

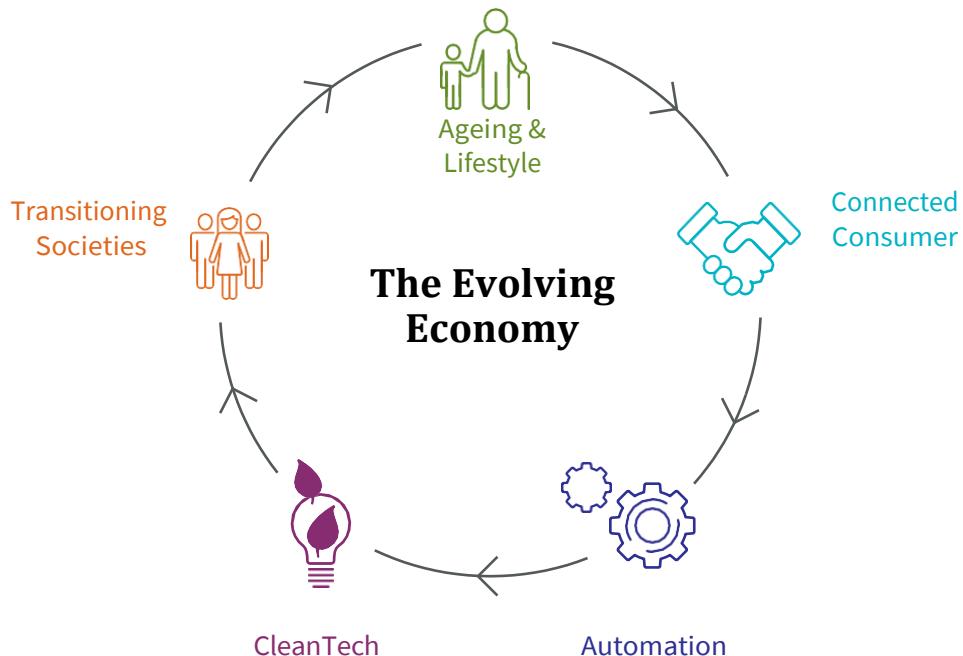
Framlington Equities

Thematic equities in focus

Patience is a virtue

After the rotation witnessed in Q1 2021, the second quarter was quieter, with elements of the inherent market volatility having subsided. However, investors continue to have questions around the prospect of inflation as economies continue to reopen and the impact on markets. Policy messages from governments and central banks – including the Fed – implied ongoing support for the global economy and a more moderate pace of rate rises. This positive tone drove an appetite towards growth-oriented sectors over the quarter. This backdrop has been more favourable for our thematic equity strategies given their positioning in various sectors benefiting from secular growth.

While market volatility has been ever-present since the start of 2021, the five global growth themes we see in today's Evolving Economy navigated smoothly these past six months and continued to enjoy positive returns.



After being significantly targeted by investors in Q1 2021 – mainly for profit-taking purposes – our **Connected Consumer** theme performed well over the last quarter. We continue to see an increasing adoption of online consumption and the overall tone from businesses related to this area was encouraging, with most of them highlighting a strong level of activity and confidence in consumer demand. This is also evidenced by a dynamic level of corporate activity including M&As and IPOs. For instance, Proofpoint marked the biggest M&A deal to-date in the cybersecurity sector after announcing that they had received a bid from a private equity buyer at a 34%¹ premium to the prevailing market price.

¹ Proofpoint press release – 26/04/2021

The quarter was also positive for our **Automation** theme. The high demand we saw in the second half of 2020 in China has now spread globally to the US, while Europe is also beginning to recover. We also observed very strong leading indicators for Japanese industrial activity, such as machine tool and robot orders over the last few months. Whilst Japanese equities have underperformed global markets year-to-date, driven by a slower vaccine rollout, the outlook for automation businesses appear strong, with demand improving and companies having a greater international focus. Moreover, it is worth highlighting a strong recovery in healthcare-related names. For instance, robotic surgery companies – those more exposed to elective procedures – are recovering following a challenging period due to COVID-19. The prospect of vaccinations should allow this market to return to more normal levels later in 2021, with patients that should have been treated in 2020, likely to be able to have these procedures once we see some stability.

