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Editorial

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Chief Investment Officer

Looking back at the developments of the last three quarters, we can safely say that 2017 has been a good year so far. Most developed economies currently operate in a favorable environment of broad-based growth, low inflation and a continued regime of supportive monetary policies. As we enter the last quarter of the year, we see good reasons to maintain a positive outlook, as the momentum gained so far shows promising potential to continue supporting the global markets' uptrend.

Nevertheless, concerns and doubts remain in many investors' minds over its sustainability. One of the main worries is focused on the upcoming global reversal of the expansionary monetary policies of the past decade. The Federal Reserve is already starting the gradual process of its balance sheet unwinding as it also continues on its path towards increasing interest rates. At the same time, the European Central Bank is preparing for tapering of its asset purchases scheduled to start next year, while the Bank of England has also left open the possibility of a rate rise before the end of the year. While some investors' fears of a panicked market reaction to these changes seem rather overblown to us at this point, it will still be wise to closely observe the markets' response and the economic impact of this policy reversal as it goes into effect in the coming months.

With a backdrop of steady growth, an earnings recovery, record-low volatility and promising investment opportunities present globally, it can prove challenging for investors and analysts to identify a "winner amongst winners". Thus, in this edition of the InSights, we make the case for the Robotics sector as a strong contender for this position. This fast-growing industry has not only shown remarkable results so far, but the rapid technological advancements and the sharp increase in demand for a widening range of robotics applications also supports the view that the sector's boom could just be getting started.

While we remain overall positive in our outlook of the coming months, at BFI Infinity we also feel it is important to acknowledge existing and potential risks that could threaten the sustainability of this upward trajectory. We continue to closely monitor relevant developments, especially on the global geopolitical front, as part of our balanced and prudent approach to risk management and our unwavering focus on the long-term growth of our clients' investments.

In the Limelight
Back on Track: The long-awaited comeback of the world economy

After a decade of anemic recovery, the world economy now shows strong vital signs and a much-needed return to a growth trajectory. We take a closer look at this global uptrend and address some commonly held concerns.

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Robotics Boom: The dawn of the next industrial revolution?

The Robotics sector has rapidly grown over the past few years, as new technologies and increased demand for automation enable robots to expand beyond industrial uses and enter a wide spectrum of other sectors, as well as everyday life.

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Back on Track:
The long-awaited comeback of the world economy

So far, 2017 has proven to be another positive year for financial markets. All major equity markets around the world have seen positive performances. While some markets are reaching new all-time highs, others, as such the European, are gaining impressive momentum. But there is more to this strong trend: volatility has remained at very low levels and global markets have remained resilient even in times of apparent trouble, such as the recent geopolitical tensions with North Korea. This all might seem too good to be true and there still appears to be a lot of skepticism about the future direction of the equity markets.

