly and Novo Nordisk) weighed on sentiment as investors seek to understand potential implications of wider adoption of these drugs on other treatments & procedures. Intuitive Surgical was impacted on concerns that success in weight loss from these drugs could impact the number of bariatric procedures performed or delay patients procedures as they try weight loss medications first. We would suggest that the impacts are likely more limited, with Bariatric surgery only representing 2-3% of Intuitive Surgical's annual procedure volumes. We would note that when they reported results, Intuitive Surgical upgraded their expectations for procedure volumes to be 20-22%⁴ above last year's volumes indicating that growth should be robust even if there is a slowdown in Bariatric procedures. There were similar concerns that widespread adoption of these drugs could mean that in the long-term there are fewer diabetic patients, limiting the addressable market for companies like Dexcom. We anticipate that any impacts for the foreseeable future would be minor and continue to see Continuous Glucose Monitoring as a significant growth opportunity.

We continued to build our position in Applied Materials, a US semiconductor equipment vendor which we added to the portfolio in June. Applied Materials is seeing healthy demand for its machines on robust Capex⁵ trends.

We reduced our positions in semiconductor companies Silicon Labs and Qualcomm. Silicon Labs is focussed on Internet of Things chips and is currently seeing customer demand weaker as more cost conscious consumers appear to be reducing some discretionary spend on household electronics. For Qualcomm, we see better opportunities elsewhere in the semiconductor industry with strong trends in areas outside of mobile.

Outlook

Inflationary pressures across the major economies of the world continue to soften, whilst economic indicators have been resilient, particularly the US, further pushing out the risk of an imminent recession. In China, government policymakers struck a more positive tone on potential stimulus measures as the economy has experienced a slower than expected recovery post Covid reopening. Chinese Industrial Activity continues to be a weak spot globally and trends in the region have not rebounded to the extent anticipated post the removal of COVID restrictions at the start of 2023. Rising government incentives from other countries, attempting to reshore manufacturing and invest more in home markets, is acting as a further headwind and at the expense of potential investments in China.

The labour market continues to be tight in many areas where continued labour shortages present a real challenge for businesses. For instance, in the manufacturing space or warehousing space, we see fewer workers – particularly younger demographics – that are willing to do these kinds of jobs, given the nature of the roles and the salary. As a result – facing labour inflation and labour shortages – companies are increasingly incorporating Technology and Automation in their processes to increase efficiency and productivity with their existing/shrinking workforce. In simple terms, we anticipate that labour shortages and wage inflation are substantial drivers of automation demand over the next few years. As labour costs go up, the payback periods become quicker from introducing automation, meaning that more and more areas are considered for automation.

³ GLP-1 : Glucagon-Like Peptide-1

⁴ Source : Intuitive Announces Second Quarter Earnings, 20/07/2023

⁵ CAPEX : Capital Expenditures

The US is trying to reinvigorate its domestic manufacturing via infrastructure spend and capital expenditures (CAPEX). This is important politically as its US Jobs, important geopolitically as it keeps US intellectual property within the US and important for supply chain as its secure stock within the country after the disruption witnessed post-COVID. Government support has evolved over the past few years, whether it be the Trump Administration – with tariffs in the US China trade war – or more recently with the Biden administration and the CHIPS Act signed to ramp up and ‘reshore’ US technology such as domestic semiconductor manufacturing. US president Biden also passed the Inflation Reduction Act (IRA) allocating a lot of spend for more domestic US manufacturing, focussed on key technologies. As a result of tariffs, incentives and reducing the risk of supply chain issues, companies are investing again in the US and this comes with technological sophistication, robotics and automation.

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