

### THE ALPHA OF APPLIED INNOVATION

Following our analysis of the benefits of selecting a diversified approach to innovation investing in our Annual Report, it is worth turning to The Singularity Group’s (TSG) original hypothesis with the question: “Why does selecting for innovation revenues make sense for investors?”

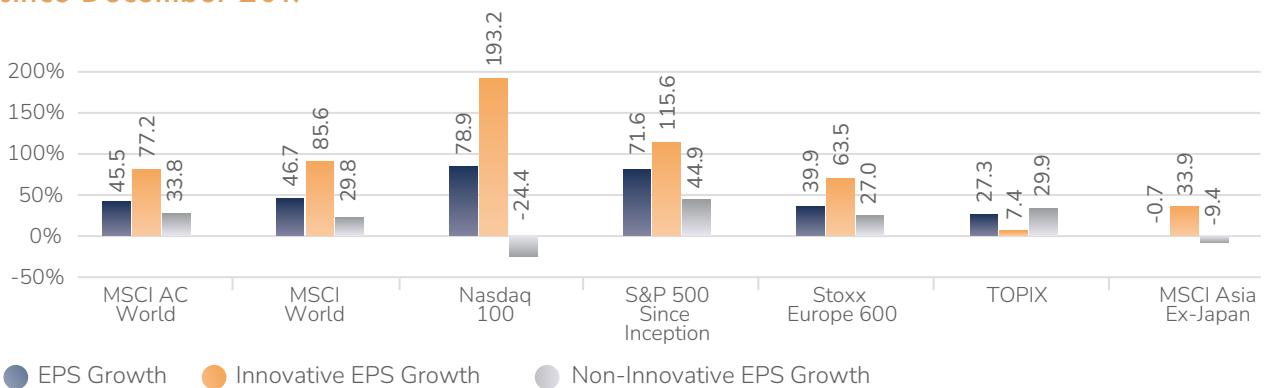
TSG was founded on the logic that **in the fierce competition between companies, applied innovation is a key factor for long-term success and sustainability.** The ability to *successfully* apply innovation, meaning to move innovation efforts and cash outflows (Capex and R&D) into innovation revenues (cash inflows), increases a company’s ability to grow profitably and generate long-term value for investors. Additionally, it breeds resilience in the face of market changes. Leaders in applied innovation attract the best talent, stay ahead of the competition, create new markets and business opportunities, and capture superior pricing power.

**Identifying applied innovation is critical because not all innovations are created equal.** Some innovations have a high growth potential and can completely transform multiple sectors in various ways, while others are marginal improvements that have little impact on a company’s competitiveness. Then there are numerous innovations that eat up R&D investments only to remain shelved for a lack of customer demand, technological maturity, or financial viability.

This is where our unique innovation screening approach comes into play. **Using expert input from the Singularity Think Tank, we identify the applied innovations and technologies that enter the market, grow revenues, and shape the world today.** Companies spearheading these products and services receive a Singularity Innovation (SI) Score representing the actual innovation-associated revenue, which then serves as the basis for constructing our portfolios. Delivering actual revenues from innovation is the true validation that differentiates the Singularity Group approach

Figure 1

### EPS Growth for Applied Innovation- vs Non Innovation Equities in Key Indices since December 2017



Source: TSG, FactSet





The investment universe can be divided into two categories: applied innovation leaders - those deriving at least 10% of their revenues from innovative products and services (SI-Score over 10) - and others. With this classification and our five-year track record, we can answer a simple but critical question: **Is there an Alpha for applied innovation?**

from the crowd of investment strategies that seek innovation, but focus too early, too late, or in overly peripheral areas to achieve the consistent earnings out-performance of TSG’s approach.

Based on TSG’s ongoing innovation screening, **the investment universe can be divided into two categories: applied innovation leaders** - those deriving at least 10% of their revenues from innovative products and services (SI-Score over 10) - **and others**. With this classification and our five-year track record, we can answer a simple but critical question: **Is there an Alpha for applied innovation?**

The answer is a resounding yes. Since the launch of the Singularity Index™ in December 2017, **the growth in earnings per share of companies with an SI-Score over 10 in major global and regional indices significantly exceeded that of “non-innovative” companies versus any major benchmark one chooses** (see Figure 1). This resulted in a net outperformance which can be viewed as the **Applied Innovation Alpha** (Figure 2).