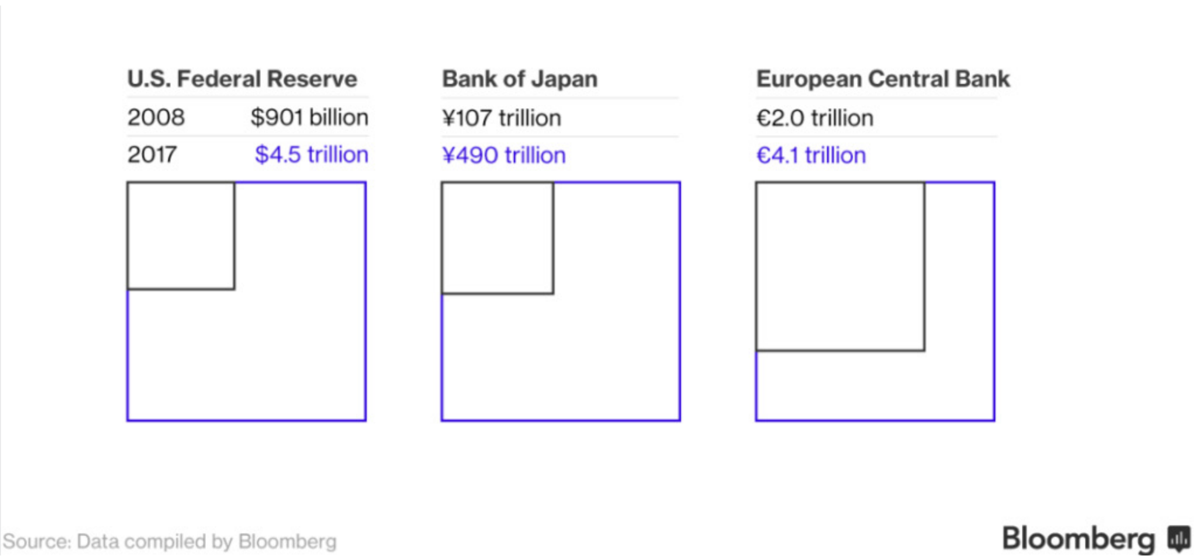
Daniel Zurbruegg
CEO BFI Infinity

Doubt and disbelief

Some of the negative sentiment is rooted in the fact that central banks around the world are planning to put an end to their stimulus programs and enter an era of monetary normalization. Some are more decisive than others: The Fed, for example, after seven years of an unchanged federal funds range of 0-0.25% already begun this process in December 2015 with a range hike to 0.25-0.50%, all in preparation for the imminent quantitative "tightening", or "unwinding", of its $4.5 trillion balance sheet. Other central banks, on the other hand, like the ECB, appear more timid in their actions, but still are rhetorically paving the way for the changes to come. After years of Quantitative Easing, the common denominator for the coming months and years is a gradual reversal of monetary policy worldwide.

There has been a lot of talk in recent years that once the times of cheap money are over, the risk for a severe market correction will significantly intensify. The main fear is that the markets are too addicted to loose monetary policies, while the economy itself would not be resilient enough to survive the removal of this "crutch". However, such concerns and the resulting negative projections have not materialized, at least not yet. We have seen these concerns already with the Fed's latest interest rate hikes, with doubts and worries over potential market upheaval, yet nothing of the sort followed. Instead, we saw the

Central Banks' ballooning balance sheets



continuation of the record setting uptrend in the US markets.

Another reason for concern and disquiet in many investors' minds is an issue we addressed and examined in depth in our last edition of the InSights: the sustained low volatility and the overall market complacency in the face of important geopolitical events since the beginning of the year. The markets continue to reflect what can be seen as over-confidence, even as tensions continue to escalate between North Korea and the US. It would also appear that they largely disregard the incessant political friction surrounding the Trump administration, as well as important developments in the EU, such as the recent German elections and Angela Merkel's weaker-than-expected victory, or the Catalonian secession referendum.

Therefore, concerns over the sustainability of the financial markets' performance are neither completely baseless nor should they be dismissed offhand. The question on many investors' and analysts' minds is whether this uptrend could persist undeterred going into the next year or is this just the calm before the storm? To answer it, one needs to identify the fundamental drivers of the trend and understand the role they play in its sustainability.

The road ahead

While nobody knows for sure how the economy and the markets will react to monetary policy changes and political developments that may lie ahead, there seem to be two determinant factors that need to be acknowledged and clearly understood. First, with central banks talking about normalizing monetary policies, the fear of higher interest rates appears to be overblown. Indeed, it is to be expected that central banks are going to cut back on the stimulus sooner or later, however, it seems rather unrealistic that interest rates are going to increase dramatically as a result. A pertinent example to illustrate this would be the case of the U.S. Longer-term interest rates have not changed much recently, despite the hikes of the Federal Reserve. Thus, while central banks might raise official benchmark interest rates, the impact on longer-term interest rates is likely to be muted, as it has been so far. In our view, significant interest rate increases are unlikely not only in the immediate future, but most likely also for the next couple of years too.

Central banks have no urgency to be more aggressive and consumer inflation remains low in pretty much every major market. There is no reason why this should change anytime soon. In the developed economies, interest rates have been in a downward trend for more than 40 years now and With global markets being as competitive as ever. with low energy prices, demographics still creating a glut of workers, and excess capacities in many sectors, it will be difficult for consumer inflation to climb much higher. Asset price inflation, usually seen as "good inflation", is a different story: Here we are continuing to see a pronounced upward trend. With interest rates being low and expectations that they will remain that way, asset prices in stock markets and real estate continue to be well supported. Of course, the normalization of monetary policies will probably create some headwinds in asset markets in the short-term. However, based on our expectations of continuously low interest rates for the foreseeable future, it is rather unlikely that this normalization will trigger a large price correction in the mid-term.

