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Robotech strategy Outperformance despite the recent market rotation

- Successful results from large scale COVID-19 trials showed encouraging signs of efficacy
- Outperformance vs. the broader equity market despite technology stocks suffered
- Positive contributions from a number of our semiconductor and healthcare companies

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What's happening?

Equity markets rose sharply in November as successful results from large scale COVID-19 trials showed encouraging signs of efficacy. Whilst the timelines for vaccine approval and the roll-out to populations is uncertain, investors can start to look forward, with some confidence, to an improving economic environment in 2021.

As the month progressed, we got greater certainty around the results of the US election. The market has reacted favourably to the prospect of a Biden administration. The “blue wave” scenario, with the democrats winning the senate did not materialise – this has likely reduced the risk of major corporate tax increases in the immediate future, which is supportive to companies earnings.

The vaccine announcements, coupled with a gradually recovering global economy meant that several of the more cyclical parts of the equity market performed well during November. Whilst around 50% of the Robotech strategy is invested in Technology companies, many of these products are being sold in to more cyclical areas like automotive or manufacturing. As such, during a tougher month for technology stocks that suffered in a rotation out of growth in to value, it was pleasing to see the strategy outperform the broader equity market during the month on the prospect of activity picking up in these markets.

Portfolio positioning and performance

We saw notably strong performance from a number of our semiconductor companies, particularly those that sell in to the automotive space. Ambarella, Microchip and Infineon all have healthy exposure to the automotive market and performed well.

Our Japanese automation holdings were strong, with Omron (Automation equipment supplier), Yaskawa (Robot manufacturer), SMC (Motion control technologies) and Nidec (Small precision motors) all performing well.

We also saw some strength in our healthcare companies that are more exposed to elective procedures. Elective procedures have in some cases been postponed due to COVID as other patients were prioritised in hospitals. The prospect of a vaccine, allows this market to return to normal in due course, with patients that should have been treated in 2020, likely to be able to have these procedures once we see stability.

Portfolio activity was more limited during the month. We added to our position in Dexcom, a leader in wearable technology for blood sugar level monitoring for diabetic patients and added to our position in Axonics, another medical device manufacturer. We added to our position in Silicon Labs, a US semiconductor company focussed on IoT¹ markets.

We took some profits in Misumi, a Japanese online retailer of factory automation equipment.

Outlook

E-commerce 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 CAPEX² will likely be beneficial to a wide range of automation suppliers.

An increasing number of 5G handsets are now being launched around the world. 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.

It is increasingly recognised that Electric Vehicles (EVs) are starting to get more interest from consumers as the costs of the vehicles come down, battery technology improves, and consumers focus on environmental trends. What is perhaps less focussed on is the significant investment that is needed to manufacture these new EVs and their batteries. It is important to note that CAPEX² decisions are being made currently for vehicles that will be produced in 12-24 months' time, so the prospects for companies supplying equipment such as industrial robots, lasers and vision systems is improving.

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 IoT: Internet of Things

² CAPEX: Capital Expenditure

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