Leaving out the automation angle but keeping healthcare in mind, our **Ageing & Lifestyle** theme also behaved positively over the quarter. We saw a particularly strong contribution from names related to the treatment sub-theme. Global ageing populations bring a host of opportunities, we are expected to live longer on average and spend differently that extra time. But ageing populations, like all things, also bring challenges, one of which is an increasing prevalence of age-related diseases. For instance, dementia is an age-related disease severely impacting population, particularly Alzheimer, accounting for c.60-80%² of dementia cases. Drug development for Alzheimer's disease has been particularly challenging, with no new drugs having been approved in the US in the last 20 years. But in June 2021, the US Food and Drug Administration (FDA) approved *Aduhelm*, the first drug for Alzheimer's that many believe tackles the underlying cause of the disease. While the drug's approval was not without controversy, it shines a spotlight on a big unmet medical need, offers patients hope for the future and paths a new wave of innovation and opportunities for investors.

After being highly coveted in 2020 by investors, some profit taking was seen in Q1 2021, although the **CleanTech** theme has recently been regaining some momentum. For instance, we have noted the resilience of investment in the energy transition as corporates and countries seek clean energy, storage and energy efficiency services in order to achieve their net zero targets. Policy momentum also continues to be positive across all major regions, but there is still a long way to go in the race against climate change. Encouragingly, countries with net zero targets together represent around 61%⁹ of global emissions, 68%³ of global GDP⁴ and 52%⁹ of the global population. Progress talks will continue at COP26, the United Nations' climate change conference, which will be held in Glasgow in November 2021. More than 190 world leaders are expected to attend to discuss plans of action in their countries in the collective fight to limit global warming to 1.5 degrees.

The **Transitioning Societies** theme behaved less positively over the quarter. This was particularly the case with China impacted by the latest government move to reform their \$100 billion education tech industry, a step that roiled a slew of firms and stirred questions about what the nation's regulators may do next. Certainly, the regulatory risks have been more heightened recently, but this 'government component' is something that must be managed when investing in China. As active, fundamental investors, we try to have a good understanding on governments' priorities and we constantly assess policy initiatives and their potential impact on various sectors/industries. It is worth noting that policy changes can also be positive and create opportunities; for instance, China's recent commitment towards green energy and carbon emission reduction.

Macroeconomic conditions have been mixed since the beginning of 2021 and we have seen several themes fluctuating based on investor appetite. For instance, the CleanTech and Ageing & Lifestyle themes have sold off in Q1 2021 and have recently started to recover. Whilst performances have been somewhat disappointing for those themes in the short term, we believe investors should look ahead and focus on the long-term drivers supporting those structural growth opportunities. Patience is a virtue for investors believing in thematic equities and as long-term investors, we are not trying to time the market nor the style rotations which are often unpredictable and dependent on factors entirely out of our control. Instead, our approach remains – and will always remain – focused on evaluating the fundamentals of businesses, their underlying growth drivers and assess any changes.

Framlington Equities, Thematic Investment Team

² Source: Alzheimer's association, alz.org

³ University of Oxford, March 21

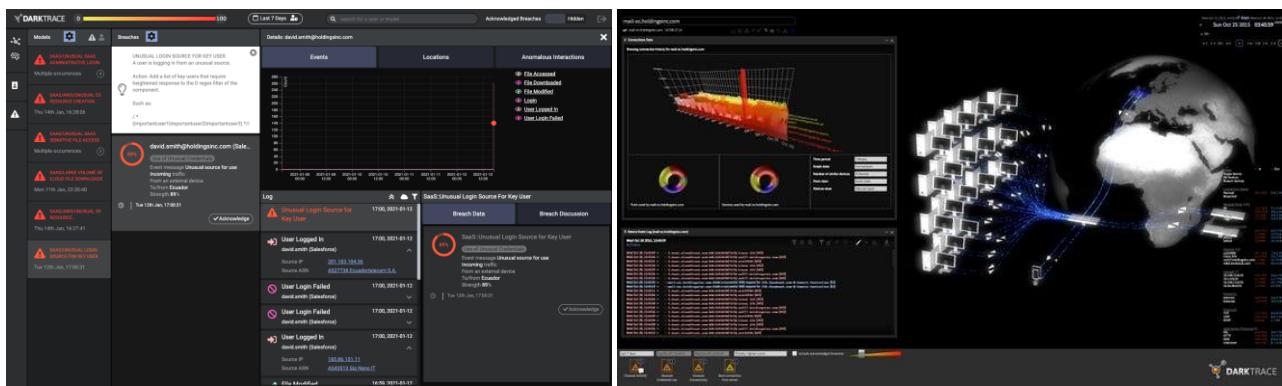
⁴ GDP: Gross Domestic Product

Read on to discover more recent insights within the Evolving Economy...