Nevertheless, markets are not only driven by low levels of interest rates alone. Equities can't be expected to continue to climb if there is no underlying improvement in the global economy and with it, a positive impact on corporate earnings. This brings us to the second determinant factor: Corporate earnings are also a major driver of stock markets. While low interest rates help to increase the present value of future cashflows, the most important factor still lies in the future corporate profits, which in general are dependent on global economic activity. And in this regard, we see a solid basis for optimism, as the global economy has shown encouraging signs in recent months.

Official growth estimates have been revised upwards several times and the most recent ones show that global GDP is expected to grow by 3.4% to 3.5% this year. This is a significant trend reversal after sustained downgrades in recent years. According to the IMF, which revised its own estimate in its World Economic Outlook upwards from 3.1% to 3.5%, "Stronger activity, expectations of more robust global demand, reduced deflationary pressures, and optimistic financial markets are all upside developments".

In fact, all 35 OECD member countries are currently demonstrating expanding GDPs, something that was last observed 10 years ago. While the growth momentum in the U.S. seems to have somewhat slowed down in recent months, Europe has been the biggest surprise, with a rather strong recovery that is now not only being supported by Germany alone. Of course, Germany still remains the main growth engine of Europe but now other countries, including the troubled economies of Italy and even Greece, are also showing more positive vital signs.

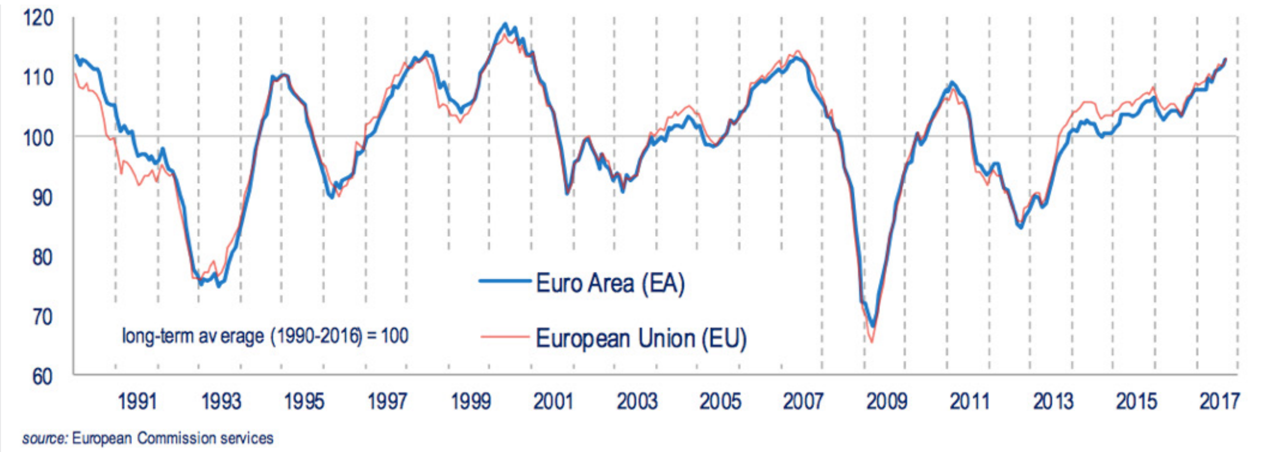
With most companies around the world being rather lean and efficient, a small improvement in growth should translate into a relatively strong improvement in profitability. Therefore, the outlook for corporate earnings is better than it has been in years. This, combined with continued, by historical standards, low interest rates and with continued relatively loose monetary policy, supports a positive view on the markets in coming months.

Investment Implications

At this stage, we see the best opportunities in Europe and to some extent in the emerging markets too, which have shown a very strong performance this year. The Eurozone seems to have confidently picked up the baton after the US slowed down, especially after the unwinding of political tensions and the avoidance of electoral surprises in major economies in the region.

