Robotech strategy
Our healthcare exposure provided some strong performance during the market rotation

- The equity market saw a continued rotation out of some growth names
- Strong results reported from Japanese Automation companies Fanuc and Keyence
- We added to some semiconductor companies in the month

Tom Riley
Portfolio Manager, Robotech strategy

What's happening?

Equity markets rose in April 2021 (In USD terms), with a continued rotation out of growth names in to more value orientated sectors seen during the month. This rotation meant that stocks in sectors such as Financials and Materials performed well at the expense of faster growth sectors. This backdrop was unfavourable for the Robotech strategy given its positioning in various secular growth themes, however the Healthcare exposure of the portfolio did provide some strong performance during this rotation.

Globally, the roll out of COVID-19 vaccines continued during the month with notable speed in the US that bodes well for economic activity normalising in the region, coupled with a seeming improvement in Europe. We continue to see encouraging prospects for a global economic recovery and associated resumption consumer spending as this improves in the coming months and this now viable in activity indicators such as PMIs[1] showing healthy improvements.

Portfolio positioning and performance

In April, we saw strong results reported from Japanese Automation companies Fanuc (industrial robots manufacturer) and Keyence (Sensor and Vision systems manufacturer). The second half of 2020 was notable for the strength seen in sales and ordering from China for these companies and it's encouraging to see that this recovery is now occurring in North America with earlier signs of improvement also being seen in Europe and the key market of Japan.

Intuitive surgical, a leading supplier of robotic surgery systems, performed strongly after reporting very strong results. Shipments of robots were strong and procedure growth was forecast to be 22-26% for 2021[2]. The number of robots sold

[1] PMI: Purchasing Managers' Index,
[2] Intuitive Surgical Q1 2021 Earnings Call – 20/04/2021

in the quarter and the outlook for a significant increase in procedures is encouraging as it indicates that healthcare systems are starting to shift focus from COVID patients and returning more to normal. Many elective procedures were cancelled in 2020 due to COVID and postponed - as such the demand for surgical procedures appears to be increasing as economies reopen. We saw other healthcare holding in the portfolio perform strongly in April, such as Globus Medical (spinal surgery robotics), Zimmer Biomet Holdings (knee surgery robotics) and Conmed (equipment for robotic surgery), based on similar trends.

Performance in the semiconductor sector during the period was mixed due to component shortages, particularly in the Automotive sector – there have been reports of automotive facilities seeing temporary shutdowns due to the lack of available components. We take a longer term view on the sector and see supply/demand becoming more balanced over the coming quarters and the strong demand continuing due to an improvement in automotive sales as well as a healthy environment for consumer electronics. Interestingly, we believe the component shortages adds some additional pricing power to the semiconductor companies which should be supportive to profit margins.

We continued to build our position in Altair, as US software company that specialise in simulation technology used for the design and engineering space, that we initiated earlier this year. Simulation is used in areas like auto and aerospace manufacturing to test products digitally and iterate the design before testing physically – this can save significant costs, increase safety/reliability and also speed up time to market for new products.

We also added to some semiconductor companies in the month – AMD and Texas Instruments, where we see strong business momentum at present.

Outlook

Signs of a rebound in industrial activity and strong order books for industrial robotics companies bode well for a recovery in 2021 post the COVID-19 disruptions. At present, this is particularly apparent in terms of Chinese activity, with the US recovering too, whilst Europe and Japan are a little further behind.

In addition to the pent up demand for automation equipment post COVID-19, we believe that there are also elements of pent up demand coming thorough post the US China trade war of 2019/2020 – we were starting to see signs of this recovery at the end of 2019 and early 2020 before COVID put companies investment plans on hold. If this does start to materialise, this could signal a more prolonged period of higher industrial activity and CAPEX[3] investments, supportive to a range of automation companies.

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

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[3] 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 vison systems is improving.

[3] CAPEX: Capital Expenditure

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