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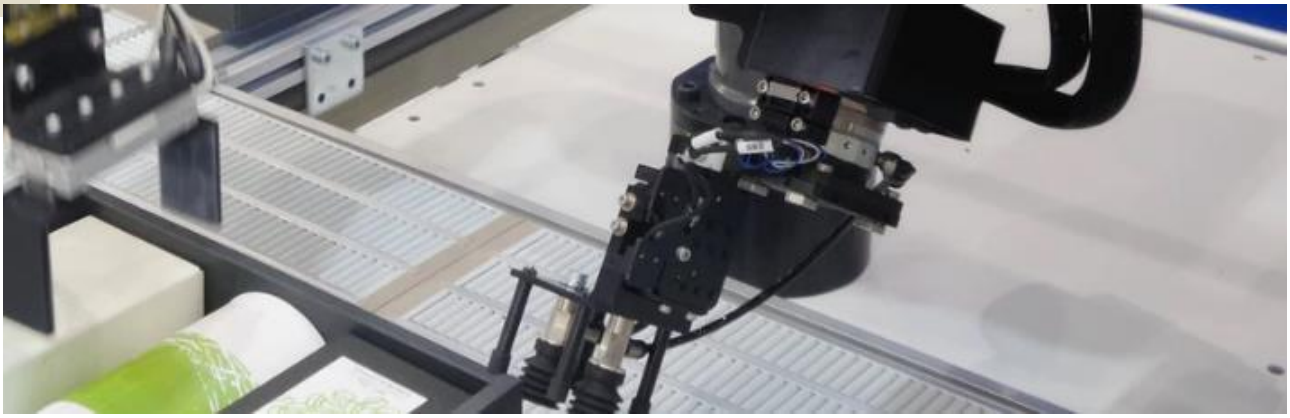
Quarterly Update: The Era of Robotics



Summary

- The strategy exposure to industrial and semiconductors sectors weighted on the performance
- We reduced our exposure in Artificial Intelligence and increased our exposure in Asia, especially in the "Factory Automation" sub-theme
- CAPEX spending should increase in 2022 and 2023. Reshoring and automation should be some beneficiary of this capital expenditure

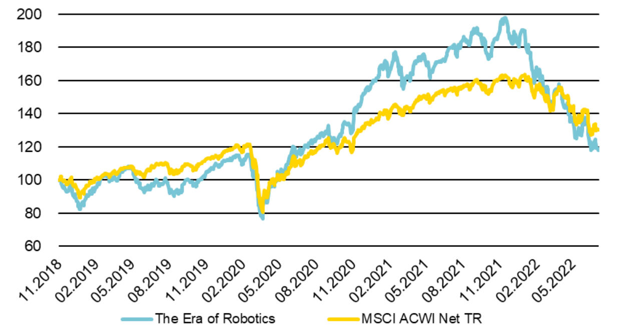
Performance review

	1M	3M	YTD	1Y	Issuance
Strategy	-11.4%	-22.8%	-37.2%	-33.4%	19.4%
Reference Index	-8.4%	-15.7%	-20.2%	-15.7%	29.9%

Source: MSCI, Vontobel. The return of the strategy may go down as well as up due to changes in rates of exchange between currencies. Past performance is not a reliable indicator of current or future performance.

The robotic strategy performed lower than the index during the second quarter of 2022 as the market sell-off continued pushed by rising inflation, higher interest rate expectation and recession fear. The main reason behind the underperformance is our high exposure to the industrial and semi-conductor sector which weight on the performance.

Graph 1: Net performance Vontobel The Era of Robotics AMC vs. MSCI ACWI TR Index, in USD

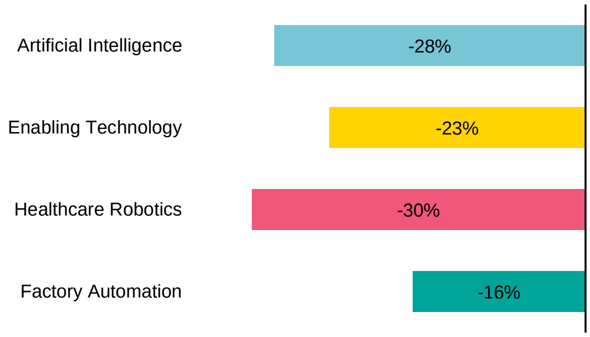


Source: MSCI, Vontobel. The return of the strategy may go down as well as up due to changes in rates of exchange between currencies. Past performance is not a reliable indicator of current or future performance.

