Robotech strategy
We see significant investment activity in the warehouse automation space at the moment

- The Robotech strategy performed strongly in July, continuing its Q2 2020 rebound
- Semiconductor and Healthcare names contributed to performance
- We increased our exposure to the US Semiconductor industry

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What's happening?

During July, the Robotech strategy performed strongly, continuing its rebound seen during the second quarter of the calendar year. The performance of the strategy continues to be good vs. the broader equity market (MSCI AC World) so far in 2020 and July was another positive month for relative performance.

Global equity markets performed well in July as corporate earnings have been better than feared and outlooks for the second half of the year have highlighted the resilience of certain companies and business models. Overall, we have seen an improved sense of confidence from companies, in contrast to the significant lack of visibility when they reported their last quarter. This is seen not only in management commentaries, but have also seen companies such as French Industrial company Schneider Electric reinstate its buyback, having paused it due to the uncertainty earlier this year.

Portfolio positioning and performance

We saw strong performance from AMD, a US semiconductor company which sells high performance computing chips used in Data Centers and PCs. Data Center spend has been strong so far this year as a result of the work from home environment, but AMD have benefited additionally from continued manufacturing issues at competitor Intel (not owned in the portfolio). Intel are further delaying the launch of their competitive products – as such AMD may have an opportunity for further market share gains. Intel discussed working with third party manufacturers in future in an attempt to resolve these issues – as a result, our position in TSMC, the leading global semiconductor manufacturer performed strongly.

Elsewhere in the semiconductor space, we saw strong performance from Qualcomm – the leading supplier of chips used for 5G devices who talked about rapid adoption of the new 5G handsets being launched in China as well as saying that their expectations for 5G handset sales in 2020 would be at the upper end of their previously forecast range.

We saw strong performance from some of our Healthcare names that reported better than expected results. Many of these companies had been impacted by elective procedures being deferred as COVID patients are being prioritised in Hospitals, however trends at these companies have been improving over the last few months. Intuitive Surgical, the leading manufacturer of Robotic Surgery machines performed well as it appears that competitors product launches may be substantially delayed due to regulatory reasons.

We see significant investment activity in the warehouse automation space at the moment, with good results from Kion – a leading German supplier of warehouse automation technologies who talked about strength in their orderbook for the second half of 2020. Strong results from Amazon and Ocado confirmed that the strength in demand seen in the early stages of lockdowns has continued.

We increased our position in Ocado, the UK online supermarket that is licencing its market leading automation technology to peers around the world. We increased our exposure to the US Semiconductor industry, adding to our position in Qualcomm, AMD and Silicon Labs. After very strong performance so far this year, we trimmed our position in Amazon.

Outlook

In early August, it was announced that one of our Healthcare holdings, Varian, was to be acquired by Siemens Healthineers. Varian is a leading provider of radiation therapy technology for cancer treatment – with a leading offering of software and Artificial Intelligence for enhanced targeting of tumours. Over the last few months, we have highlighted that the COVID disruption has left some healthcare assets to trading at attractive levels compared to their longer term opportunities and we believe that this acquisition highlights the value that strategic acquirers can see here at present.

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[1] 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.

[1] Capital Expenditure

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