Connected Consumer theme

Darktrace, self-learning AI cybersecurity company

Darktrace is a global leader in cyber security technology based in Cambridge, UK. It provides enterprise-wide cyber defence protecting the cloud, email, Internet of things (IoT), traditional networks, endpoints and industrial systems. Darktrace uses self-learning artificial intelligence (AI) technology, which means that rather than using existing data to prevent a threat, it is learning '*on the job*' from real-time data. Applied to cyber security, self-learning AI can identify and stop zero-day attacks, because it's not learning from historical attack data. To cope with fast-moving attacks, Darktrace technology also enables autonomous decision-making in order to react and take appropriate action on its own so it can immediately contain the threat and stop any possible spreading.



Darktrace Self-Learning Cyber Intelligence Platform

Picture: Darktrace Investor relation. Stock shown for illustrative purposes only and should not be considered as advice or a recommendation

Automation theme

Kion, automated warehouse and forklift manufacturer

Kion is a German leading manufacturer of forklift trucks and a supplier of warehouse automation systems. Within its 'automated warehouse' business unit, Kion offers integrated automated technology, software, and services to optimise the supply chain of companies. While most of worldwide warehouses are entirely manual or have a very low level of automation, the rapid growth of e-commerce is driving considerable capital expenditure on warehousing and logistics. Automated supply chain solutions are becoming increasingly important as efficient intralogistics are now the 'e-commerce backbone' in companies' competitiveness.



Kion automated warehouse technology

Picture: Kiongroup Investor-Relations, Presentations 2021. Stock shown for illustrative purposes only and should not be considered as advice or a recommendation

Ageing & Lifestyle theme

Axonics, sacral neuromodulation specialist

Axonics is a producer of device for Sacral Neuromodulation for the treatment of overactive bladders, bowel incontinence and urinary retention. Axonics technology provides gentle stimulation to the nerves that control the bladder and bowel. The stimulation can restore normal communication between the brain and the organs, which can result in an improvement of a patient's symptoms (e.g. regain normal control of the bladder and bowel). Their stimulation devices are miniaturised implant – placed through a minimally invasive procedure – that can be controlled with a user-friendly remote.



The Axonics System

Picture: Axonics company website, "About Axonics Therapy" section. Stock shown for illustrative purposes only and should not be considered as advice or a recommendation

CleanTech theme

Ameresco, Energy optimisation and renewable energy services

Ameresco provides energy optimisation solutions that enable clients to reduce costs and the use of natural resources. Through energy audits, Ameresco's main service is the development, design, engineering and installation of projects to improve the operational carbon footprint of its clients and accelerate their path towards their net-zero emissions targets. Ameresco offers contracts which guarantee that cost savings can pay for the project and demonstrate the value by measuring KWh of energy saved upon completion.



Ameresco designs and builds energy savings projects such as solar panels implantation over car parks or warehouse center

Picture: Ameresco Investor Presentation, August 2021. Stock shown for illustrative purposes only and should not be considered as advice or a recommendation

Transitioning Societies theme

Xinyi Solar, e-commerce solutions

Xinyi Solar is a China-based solar glass maker and project developer. In China, energy security and sustainability are growing in policy significance, which is helpful for renewable energy and associated technologies. The current system of onshore wind and solar photovoltaics (PV) subsidies expires this year, and a new framework is under creation which will improve visibility for renewables developments going forward. In 2021, Xinyi Solar is stepping up the expansion of its solar glass production capacity in response to strong demand, with four new production lines.



Xinyi Solar photovoltaic power station

Picture: Xinyi Solar website. Stock shown for illustrative purposes only and should not be considered as advice or a recommendation

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