All sub-themes ended below the benchmark, meaning on a tactical level, there were nowhere to hide. Artificial intelligence is the strongest laggard mostly due to multiple compression for software companies, especially for non-profitable firms. Fortuitously, we've had only a small exposition within this sub-theme. "Enabling Technology" was driven by our exposure in semiconductors which dropped by 40% even though the demand is still there. The performance dispersion within Factory Automation, our major segment, was important. European and American firms had a though quarter while Asia, and especially China, was much better. Recession fear and inflation is much higher in Western countries compared to its Asian counterpart.

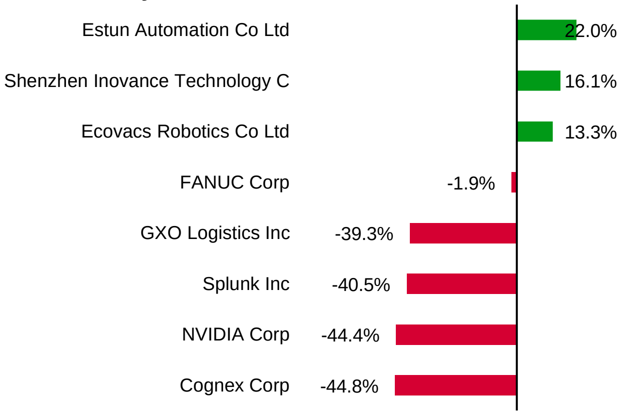
Estun Automation and Inovance, two factory automation companies in mainland China were the strongest performers driven by a hope of economic stimulus by the Chinese government. On the other hand, American companies, especially the one with higher valuation multiple corrected much more than our universe. Cognex plumet by 25% after its earnings despite sales close to records and an operating margin above its long-term target. Unfortunately, the guidance weighted negatively as the management highlighted customer's project would be delayed. Similar story for Splunk which manage to continue its business transformation from a standalone license to a cloud license business. Nevertheless, the market is merciless in this kind of environment, and any negative read within the earnings, like a slower cloud revenue growth, is driving down the price of those companies.

Graph 2: Sub-themes quarterly performance, in USD



Source: Bloomberg

Graph 3: Top/bottom quarterly performers, in local currency



Source: Bloomberg

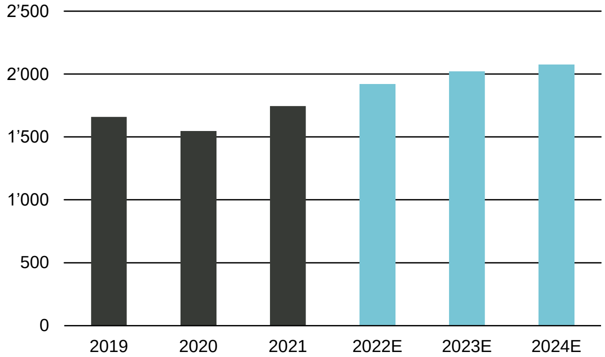
Transactions in Q2 2022

Within the different sub-theme, we trimmed down a little bit more Artificial Intelligence as well as Healthcare Robotics which are two sub-themes with higher valuation multiple. We reduced our exposure in the U.S. in anticipation of a potential recession and increased our exposure in China and Japan. Finally, we increased our exposure in small and mid-cap that massively corrected during those last few months. For a detailed explanation, see the transactions list.