These firm recovery signs confirm that the Euro area has managed to successfully overcome its past political and economic hurdles, including Brexit aftershocks. In fact, the European Commission recently reported that the Economic Sentiment Indicator (ESI), which is based on surveys of consumers and of the manufacturing, services, retail, and construction sectors, recorded its best results since July 2007.

Economic Sentiment Indicator (ESI), 1990-2017



Furthermore, although ECB President Mario Draghi rattled investors earlier this year and raised fears of tapering more aggressively than expected, he has since repeatedly made clear that there is "no rush" and that the normalization process will be gradual and prudent.

Despite this overall positive outlook, it is important to remain vigilant and to closely observe all relevant developments, as there are still risks that should not be overlooked. Especially in the geopolitical front, the potential for various surprises must be factored in. An escalation of one or more conflicts (e.g. the increasingly heated rhetoric between the US and North Korea or the less widely covered US-China conflict over the South China Sea) can have significant and far-reaching effects. Another reason for concern can be found in the turn to protectionism that some countries have exhibited and the corresponding policy shifts.

However, on balance, over the next months we feel comfortable with the current trends in the global economy. With the recent strong performance in international, and especially emerging markets, it is once again time to look beyond one's borders for investment opportunities.

Finally, the present climate offers numerous possibilities to adapt or expand on an international diversification strategy and to find attractive opportunities that could add significant hedging properties to one's portfolio in the eventuality of a future slowdown.

Robotics Boom: The dawn of the next industrial revolution?

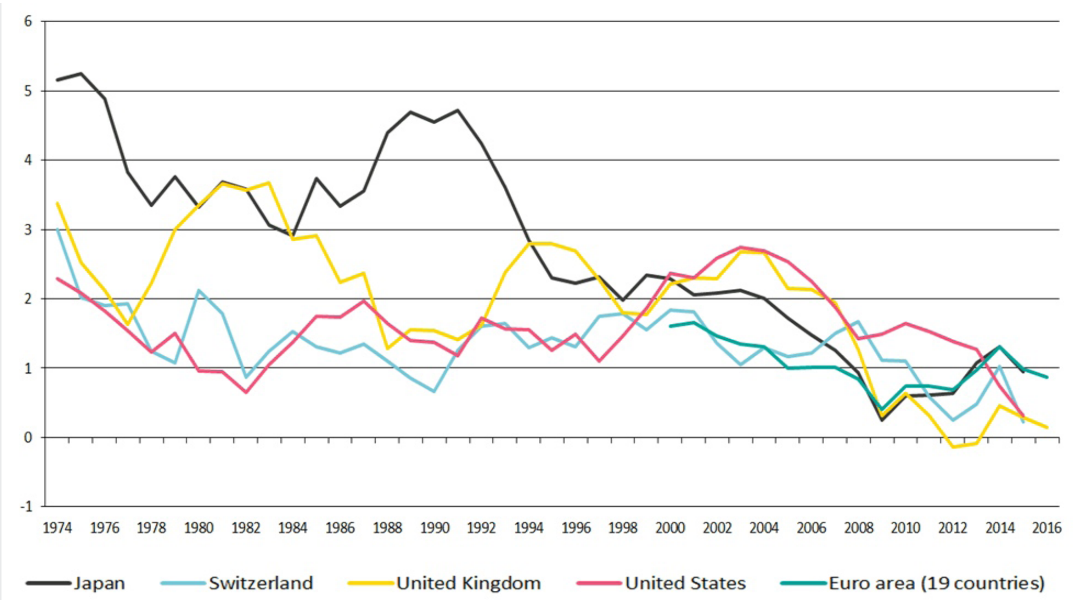
Technology has long been known for its ability to bring about great leaps in the progress and elevation of our quality of life, productivity levels and economic growth. In fact, one could argue that this has never been more true than it is now, as we stand on the cusp of an upcoming robotics revolution. Reaching far beyond the commonly held notion of industrial automation and assembly line machines, robots have now entered everyday life and demand for the efficiency and accuracy they bring with them keeps climbing. They are effectively revolutionizing a vast spectrum of sectors and industries: From self-driving cars and drones, to surgical robots and self-moving oil rigs, automation is quickly becoming mainstream and increasingly omnipresent.

