Robotech strategy
Japanese machinery cycle is improving

- A strong first half of the year for both the Robotech strategy and the broader market
- Good performance from our semiconductor holdings
- New position in Impinj, a company focused on RFID technology for asset tracking

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What's happening?

Global Equity markets rose in June, with the MSCI All Country World Total Return Index rising 2.2%[1] in USD terms, capping a strong first half of the year for both the Robotech strategy and the broader market. Recent data points on a softening of inflation in key regions is encouraging and the prospect for interest rate cuts to begin in the second half of the year appears well underpinned at present.

The Robotech strategy outperformed the broad equity index (MSCI All Country World) during the month, with strength in the Technology segment of the portfolio. Despite softening shareprices towards the end of the month, Artificial Intelligence as an investment theme continues to dominate the market and we believe that the Robotech strategy is well exposed to benefit from both the enabling technologies of AI and the beneficiaries of AI in areas spanning Industry, Automotive, Healthcare and more.

Portfolio positioning and performance

We saw good performance from our semiconductor holdings during the month, with continued strength from Nvidia and also TSMC and Broadcom. TSMC continues to see strong demand for its leading edge manufacturing for Artificial Intelligence chips, whilst Broadcom is seeing good demand for its ASICs (Application Specific Integrated Circuits) that are being used for certain AI functions.

Apple held its annual Worldwide Developer Conference during the month. The headline announcement being its new partnership with OpenAI to integrate GPT-4o functionality directly into Apple Intelligence. Significantly Apple Intelligence features will only be available on iPhone 15 Pro and beyond, which if compelling enough, has the potential to accelerate a new iPhone upgrade cycle. Its currently estimated that less than 5% of the current install base of iPhones would support the new AI features. Whilst Apple isn't currently held in the Robotech strategy, we have investments in a range of

[1] Source: Bloomberg in USD as of 28/06/2024

companies that could benefit from an iPhone upgrade cycle such as TSMC (manufacturer of chips used in the iPhone), Qualcomm (modem used in iPhone) and Teradyne (semiconductor testing equipment).

Elsewhere we saw some volatility in semiconductor companies that are more linked to industrial and automotive end markets. During the recently completed earnings season, companies in general had been more optimistic that the period of inventory digestion in auto and industrial was now largely behind us, but investors appear less optimistic on the prospects for a recovery at present.

Autodesk's share price has been pressured after the company delayed the filing of its 10-k[2] as they conducted an internal investigation in to some accounting practices around the treatment of multi-year deals. Autodesk put out a press release stating the internal audit committee decided there was no need to make any adjustments to previously announced financial results and at the same time announced quarterly results that were better than expectations. Autodesk's share price rose during the month reflecting the better than expected results and the removal of the uncertainty with the investigation.

Within Healthcare, we saw continued strong performance from Intuitive Surgical (Robot Assisted Surgery) on positive feedback on its latest product launch, Da Vinci 5. Whereas we saw weakness at Dexcom (continuous glucose monitoring) as investors await the launch of Stelo and signals of success here as its enters a new market and can sell to users without a prescription for the first time.

We added to our position in Dexcom following a period of weakness for the stock – we continue to be optimistic for its new product launch which is ramping in the second half of 2024. We also added to our position in Zebra Technologies, a supplier of equipment for warehouse automation. Overcapacity built up during the COVID pandemic resulted in a glut which led to a period of prolonged weakness in demand whilst this has was digested. Activity now appears to be picking up once again in this area as demand recovers.

Within the semiconductor sector, we again trimmed our holding in Nvidia which has continue to perform exceptionally well this year and has become an increasingly large part of the portfolio. We used some of the proceeds from this sale to add to our position in competitor AMD. AMD's share price has significantly lagged Nvidia's so far this year and we see an opportunity here as AMD establishes themselves as a viable alternative to Nvidia with the roll out of their Mi300 chip and a solid roadmap beyond that. AMD mentioned on their earnings call that they had engagements with over 100 customers which signals the interest in sourcing alternatives to Nvidia's solutions. We initiated a small position in Impinj, a semiconductor company focused on RFID[3] technology for asset tracking. Impinj's solutions are well used in the apparel industry and the technology appears to be increasingly adopted in large markets such as logistics and food. We reduced our position in Applied Materials (Semiconductor Capital Equipment) following strong performance this year.

Outlook

The Q2 earnings season has been encouraging, with strong CAPEX trends coming from the semiconductor industry continuing and some tentative signs of an improving Industrial economy. During 2023, it was apparent that inventories had been accumulated following the supply chain challenges and the slower than anticipated recovery in Chinese investment activity meant there was a lengthy process for these excess inventories to be worked through. The Institute for Supply Management (ISM) Manufacturing PM has improved a little so far this year, but remains volatile and is lacking a clear trend. The US manufacturing environment has been weak for almost 2 years now, and we anticipate that over the

[2] Comprehensive report filed annually by publicly-traded companies about its financial performance and required by the U.S. Securities and Exchange Commission (SEC).

[3] RFID: Radio frequency identification

coming quarters we should see some of the impacts of the various Infrastructure ACTs start to be more notable in improving activity levels. Whilst these acts were signed in to law a while ago, (Infrastructure Investment and Jobs Act in November 2021, Chips and Science Act in August 2022, Inflation Reduction Act in August 2022), relatively little of the allocated budget has been distributed and this support isn't anticipated to peak until 2026.

We have also noted other indications of industrial activity such as Japanese machine tool orders continue to recover in 2024 and they have now turned positive, indicating the machinery cycle is improving in Japan. We would note that these data series often exhibit some volatility and would avoid reading too much in to monthly fluctuations, but it is encouraging to see the improvements and we will be carefully watching this trend over the coming months to determine the shape of the recovery in the manufacturing sector. Chinese activity levels continue to be more muted, and whilst the Chinese market remains significant, we believe that its important has reduced versus prior cycles due to the reshoring/nearshoring activities that are being seen around the world

Moderating inflation has supported equity markets in 2023 and whilst inflation remains above target in the US and other key markets, CPI in the US is down very notably from the 9.1% seen in June 2022. The prospect for a "soft landing" in the US appears more likely with economic data holding up more resiliently than forecast and the labour market remains relatively strong. There continues to be labour shortages that present a real challenge for businesses. For instance, in the manufacturing space or warehousing space, we see fewer workers – particularly younger demographics – that are willing to do these kinds of jobs, given the nature of the roles and the salary. As a result – facing labour inflation and labour shortages – companies are increasingly incorporating Technology and Automation in their processes to increase efficiency and productivity with their existing/shrinking workforce. In simple terms, we anticipate that labour shortages and wage inflation are substantial drivers of automation demand over the next few years. As labour costs go up, the payback periods become quicker from introducing automation, meaning that more and more areas are considered for automation.

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