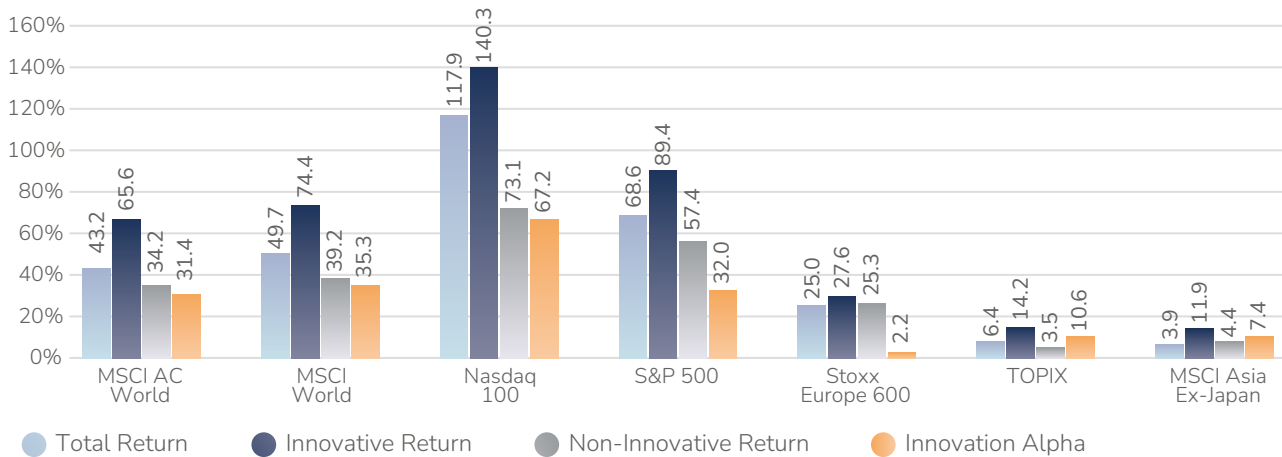
As may be expected, the stronger the earnings growth, the stronger the performance. More surprisingly, however, is that for indices that are generally thought of as having a strong innovation focus, such as the Nasdaq, our innovation screening delivers the highest alpha. Looking at earnings growth, the “non-innovative” portion of the Nasdaq is notably negative.

This picture shows that **for investors looking to benefit from innovation, it is crucial to ensure that innovation efforts ultimately materialize in higher revenues and profits**. Not all innovations are created equal.

Looking ahead, in a less multiple-expansive market environment, investors are increasingly focused on earnings. **A score for realized, applied innovation may be the key factor missing in their screen**.

Figure 2

### Innovation Alpha for Key Indices since December 2017



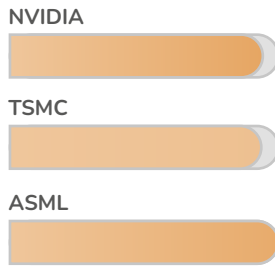
Source: TSG, FactSet

### MARKET COMMENTARY

The first quarter of 2023 was marked by significant shifts in market sentiment and investor focus. The early part of the quarter, investors were optimistic that inflation was under control, and the Fed might cut rates by the end of the year. However, as the quarter progressed, data showed that inflation was stickier than expected, leading to concerns that the Fed might have to raise rates for a longer period. More recently, investors turned their attention to the health of the banking sector and the possibility of a credit crunch warranting Central Banks intervention.



## Current Singularity Innovation Score



The Singularity Innovation Score (SI-Score) represents the percentage of a company's revenues associated with innovation. It reflects a company's ability to create innovation revenues vs other/commoditized business and cash flows, and its ability to participate in technological evolution. Changes in the SI-Score are just as important as the absolute score. A company's SI-Score relative to its overall GICS sector SI-Score can say a lot about the company's competitive standing and ability to gain and maintain market share. Regional SI-Scores can be used to evaluate a market's innovation power, as well as gauge companies' standings in different regions. We re-evaluate the SI-Scores with each rebalancing in May and November.

Despite the back-and-forth movements in sentiment, the stock market performed well (+7%). There was a reversal of some of the trends seen in 2022. Technology and communication services stocks bounced back strongly, while more defensive sectors like healthcare and utilities struggled. Value stocks, in general, lagged behind growth stocks.

### Innovation equities in context

Against this backdrop, the Singularity Index™ (Figure 3) recorded a very strong quarter with a net return of +16.3%, outperforming the MSCI All Country World Index (MSCI ACWI) which returned +7.3%. The Singularity Index benefited primarily from its exposures in Compute Power (e.g., advanced logic semiconductors and equipment), Big Data (e.g., cloud computing), and Extended Reality (e.g., mobile gaming). The top performing Singularity Sectors during the first quarter of 2023 were Compute Power (+37.9%), Blockchain (+24.3%), and Internet of Things (+20.8%), while Bioinformatics (0.0%), and Advanced Materials (+6.3%), were the only sectors lagging the overall equity market.