Evolution of robotic applications and technologies

In recent years, the timeless appeal of automation has become increasingly attractive and the need for its practical implementation increasingly pressing in the face of long-term global challenges and relevant megatrends. For example, demographics present a long-standing concern for many economies, with aging populations and fewer new participants in the labor market. Robotic solutions could be the key to boosting the currently or soon-to-be lagging productivity. Environmental concerns are also among the issues that robotics can help address, as the increased resource efficiency or the elimination of human error that new technologies can provide could offer new advantages in environmental responsibility, e.g. reduction in waste, oil spills or other environmentally harmful accidents, etc. Finally, robotics can also contribute in tackling the global need for a return to solid economic growth, by bringing production back to the developed markets and by countering the rapidly rising labor costs in the emerging ones.

Until recently, robots were almost exclusively associated with mass production and factory applications. In this capacity, most of the public conversation around robotics traditionally revolves around fears that machines will inevitably replace human workers and give rise to mass unemployment, while industry experts defend automation and point to its job-creating potential. While the debate still rages on, over the last years we saw a trend emerge in a different direction altogether. Collaborative robots (also known as "co-bots"), working side by side and supporting workers are becoming more and more prevalent in production facilities, increasing efficiency and reliability.

Decline of Productivity Growth in Developed Economies, GDP/hour worked



Source: Organisation for Economic Co-operation and Development, Vontobel

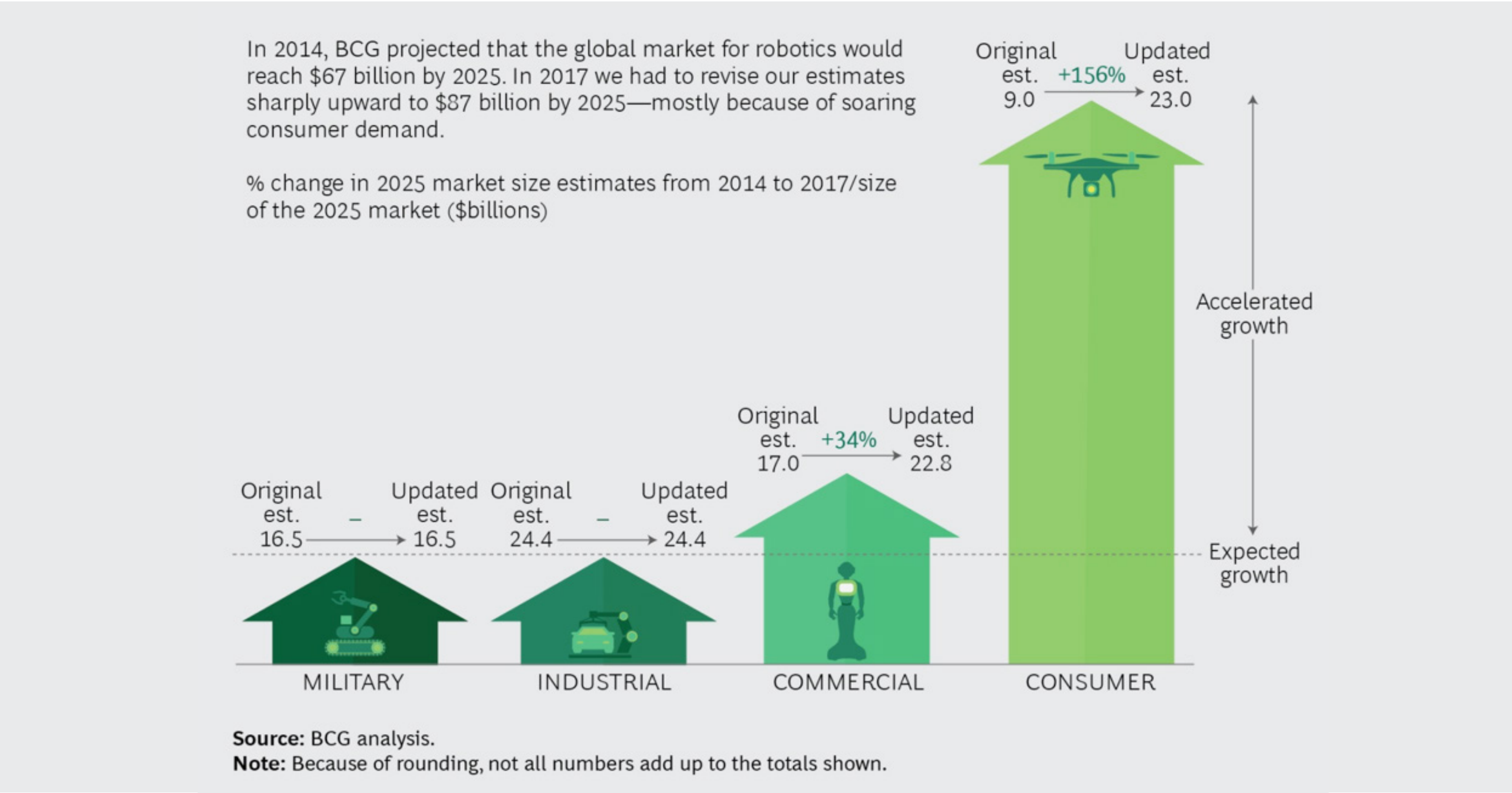
Nevertheless, industrial uses, however important and currently relevant, are no longer at the forefront of the robotic revolution as it is expected to unfold in coming years. Technological advancements during the last decade have significantly upgraded the capabilities of the machines' sensors and microprocessors, making robots smaller, cheaper, much more versatile and easier to program and to use. Thus, we now see robots increasingly entering new sectors, as well as households, in a radical evolutionary leap from their previously narrow capacity to execute pre-programmed, repetitive tasks to the abilities they command today, to sense, react, adapt and interact with both humans and the environment.

