

# Entry Points | Value Strategies to Turn Supply Chain Challenges into Opportunity

## Transcript

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**Catalysts in Play:** The Covid-19 pandemic has wreaked havoc on global supply chains. The pressures may have peaked, at least temporarily, but ongoing labor shortages continue to hinder the transportation and logistics industries. Moreover, the shift in consumer spending – from services to goods – is only exerting more pressure on fragile and lean supply chains.

The impact can be felt across the economy. The Consumer Durables and Consumer Staples sectors, however, stand out as among the hardest hit, as supply shortages and inflationary pressures restrain revenue growth, while added logistics expenses weigh on margins.

### **Entry Points:**

Despite the headwinds, opportunities are now surfacing that will create winners both directly, from the supply chain challenges, as well as indirectly, as consumers and other industries cope with the new reality.

**Freight Forwarding / Logistics:** Among the direct beneficiaries, for instance, are the freight forwarding operators. Beyond just the tailwinds taking form to solve the supply chain gaps, the larger players in this segment benefit from economies of scale and should be able to add to their marketshare through their geographic reach and reliability.

**Auto Parts Retailers:** One of the most exposed areas to the supply chain crisis has been the auto manufacturers. As the availability of new cars has been squeezed the average age of automobiles on the road has grown. This is benefitting the auto parts manufacturers and retailers serving the used car market and playing a key role to meet the surging demand for replacement parts. By the same token, auto parts manufacturers supplying the Original Equipment Manufacturers (OEMs) are exposed to the ongoing production cuts.

### **Active Strategy:**

To identify the prospective winners and losers in these and other segments, we believe a combination of fundamental and quantitative techniques can identify the names best

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positioned for sustained revenue and earnings performance and may have catalysts in place for future growth. Given the turbulence created, mispricing opportunities abound.

### Go Deeper: [Hear Brandon Smith break down the global supply chain](https://www.boston-partners.com/news-and-insights/entry-points-value-strategies-to-turn-supply-chain-challenges-into-opportunity/)

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<b>Brandon Smith, CFA, CAIA Portfolio Research:</b>	00:00:01	Hi, I'm Brandon Smith, portfolio analyst at Boston Partners. And on this edition of entry points, we're going to discuss supply chains.
<b>Brandon Smith:</b>	00:00:13	The COVID pandemic has wreaked havoc on global supply chains, with many factories being forced to close due to rising COVID cases and the logistics and transportation industries have been hindered due to labor shortages. This has occurred at the same time that consumer spending has shifted abruptly from services towards goods, further exerting some pressure on already fragile and lean supply chains. This is an issue that spans many industries, but consumer durables and staples are among the hardest hit. The end result has been restrained revenue growth and additional logistics expenses, which have weighed on margins. Supply chain pressures have also greatly contributed to broad based inflationary pressures across the globe. While peak supply chain pressures may be behind us, China's zero COVID policy may bring renewed pressures ahead.
<b>Brandon Smith:</b>	00:00:57	We think this is an ideal setup for Boston Partners, as we can use a combination of fundamental and quantitative techniques to sift through the universe stock by stock and separate winners from the losers. For example, there are direct beneficiaries of the supply chain pressures. Freight forwarding has historically been a fragmented industry, but the larger players have been able to gain share due to geographic scale and reliability, something customers have been craving in this environment.
<b>Brandon Smith:</b>	00:01:22	There's also been indirect winners from the supply chain pressures, namely auto parts retailers, as new car availability has been greatly restricted, increasing the average age of autos on the road, benefiting auto parts retailers. Auto parts manufacturers have also benefited, particularly those that serve the used auto end market, as aging auto fleets in the U.S. have resulted in significant demand for replacement parts. Meanwhile, there's losers within the same industry as companies that manufacture parts for new car producers have seen momentum slow due to continued production cuts, as part shortages have weighed on the industry. Ultimately, we think the resultant increased volatility and high return dispersion across equities should benefit our bottom up stock picking approach at Boston Partners.

## **Brandon Smith, CFA, CAIA** **Portfolio Research**

Mr. Smith is a portfolio analyst for Boston Partners and has extensive experience with all of the firm's strategies. Prior to this, Mr. Smith was a Vice President and senior investment analyst at Envestnet Asset Management. Before that, Mr. Smith held investment analyst roles within the fund of hedge funds groups at Gottex Fund Management and Columbia Partners Investment Management. Mr. Smith holds a B.A. degree in government from Dartmouth College. He holds the Chartered Financial Analyst® and Chartered Alternative Investment Analyst designations. Mr. Smith has fifteen years of industry experience.

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