Outlook Robotic

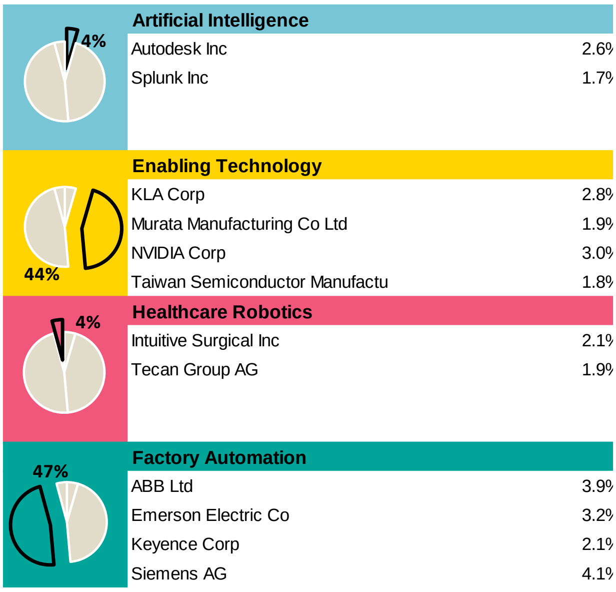
Volatile macro environment will continue to impact most of the companies within our robotic universe. Labor and energy inflation should weight on margins while being slightly offset by strong pricing power and the ease of the semiconductor bottleneck. Nevertheless, we continue to expect the CAPEX cycle related to reshoring and automation to be a structural driver of higher demand. On top of that companies that have a digital offering as part of their product portfolio with more emphasis on software capabilities should outperform.

Graph 3: Expected CAPEX for the next fiscal years in $bn



Source: Bloomberg, cumulative expected capex for the members of the MSCI World Index

Graph 4: Portfolio excerpt



Source: Vontobel. Data as of 30.06.2022.

Strategic Certificate on the Vontobel The Era of Robotics Strategy

Reference Currency	ISIN	Index Fee
CHF	CH0441912042	1.25%
EUR	DE000VA8XBE7	1.25%
EUR (Italy)	DE000VQ1ZMK3	1.25%
USD	CH0441911739	1.25%

Table 1: Transactions in Q2 2022

POSITIONS BOUGHT	
Kion	• World leader of warehouse automation solutions • Too many negative news are now priced in • Orders intakes are holding-up despite recession fear • Still very low penetration rate for warehouse automation (15%)
VAT	• Pure play and market leader in high-end vacuum valves • High barriers to entry due to historical investment in R&D • Margin and cash flow resilience • Gaining share in a growth market • Attractive long-term growth prospects
Taiwan Semiconductor	• Largest Foundry semiconductors worldide • Near term outlook remain resilient • Demand for its semiconductor support by structural trends (5G / AI) • Technology leadership
Yaskawa Electric	• Factory automation pure play • Strong demand in Japan for factory automation • Net margin improvement driver by cost reduction • Improving internal efficiency via its digital strategy
Daikufu	• Top warehouse automation equipment provider • Management conservative assumption for semiconductor CAPEX • Recovery expected in the airport business • Visible earnings headwinds (labor expense and input costs)
Keyence	• Manufacturer of sensors and measuring instrument used in Factory Automation • Should benefit from many manufacturing trends like quality control, traceability and machine guidance • Diverse end-markets (electronics, automotive, industrial) • Flexible cost structure and wide profit margins
Wuxi Lead Intelligence	• Manufacturer equipment to produce Lithium-ion batteries • Partnership with VW for its in-house batteries manufacturing plants • Production line delivery capability • Strong technology leadership in core equipment
Advantest	• Largest provider of semiconductor test systems • Firm demand with no obvious negatives on the placement side • High demand for HPC • Production capacity within the tester sector is insufficient
Murata	• Manufacturer of electronic modules and components • Module business for non-smartphone applications should drive earnings in the mid-term • Solid execution capability should enable the company to keep gaining market shares
Marel	• Leader for advanced processing equipment for animal protein industry (poultry and fish) • Strong focus on R&D • Strong entrepreneurial culture under the current CEO • Marel's customers focus increasingly on automation to address labor shortage and inflation

POSITIONS SOLD	
Applied Materials	• Supply constraints worsen
Assa Abloy	• Revenue exposure to the theme was too low
Qualcomm	• Low sustainability rating
AutoStore	• High valuation multiple • Litigation with Ocado is taking time and money away from their focus
Okta	• High valuation multiple • Still not profitable (don't know how low the stock can go) • Trust issue by being a security company that has been hacked
Howmet Aerospace	• The company didn't fulfill our sustainability criteria anymore due to its weapon exposure
Schneider Electric	• Energy intensive industry that could suffer if gas price stays high or even increase during next winter in Europe

Luminar Technologies	• Non profitable company that isn't expected to generate positive cash flow for the next few years • Even though the company held up better than its LIDAR peers but concrete commercial partnership are still in the development plan and won't be completed before mid-decade

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