We can already see successful practical implementations of these advancements in a wide variety of sectors and in everyday life. Surgical robots, rehabilitation and physical support robots are being introduced in an increasing number of hospitals worldwide. Farming robots and self-driving tractors are showing great promise to revolutionize agriculture. On a consumer level, the technology is expanding beyond the familiar robot vacuum cleaners of the past few years, and the product range today also includes robotic lawn-mowers, personal assistants, educational robots and various advanced home automation possibilities. As for the services sector, the retail, hospitality, and the food & beverage industries are amongst the most eager adopters of robotics applications, either in automating internal processes or using robots at their front-end interactions with their customers. This rapid progress is even extending to the realm of social and personal life, with tech-pioneering and robot-embracing markets like Japan leading the way and responding to an increased demand for social robots, as well as robot caregivers for the elderly.

Sector performance and key growth drivers

As businesses from virtually every sector are eager to explore the possibilities and are actively looking for ways to adapt and take advantage of these

Robotics markets growing faster than expected

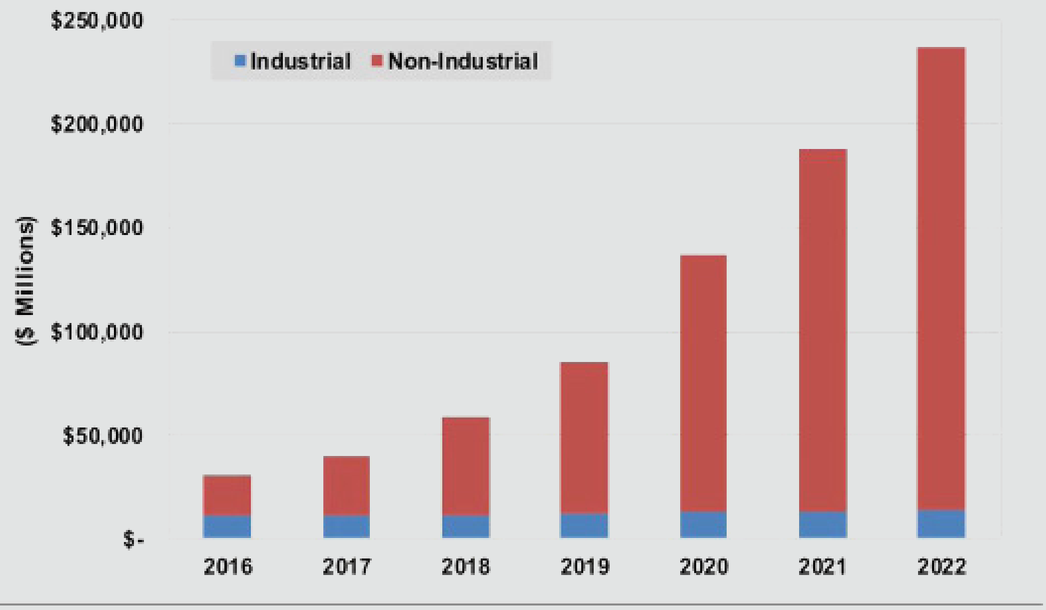


new technologies, their interest translates into a sharp increase in investments in the robotics and automation sector. After a sharp and sustained spike in investments in 2015 (with $587 million in venture capital investments or 115% up from the previous year), followed by a brief interlude in early 2016, new investments have decisively retuned in research and startups and have been on the rise ever since.

Industrial robot sales increased by 16% in 2016, a new peak for the fourth year in a row, while service robots saw a 25% rise. Also, recent forecasts are consistently and uniformly positive for the entire sector. Earlier this year, the Boston Consulting Group revised its estimates for 2025 upwards, from $67 billion to $87 billion, in what is still seen by many analysts as a conservative assessment. A report by Tractica, a market intelligence firm focused on technology, went further, projecting the market will reach $237 billion by 2022, from $34.1 billion in 2016.

Amongst the key driving forces of this growth is the dramatic increase in private investment in the sector, the consistently falling prices for robots and their parts, as well as the spike in interest in companies aiming at the consumer market. After decades of industrial robots leading the sector forward, we now see 40% of robotic startups focused on the consumer sector. In fact, BCG forecasted the consumer robot market alone to reach $23 billion by 2025, or a 21.9% CAGR (compound annual growth rate) since 2000, while Tractica's findings also concurred that non-industrial robotics revenue will continue to overtake that of their industrial counterparts.

