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# Robotech strategy

## Our semiconductor investments are more focused on areas where demand appears to remain stronger

- Equity markets rebounded in July following a sharp selloff in the first half of the year
- Our semiconductor and hardware holdings performed well
- Limited portfolio activity in the run up to Q2 earnings season

**Tom Riley**  
Portfolio Manager, Robotech strategy

### What's happening?

Equity markets rebounded in July following a sharp selloff in the first half of the year. Rising energy prices and broader inflation concerns have dampened consumer confidence and signs of consumer spending weakness are increasingly apparent in certain parts of the market. The Robotech strategy notably outperformed the MSCI ACWI Index during the month.

Geopolitics, Interest rates, Inflation and rising Energy prices continue to have significant impacts on market sentiment and company results. Concerns continue to build around the risk of an economic slowdown with consumer spending likely curtailed as a result of higher energy prices meaning less scope for discretionary spend. Towards the end of July, the Federal Reserve hiked interest rates by 0.75%<sup>1</sup>, which continues the process of interest rates hikes, in an attempt to subdue inflation.

Reported inflation numbers from around the world continue to be high. However there are signs of some stability with the US core CPI<sup>2</sup> at 5.9%<sup>3</sup> for June, showing its 3<sup>rd</sup> consecutive monthly decline. In addition US 2 year Breakevens are suggesting that the market has increasing confidence that medium term inflation is being somewhat brought under control - 2 year Breakeven's had been implying inflation of over 4.9% in March, and have now fallen to 3.2% as at the end of July.

### Portfolio positioning and performance

Our semiconductor and hardware holdings performed well, following a weak June for semiconductor stocks – there was notable strength in On Semiconductor, NXP Semiconductor and Qualcomm. Results from TSMC, the Taiwanese semiconductor foundry, were encouraging as they increased guidance for the full year, highlighting strength in High Performance Compute, 5G and Automotive. There are concerns more broadly in the semiconductor industry in more

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<sup>1</sup> Source: Federal Reserve issues FOMC statement, 27/07/2022

<sup>2</sup> CPI : Consumer Price Index

<sup>3</sup> Source: Bloomberg, June 2022

consumer facing areas like lower end PCs and smartphones. The Robotech strategy typically has less exposure here and is more focused on areas where demand appears to currently remain stronger.

We saw good performance from Keyence, a Japanese manufacturer of sensors and vision systems used for quality control and inspection in manufacturing. The company reported good results, posting record sales in Europe and the US which alleviated recessionary concerns. Within software, we saw robust results and guidance from Electronic Design Automation company Cadence Design Systems. The company is exposed to Research and Development budgets from semiconductor firms which have historically been resilient during economic downturns.

Portfolio activity was more limited during the month in the run up to Q2 earnings season.

We added to our position in Tandem Diabetes, with recent share price weakness making valuations more attractive.

## **Outlook**

In the first half of the year, inflationary pressures continued to build, with the Ukraine conflict contributing to rising energy prices and raw materials as well as disruption caused by lockdowns in China and general supply chain issues. These present headwinds to industrial companies that will either need to absorb these increases themselves, pass the impacts on to customers or most likely, a combination of the two. For consumer facing business, the rises in inflation and interest rates is putting stain on consumer budgets and increasing signs of this are being seen in company commentary and company results.

In this difficult macro backdrop, we have seen share prices for some companies fall significantly, such that valuations for medium to longer term investors now appear rather attractive. However, the earnings outlook for these businesses, at least near term, is more uncertain than it has been in some time. We continue to believe that the opportunities driven by the long-term themes within the Robotech strategy are robust. As investors we aim to focus on identifying well managed businesses, with proven operating models and large opportunities ahead of them and believe that this is the right approach to investing in the long-term growth opportunities present within robotics and Automation.

**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.**

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