Robotech strategy
The 5G adoption will stimulate the development of increasingly smart and automated factories as well as connected vehicles

- The Robotech strategy performed strongly in August, continuing its Q2 2020 rebound
- Logistics, Industrial Software and Semiconductors names contributed to performance
- We reduced our position in some Tech companies that have performed very strongly

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What's happening?

During August, 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) in 2020.

Global equity markets performed well in August as corporate earnings continued to come in better than investors had expected and many companies in the robotics and automation space have seen a resilience in the revenues and margins during the COVID-19 disruptions. Companies have continued to paint a somewhat cautious tone for the remainder of the year, cognisant that despite the encouraging signs seen in business activity at present, COVID-19 continues to present further uncertainties.

Portfolio positioning and performance

Ocado, the British online grocery companies that has started to licence its market leading automation technology to peers around the world continued to perform well as investors increasingly recognise the permanent structural shifts towards online grocery shopping and for Ocado's technology to be deployed around the globe to support this.

We saw strong performance from Trimble, a US company focussed on software for construction and agricultural markets where results were good despite some of the disruption seen in the building and construction space. Similarly, Aspen

Technology, a supplier of automation software to help with efficiency in process industries like Oil and Gas, Chemicals, Food and Beverage reported good results.

We again saw strong performance from AMD, a US semiconductor company which sells high performance computing chips used in Data Centers and PCs as well as Nvidia. Data center demand continues to grow to support the current work from home demands and well as online entertainment.

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 sold our position in Varian following the announcement that Siemens Healthineers planned to acquire the company at a roughly 24% premium to their share price. Varian is a 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.

We reduced our position in some Technology companies that have performed very strongly so far this year, trimming our holdings in Amazon and Apple, as well as reducing our holding in semiconductor companies Nvidia and AMD.

We added to some of our healthcare holdings as we anticipate a continuing recovery in surgical procedures following the enforced deferrals of procedures during the peak of the COVID-19 disruption. We also added to semiconductor companies Microchip and Silicon Labs that have more exposure to industrial end markets as these appear to be recovering. We also added to our position in Marel, an Icelandic manufacturer of automated food processing equipment and to IPG Photonics a leading manufacturer of high powered lasers used for metal cutting and processing.

Outlook

As we consider the unprecedent events in 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.

We see strong roll out of 5G base stations in China and elsewhere in the world and anticipate healthy adoption of new 5G handsets as they get launched. This is supportive of automation equipment used to manufacture these 5G handsets (consumer electronics is one of the largest buyers of industrial robots) as well as a range of semiconductors that are used in 5G devices. Looking forward further in to the future, the broader adoption of 5G will allow for enhanced connectivity and communications that we believe will spur the development of increasingly smart and automated factories as well as connected vehicles.

[1] Capital Expenditure

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.

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