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Robotech strategy

Japanese industrial robots orders showed signs of healthy growth in Q4 2020

- Equity markets rose in December as several COVID-19 vaccines were approved
- The UK and European Union finally reached a trade agreement
- A number of our semiconductor & healthcare companies continued to perform strongly

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What's happening?

Equity markets rose in December as several COVID-19 vaccines were approved in the US & some European countries and, following approval, initial vaccinations commenced in some regions. Whilst the phasing of vaccine roll out to populations is uncertain, investors can start to look forward, with some confidence, to an improving economic environment in 2021.

Towards the end of December, the UK and European Union finally reached a trade agreement ending a period of significant uncertainty. Whilst the ultimate impact on the UK¹ economy will take some time to assess, the most disruptive of scenarios for trade and business activity in the UK have been eliminated, and with the agreement now in place, companies can plan their investments in the UK with greater clarity now following several years of uncertainty.

Portfolio positioning and performance

We saw some continued strength in our healthcare companies that are more exposed to elective surgical procedures. Elective procedures in 2020 have, in some cases, been postponed due to COVID as other patients were prioritised in hospitals. The prospect of vaccinations allows this market to return to more normal levels later in 2021, with patients that should have been treated in 2020, likely to be able to have these procedures once we see some stability. We saw strong performance from Intuitive Surgical, a leader in robotic surgery, as well as Nuvasive – a leader in spine surgery that is currently developing a robotic surgery platform.

¹ United Kingdom

We saw strong performance from several of our semiconductor companies, particularly those that sell in to the automotive space. Ambarella, Cree and Infineon all have healthy exposure to the automotive market and performed well during December.

During December, we increased our position in Aveva – a UK software company focussed on process automation technology. We also increased our position in Kion, a German leader in warehouse automation solutions which is currently seeing strong demand to support the growth of ecommerce.

We increased our position in Fanuc, a leading Japanese robotics manufacturer. After a period of weakness during the 2018-2019 US/China trade war and COVID weighing on demand during 2020, order trends for Industrial Robots, as reported by the Japanese Economic and Social Research Institute, are showing signs of healthy growth in the final quarter of 2020.

We added to our position in Lumentum, a provider of 3D sensing components and Marel, an Icelandic manufacturer of automated food processing equipment.

Outlook

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 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 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 Electric Vehicles and their batteries. It is important to note that CAPEX 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.

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² CAPEX: Capital Expenditure

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