Total Industrial and Non-Industrial Robotics Revenue, World Markets



(Source: Tractica)

As for the key markets of the sector, China has the clear lead, followed by Korea, Japan and the US, according to data from the International Federation of Robotics (IFR). Currently, 25% of all robots are sold in China and by 2019, around 40% of the global market volume of industrial robots is projected to be sold there too, according to the 2016 World Robotics Report published by the IFR. Sales in China have shown particularly strong annual growth in the last years, largely motivated by the political and economic need to retain manufacturing within the country. As the wages for manufacturing workers have seen a 350% increase in the last decade, the race is on to improve efficiency and cut long-term costs though robots and automation.

Strategic considerations for investors

Overall, the robotics industry is projected to continue on a path of substantial annual growth. However, given the size and variation within the sector itself, as well as the booming, ceaseless innovation, often entering uncharted waters in an effort to introduce disruptive new ideas, it would be unwise for an investor with a long-term horizon to try to single out specific “winners”. In the highly competitive robotics space, which is only expected to become even more so in the coming years, there is a variety of both ”known” and ”unknown” unknowns when it comes to predicting the market leaders or the fastest-growing players or the success of a particular company over another.

What is, on the other hand, a rather safe assumption, is that robotics and automation technologies in general will play an increasingly important role worldwide across most of the economic spectrum. Furthermore, the sector as a whole is poised to prove resilient in the event of an economic downturn.

Therefore, a more prudent strategy would be to invest in the sector itself, rather than in individual players. An ETF can help achieve meaningful and balanced exposure to the entire robotics industry, reducing risk and playing an important role in a long-term oriented strategy. An additional benefit of this approach is the internationally diversified exposure that a global Robotics ETF can provide.

Overall, we look at the developments and the rapid progress in the robotics space as a sign that this industry could prove to be a global economic game changer. We saw automation evolve from a finite, specialized niche sub-segment catering mainly to the automotive industry in the 60’s and 70’s, to the competitive advantage it offers today to businesses across the sector spectrum, with ever-decreasing costs and ever-expanding capabilities. It might be only a matter of time before using robotics evolves into a bare necessity, a basic requirement in order to be able to compete. In this probable scenario, the sector would provide fertile ground for numerous attractive investment opportunities.

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