

Candriam Equities L Robotics

Innovative Technology

Market Overview

Global stock markets took a breather in August, after reaching a high for the year at the end of July. The underlying macro-economic data confirmed a resilient US economy, a strong economy in Japan and a slightly weaker economy in Europe. The Chinese economy seems to have a hard time to recover, despite government measures. Activity data continue to be much weaker than expected (CPI, PPI, retail sales, private investment all well below expectations). Real estate was weak also, as two of China's largest real estate developers do have financial problems. The Chinese government has announced some stimulus measures already, but clearly not enough to convince the investment community. Unsurprisingly, that weighed most on the Emerging Markets stock market performance, but to a lesser degree also on the Japanese, American and European stock markets as slower Chinese economic growth will have an impact on the global economy. Even if inflation numbers are coming down globally, they still have not reached the targeted levels, and that is why we expect Central banks in Europe and in the US to continue to raise rates (although the end of the tightening period should be near). The Q2 earnings season is mostly over without having an important positive or negative impact (results and guidance were more or less in line with expectations)

The dispersion in the stock market performance for the different sectors was quite limited, with Healthcare and Energy slightly outperforming, and Utilities and Materials slightly underperforming.

Portfolio Highlights

The Robotic and Innovative Technology universe underperformed the global stock market even with the two main sectors (i.e. IT and Industrials) performing more or less in line. The underperformance of the Robotic and Innovative Technology universe is mostly due to its stock specific composition. The top contributors in the fund were Emerson Electric, Universal Display, Nvidia, Alphabet et Autodesk. ST Micro, Keysight, Siemens and Ambarella were among the worst contributors (the latter three were driven by underwhelming results and guidance).

We continue to maintain a balanced approach in the portfolio construction, meaning that we stick to a disciplined approach in stock selection. In August, we did not change meaningfully the portfolio composition. We added to the position in Keysight, that in our opinion, corrected too much after announcing Q2 results. As these electronics testing company is involved in the testing of almost every disruptive technology, we consider it a core position in the fund. We continue to keep significant exposure to Big Data and AI, to sensors and semiconductors, to cybersecurity, to cloud deployment and to industrial automation and robotics stocks. Alphabet, Microsoft, Lam Research and Palo Alto Networks are among the most important positions in the fund.

Fund Outlook

Technological innovation is happening at a speed that has never been observed before. The use of Machine Learning and Artificial Intelligence, Generative Artificial Intelligence, Big Data technology, transition to the cloud, increased use of OLED, Virtual Reality, 5G technology, Internet of Things, advanced robotics, metaverse, next gen automation are just a few examples of exciting trends the fund is investing in.

We remain convinced of the superior longer-term potential for the Robotics and Innovative Technology strategy (we remain very comfortable with the demographic, technological and environmental drivers). Automation and robotization are accelerating given labour shortages, decreasing active population, wage increases and re-shoring in the US and in Europe. This strategy will benefit in the best possible way from this undeniable mega-trend.

Rising interest rates because of accelerating inflation have been a significant drag on the performance of this interest rate sensitive strategy last year. With rates stabilizing as inflation is heading in the right way, we consider the negative rate impact as more or less done. We are fully aware that the recent rally in the IT sector has been driven by a limited number

of companies and has been driven by the Generative A.I theme only. Nevertheless, this trend is here to stay and probably even to accelerate. This said, investors will want to see their optimism backed by tangible evidence sooner or later, and that is why we do not exclude temporary corrections. But again, given the excellent long-term perspectives, we continue to recommend using every significant correction to increase or initiate positions in this strategy.

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