

Robotics and Delta One: Domo Arigato Mr Roboto

In the previous FNL, we discussed the potential merits of Delta one products for thematic investing. This week we take a closer look at one of those popular themes: Robotics. There has been a great deal written in the last year or two on the economic impact of a shift towards increased automation and robotics. Indeed, the bulls in this space believe AI (artificial intelligence) is set to become the “new electricity”, ingraining themselves into the majority of sectors eventually. This significant a macro trend may well be interesting to investors.

There are a number of interesting developments emerging in the space, one of which is the “blended workforce”; humans and robots working side by side in collaboration. Currently **robot density is still relatively low** overall, with great potential for expansion and instillation in many world markets. McKinsey, estimates that around **20% of all tasks performed in the workforce today could already be automated**. Increased computing power, rising wages across DM and EM and advantageous government incentive schemes make robotics a potentially profitable endeavor. Moreover, **PwC forecasts that up to 30% of jobs** could be susceptible to robotics and AI in some form in the UK alone by mid-2030. Now, that may sound a little worrisome for us humans, but the “blended workforce” is the key. Ask a grandmaster to play a computer at chess and the result is fairly predictable. However, place a computer against another computer AND a grandmaster working in tandem and they will beat that same computer every time.



Peter Crouch, proving Robotics can be useful anywhere

Robots are in effect tools, like a car or vacuum. They can assist us in being more productive in our jobs, do tasks too dangerous or unsavory for humanity and even take up the slack on the mundane everyday chores that are so necessary for us to live. For example, BCG estimates that **by automating just 25%** of tasks performed by manufacturing employees, **output per worker could be boosted by up to 30%**. Not to mention that the robot can work 24/7 with no holidays; though they may still need to recharge their batteries from time to time. Perhaps even more useful, automation is proven to lead to lower costs. BCG posit that on average, global labour cost savings could equal as much as **16% by 2025, and 21% within the UK**. And they're getting cheaper – overall costs of maintenance and acquisition are **likely to fall by 22%** in the same period. That's a lot of cache...

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Recent Launches:

| Product | Snowballing Return |
|--|--------------------|
| Morgan Stanley 7yr FTSE/S&P Digital 52.90% EIS | 9.80% |
| Citigroup 7yr FTSE Phoenix Autocall Note | 5.50% |

| | Rates (bps) | |
|---------|-------------|-----------|
| | Current | Week Chge |
| GBP 1yr | 46.40 | 3.30 |
| GBP 3yr | 58.60 | 4.60 |
| GBP 5yr | 73.40 | 3.30 |

| | Equity Indices (%) | |
|--------------|--------------------|----------|
| | FTSE 100 | 7,458.31 |
| S&P 500 | 2,345.96 | -3.53% |
| Nikkei 225 | 19,445.7 | -2.84% |
| Eurostoxx 50 | 3,537.61 | -1.35% |

| Currencies (%) | | |
|----------------|--------|-------|
| GBPUSD | 1.2775 | 0.23% |

| 5yr Credit Spreads (bps) | | |
|--------------------------|-------|-------|
| Citigroup | 55.84 | -3.76 |
| Credit Suisse | 69.18 | -2.34 |
| Deutsche | 93.37 | -3.71 |
| GS | 71.98 | -3.46 |
| HSBC | 40.76 | -7.10 |
| JPM | 49.41 | -3.96 |
| MS | 66.82 | -4.42 |

| Commodities (%) | | |
|-----------------|---------|--------|
| Gold | 1255.73 | -0.87% |
| Oil (CLA) | 44.82 | -2.20% |

| 3m Implied (vol pts) | | |
|----------------------|--------|--------|
| FTSE 100 | 10.58% | -3.01% |
| S&P 500 | 10.12% | 0.15% |
| Nikkei 225 | 13.80% | -0.63% |
| Eurostoxx 50 | 13.67% | 0.08% |

| 5yr Implied (vol pts) | | |
|-----------------------|--------|--------|
| FTSE 100 | 17.88% | 0.23% |
| S&P 500 | 19.45% | 0.10% |
| Nikkei 225 | 18.40% | -0.51% |
| Eurostoxx 50 | 19.75% | 0.12% |

Source Bloomberg / Partner Banks
 Data as at 16th June, 2pm

| Upcoming events | |
|----------------------|--|
| 20 th Jun | Japan's monthly economic report |
| 23 rd Jun | Eurozone Composite, Manufacturing and Services PMI Index |
| | US sovereign debt rated by Moody's |
| 30 th Jun | UK GDP (Final) % y/y |

“The first ten million years were the worst. And the second ten million: they were the worst, too. The third ten million I didn't enjoy at all. After that, I went into a bit of a decline.”

– Marvin, the Paranoid Android in 'The Hitchhiker's Guide to the Galaxy' by Douglas Adams.

These are obviously intriguing arguments to believe robots have a significant place in our society. However, perhaps the most compelling cases to date surround the enhancement of living standards. Frost & Sullivan believe that AI has the potential to **improve medical procedure outcomes by 30-40% while halving treatment costs!** Furthermore, increasingly aged populations are resulting in unbalanced societies with more and **more dependent pensioners than those able to support them.** We will need more caregivers at lower cost, as well as measures to reduce the expense of their treatment. Robots provide this. McKinsey commented that developed economies “have a major interest in pursuing rapid automation adoption” for this very reason, and we are beginning to see the growth of both large cap and government spending in this space, with significantly more to come. As an example, both Amazon and Google have spent heavily on robotics recently, not to mention **a pledge from the UK government to the sum of £2bn.** At the end of 2015, the Global Robotics Market was **valued at US\$15.1bn** and is projected (by numerous sources) to be **above US\$65bn by 2025.** Evidently there is the potential and demand for growth in this theme.

So how best to play it...

In the actively managed space, there are funds with weightings to Robotics, however no pure robotics play. These funds also tend to be more illiquid because they are typically quite small and highly specialised with quite large fees (some north of 1.5% per annum). There are also ETFs that are exposed to this theme, however we have seen that again, the fee is not insignificant and more often than not, there is consistently a large tracking error to the underlying assets. The clear advantage of a delta one product is that they track the underlying one for one, with no slippage, the fees are transparent and reasonable (circa 50bps per annum) and it can be customised to suit the investor in whichever currency is preferable.

For more details on anything referenced in this week's FNL, or to find out more about Delta One investments in general, do please get in touch via the usual means.

Footnotes

1. “A future that works: Automation, Employment and Productivity”. McKinsey & Company
2. “The Robotics Revolution: The Next Great Leap in Manufacturing”. The Boston Consulting Group
3. “Rise of the Robots”. KPMG & PwC.
4. “Medical Robots Market – Global Forecast”. Frost & Sullivan

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Clearly, he couldn't resistor...