Robotech strategy
An encouraging environment in the electronics and logistics industries

- The Robotech strategy rebounded strongly following the broad sell off seen in March
- Encouraging signs from the Japanese robotics manufacturers
- We reinforced positions in some Healthcare companies

Tom Riley
Portfolio Manager, Robotech strategy

What's happening?

In April the Robotech strategy rebounded strongly following the broad sell off seen across equity markets in March. The relative performance of the strategy has been resilient vs. the broader equity market (MSCI AC World) so far in 2020 and April was another month of outperformance.

Historically, we have seen the strategy exhibit higher Beta than the overall market, but in the current sell off we believe the portfolio resilience has been aided by the balance sheet strength of the companies in which we invest. In times of economic uncertainty, it's important to look not just at the growth opportunities of companies and how they are impacted by the disruption, but also to focus on the balance sheet strength of the companies as this becomes increasingly important. Broadly speaking the companies held in the strategy have substantially less debt (or indeed no debt), compared to overall equity indices, which allows then to be a bit more insulated from some of the market turbulence.

Portfolio positioning and performance

In addition, we have seen a number of areas of the strategy perform well during the sell off – areas that are anticipated to see a pick-up in demand either during the COVID-19 outbreak or will see increased demand as a result of it going forward. The immediate beneficiaries are companies that have helped to enable the current work-from-home environment or those that are suppling automation systems for areas like ecommerce and online grocery which have seen an increase in utilisation.

We have seen some reasonably encouraging signs from the Japanese robotics manufacturers with their reported results, with share prices responding favourable. Fanuc reported an increase in quarterly orders, with strength in China and the US as well as showing better than anticipated operating profit - demonstrating good cost control in the current environment. Whilst we anticipate that the demand for robotics from the Automotive Industry will be more muted this year due to the ongoing challenges in the space, we do see a more encouraging environment in the electronics industry and logistics industry.

During 2020 we have seen a significant divergence in the share price performance of companies that are well positioned from an ecommerce perspective vs traditional retailers who have been forced to close their stores. Reports suggest that online shopping traffic has been exceptionally high over the last few weeks, approaching levels seen when it peaked in 2019 during Black Friday and Cyber Monday (the two busiest shopping days before the Christmas holidays). We believe that this will further force traditional retailers to rethink their online presence and accelerate their investment this area. This should be beneficial to a number of companies in the strategy that supply a range of warehouse automation equipment from Vision Systems, Motion control components, conveyors and system integrators.

A the start of the month, we reinforced positions in some Healthcare companies that had underperformed such as Varian (automated system for better targeting radiotherapy treatment for cancer patients). Some healthcare names have been particularly hit as elective procedures like robotic surgery for spinal issues get deferred and other potential COVID related issues are prioritized. Importantly, these deferrals are not cancellations (the patients will still need surgery/treatment in due course) so the recovery in demand will likely be substantial when conditions normalise again in the coming months. With our longer term investment horizon, we have started to increase some positions here in companies that we feel are starting to trade at substantial discounts to what we believe their earnings potential is in normalised economic conditions. As the month progressed, we continued to slowly make some changes to the strategy, notably increasing our position in companies with more Asian exposure like IPG Photonics (Fibre lasers using in metal processing) and Yaskawa (Japanese Motion Control and Industrial Robotics company). We exited our positions in semiconductor companies Analog Devices and Xilinx, which we had started to divest during March. Later in the month, we took some profits of British online grocery retailer Ocado after it performed very well given the heightened demand at present.

Outlook

The full impact of the coronavirus remains to be seen, but central banks and governments took unprecedented action, early on to support the economy, with wide ranging stimulus measures announced in the majority of the major global economies. At the same time, severe restrictions were put on the activities and movement of individuals in many countries in the world in an effort to contain the spread of the virus, that have had a sizeable impact on economic activity. We are now seeing encouraging signs that the peak of the spread of the virus is behind us in some of the major European economies and as April progressed, the conversation has started to shift to how economies can safely reopen and begin the gradual process of normalisation.

The disruption of global supply chains as a result of COVID-19 as well as the previous impacts of the US-China trade war is forcing companies to rethink their manufacturing footprints and their sourcing of crucial components. Whilst it will take a huge amount of time to reconfigure global supply chains, we believe that marginal investments may well return to the US and Europe as a result of these issues, as well as the fact that the cost advantages of outsourcing manufacturing to developing nations continues to diminish each year. Whilst we are not forecasting wholesale changes, incremental investments in nearshoring manufacturing will come with a higher degree of robotics and automation technology which we believe should provide a long term support to this theme.

Whilst timing entry points during periods of volatility can be challenging, we remain constructive on the outlook for the robotics and automation industries. We anticipate several major 5G smartphone launches which will require a significant CAPEX investment for their manufacturing. It's important to note that the Consumer Electronics industry is now the largest buyer of Industrial robotics, over taking the Automotive industry a couple of years ago. The last major smartphone CAPEX cycle was in 2017 and this benefitted a number of companies in a diverse set of end markets ranging from Vision Systems, to traditional Industrial Robots, to Laser Manufacturers.

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.