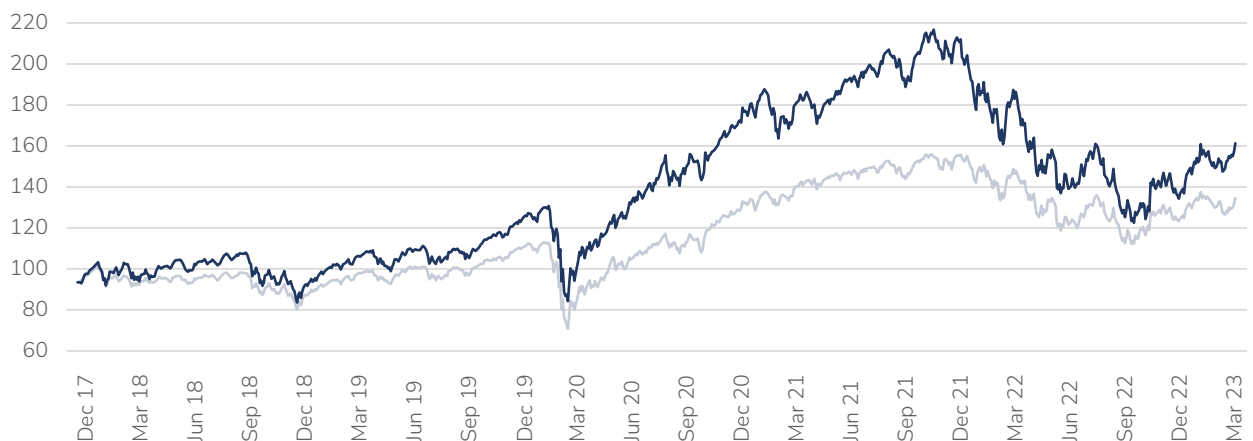
At the stock level, the top three contributors were NVIDIA (NVDA US, +90.1%, SI-Score: 98), TSMC (2330 TT, +20.4%, SI-Score: 97), and ASML (ASML NA, +26.2%, SI-Score: 100), all of which are in our Compute Power sector. The three companies remain leaders in the most advanced design and manufacturing of logic semiconductors, which are instrumental to Cloud and AI/ML expansion, as touted by Singularity Think Tank experts.

The largest detractors were Danaher (DHR US, -4.9%, SI-Score: 84), Johnson & Johnson (JNJ US, -11.6%, SI-Score: 13) and Abbott (ABT US, -7.3%, SI-Score: 53) within our Bioinformatics and Advanced Materials sectors.

Since inception, the Singularity Strategy has delivered a compelling gross return of +64.4% (+9.9% p.a.) vs the MSCI ACWI's return of +39.0% (+6.4% p.a.). Over the past years, our innovation-centric approach has offered investors exposure to companies generating superior revenue growth and resilient earnings from innovative technologies. Many of the applied innovations we focus on experience an accelerating growth in demand. One good example is the latest generation of generative Artificial Intelligence (AI), increasingly at the center of general public attention, which we capture across its value chain from Compute Power and through Big Data to the end applications in AI and Bioinformatics.

Figure 3

### Singularity Index™ Performance since Inception 2017



— Singularity Index NTR

— MSCI AC World NTR

NTR: Net Total Return | Source: TSG, FactSet



## ABOUT THE SINGULARITY GROUP AND THE SINGULARITY INDEX



We work closely with the Singularity Think Tank, a network of industry practitioners and academics with deep insights into innovation value chains. Their input forms the foundation of our proprietary innovation scoring system.

The Singularity Group (TSG) makes applied innovation investable in listed equities. We are the initiator of the Singularity Index™ (Bloomberg ticker: NQ2045), a global, all-sector benchmark and gold standard for applied innovation. The Singularity Strategies include [The Singularity Fund](#) (UCITS Lux), [The Singularity Small&Mid](#), and the [Singularity Reshoring](#) Portfolio. TSG works closely with the Singularity Think Tank, a network of entrepreneurs and academics with deep insights into innovation value chains. Their input forms the foundation of our proprietary innovation scoring system that quantifies the engagement of companies within a set of curated Singularity Sectors worldwide across all market capitalizations and industries. The Singularity Innovation Score defines how much value listed companies are generating through applied innovation. For more information, please visit [www.singularity-group.com](http://www.singularity-group.com) or contact us at [info@singularity-group.com](mailto:info@singularity-group.com).

### IMPORTANT LEGAL INFORMATION

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