Robotech strategy
Inflationary pressures and supply chain challenges present an opportunity for automation

- The markets capped a year of strong returns for global equities
- We saw particular strength in our Healthcare and Industrial holdings
- We topped up a number of companies in the strategy during the month

Tom Riley
Portfolio Manager, Robotech strategy

What's happening?

Equity markets rose during December (MSCI ACWI Index in USD terms), capping a year of strong returns for global equities. The Robotech strategy modestly underperformed the broader market during the month. Corporate news flow was more limited towards the end of the year, but later in January, we will be hearing companies report their calendar Q4 earnings and provide commentary and outlooks for 2022.

As we look to 2022, we continue to believe that inflationary pressures and supply chain challenges will continue to have an impact on companies operations as well as labour shortages in certain parts of the economy contributing to rising wage pressure. According to the US JOLTS figures (Job Openings and Labour Turnover Survey), there are around 11 million jobs that are currently being advertised for in the US compared to 6-7 million which was the average in the years pre-pandemic[1]. This high level of job openings indicates that companies are trying to source employees, but are struggling to find them. In many industries, labour scarcity presents an opportunity for automation to help ease these pressures, particularly in areas like manufacturing and we see this being a key driver of automation demand whilst these issues persist.

Portfolio positioning and performance

We saw particular strength during the month in our Healthcare and Industrial holdings. Robotic surgery specialist Intuitive Surgical performed well as did Globus Medical – a specialist in spinal surgery. Japanese industrial robotics companies Fanuc and Yaskawa performed well, as CAPEX[2] trends appear supportive for robotic demand in 2022. European Industrial companies Siemens and Schneider Electric performed well.

[1] Source: Bloomberg as of 31/10/21
[2] CAPEX: Capital Expenditures

Performance was mixed across our semiconductor holdings, with Ambarella, Teradyne and On Semiconductor performing well. On Semiconductor is benefitting from the strong demands for chips coming from the automotive and industrial sectors, and, at the same time, like many of its peers, is able to secure long term supply agreements with its customers as a result of the current industry shortages. AMD and Nvidia, semiconductor companies exposed to Artificial Intelligent and High performance computing, were softer during the month as investors took profits following a very strong year of performance – notably with Nvidia's share price increasing 125% over the last 12 months[3].

We topped up a number of companies in the strategy during the month, notably companies exposed to warehouse automation, including: GXO Logistics – an automated warehousing specialist, Cognex – a manufacturer of cameras used for automation, Daifuku – a Japanese company focused on material handling solutions and Amazon. We also added to several healthcare related companies including Align, Globus Medical and Axonics. We increased our position in Kornit Digital, which was a new addition to the portfolio in November.

Having reduced our position in PTC (US software company focused on CAD and IoT) in November, we exited it during December. We took some profits from our position in Ambarella (a semiconductor company focused on computer vision) and Quidel (a diagnostics company).

Outlook

The topic of inflation continues to be a source of debate both as to the magnitude and potential duration of its impact. It is ultimately hard to forecast the effect here, due to the unpredictability associated with the ongoing COVID pandemic and Omicron wave. It is worth paying attention to the recent and rapid wage inflation that is being seen in parts of the economy, notably warehousing employees. Warehousing is one of the areas that is seeing the large labour challenges at the moment. The growth of ecommerce, both long term structural growth of the industry, coupled with the additional surge seen during the pandemic, has accelerated the shift to online consumption which likely leads to a large increase in demand for automation technologies associated with warehousing and logistics. We have long invested in this space in the Robotech strategy, with companies like Kion & Daifuku (material handling solutions), Cognex & Keyence (vision systems) and Ocado (Automated Grocery). In 2021 we added two new names to the portfolio that are also exposed to this trend - GXO Logistics (warehouse operator specialising in automation) and Autostore (a manufacturer of automated storage and retrieval solutions for warehouses).

The labour shortages and wage increases impact many other parts of the economy outside of warehousing. When labour cannot be appropriately sourced, or when the cost of labour is increasing, it can make investments in automation more attractive – with quicker payback periods and less risk. As the economics of adopting automation become more compelling, coupled with technology improvements which broaden the range of what can be automated – we see demand for automation equipment sustaining.

At the end of October, The International Federation of Robotics, a leading industry research group that track deployments of industrial robots around the world, released their figures of industrial robot deployments. This confirmed, that despite the disruption seen by COVID, shipments of industrial robots were higher in 2020 than in 2019. They also released their forecasts for robot installations out to 2024 which showed continued solid growth for the industry. We are optimistic for the growth of Robotics over the coming years - 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 investments, supportive to a range of automation companies.

[3] Source: Bloomberg as of 31/12/2021

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.