Robotech strategy
We see interesting scenarios where robotics and automation technologies are accelerating

- The Robotech strategy performed strongly in June
- Our semiconductors holdings associated to 5G deployments contributed to performance
- We added to some of our healthcare names

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What's happening?

During June, the Robotech strategy performed strongly, continuing its rebound seen in April and May following the broad sell-off seen across equity markets in March. The performance of the strategy continues to be good vs. the broader equity market (MSCI AC World) so far in 2020 and June was another positive month for relative performance.

Global equity markets performed well in June as several key economic indicators came in better than anticipated. Notable was the strength in US job creation in May which was reported in early June – investors had been fearing further job losses and the positive number is an encouraging early sign of business confidence to hire employees as the economy starts to reopen. Additionally, US retail sales rose 17.7% in May vs April[1], with this strong sequential growth suggesting the worst of the economic slowdown is behind us. These data points give us encouragement that the efforts from governments around the world to support individuals and companies during the challenges of lockdown have largely been successful, whilst efforts now focus on continuing to further reopen the economy in a safe and controlled manner.

Portfolio positioning and performance

Within our Robotech strategy, we saw strong performance from our semiconductors holdings, particularly those associated with 5G deployments, such as Qualcomm (wireless communications chips) and Teradyne (testing equipment for semiconductors), as well as strong performance from Apple, a leading premium handset manufacturer. Earlier in the year, there were fears that the COVID-19 enforced shutdown of manufacturing sites and the disruption to global freight could delay the roll out of 5G infrastructure and postpone next generation smartphone launches. However many of the

[1] Bloomberg as of 16/06/2020

challenges seen in February & March have been worked through and it appears that delays may have been more modest than was feared.

Our industrial software investments performed well, including Autodesk (Design Software) and Trimble (construction software). The recurring revenue nature of the software business at these companies has meant that share prices have been more resilient despite the current weakness of some of the end markets in which they are operating.

We saw some weakness in our healthcare names during June, particularly those that are exposed to elective surgeries, which are currently seeing lower levels of activity that in a normal environment. Looking forward, we are reassured that the vast majority of elective surgeries are not cancelled, they are deferred – the patient need for the procedure is still there and thus demand is likely to rebound strongly when it is safe to perform these procedure.

We added to our existing holding in Qualcomm which is well exposed to the ongoing 5G developments. We increased our exposure to Ocado, the UK supplier of automation equipment for online grocery shopping. We also added to some of our healthcare names that have been more volatile recently, using share price weaknesses to increase our holdings in what we believe are quality companies.

We took some profits in SMC, a Japanese supplier of pneumatic equipment and other motion control technologies, seeing better investment opportunities elsewhere.

Outlook

As we consider the unprecedent events of the first 6 months of 2020, we see some interesting scenarios where the adoption of robotics and automation technologies are potentially accelerated as a result of the COVID-19 disruption.

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[2] will likely be beneficial to a wide range of automation suppliers.

The disruption of global supply chains as a result of COVID-19 as well as the previous impacts of the US-China trade war is forcing companies to rethink their manufacturing footprints and their sourcing of crucial components. Whilst it will take a huge amount of time to reconfigure global supply chains, we believe that marginal investments may well return to the US and Europe as a result of these issues, as well as the fact that the cost advantages of outsourcing manufacturing to developing nations continues to diminish each year. Whilst we are not forecasting wholesale changes, incremental investments in nearshoring manufacturing will come with a higher degree of robotics and automation technology which we believe should provide a long term support to this theme.

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] CAPEX: Capital Expenditures

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