Seeking Singularity

Full Year 2018

The Singularity group

UPCOMING EVENTS

UP NEXT January 25, 2019, Panel and Lunch @ Baur au Lac Zurich, 11.30am

Expert Access: Space - Launching Into 2019

Featuring the Following Executives: Collin Lee, General Dynamics; Rainer Horn, SpaceTec Partners ; Kyle Acierno, ispace

Sign up: events@singularity-group.com

NEW March 28, 2019, Lunch @ Baur au Lac Zurich, 12pm

Expert Access: Virtual & Augmented Reality - Brave New Worlds

Featuring: Lukas Schleuniger, Founder of Red or Blue Labs

Sign up: events@singularity-group.com (Members: Free | Non-Members: 70 CHF)

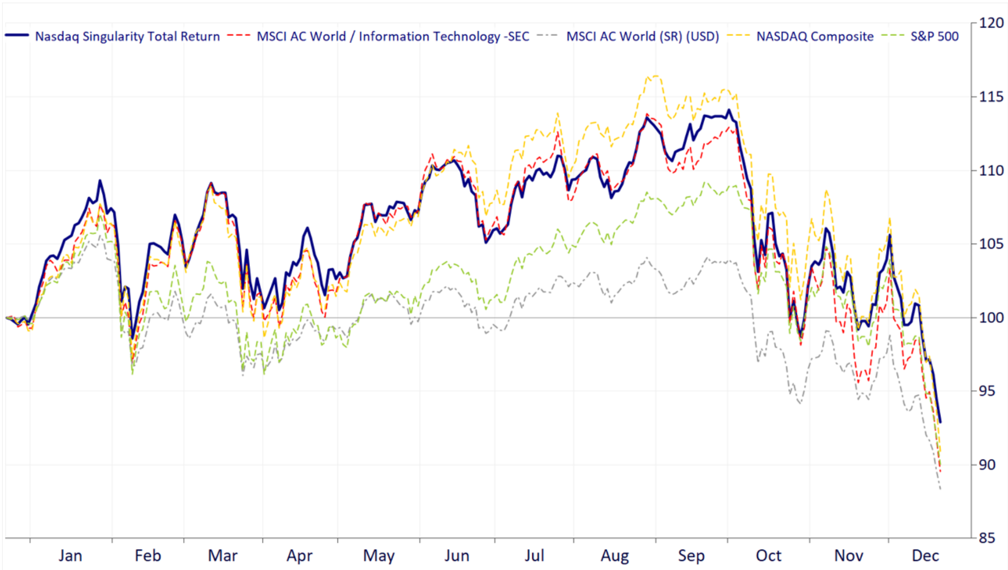
SINGULARITY PERFORMANCE: A Strong First Year for the NSI

Monthly Nasdaq Singularity Index NSI (NQ2045) vs. benchmarks: December 21, 2018 marked the first anniversary of the Nasdaq Singularity Index (NSI, NQ2045). During this period, the **NSI beat peers and benchmarks despite a very tough market for equities. The NSI ended the period -7.11%**, vs the Nasdaq Composite: -9.08%; S&P500: -9.98%; MSCI AC World Technology: -10.83%; MSCI AC World: -13.00%. See below for further details on constituent contributions.

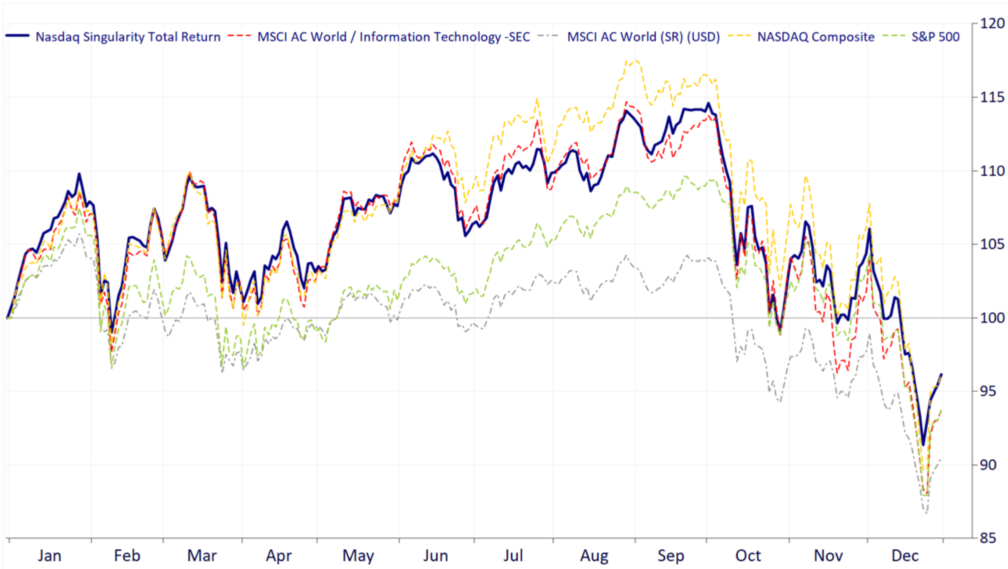
Full year 2018 tells a similar story: The NSI ended 2018 at -3.85% outperforming the Nasdaq Composite: -3.88%, the S&P 500: -6.24%, the MSCI AC World Technology: -6.26% and the MSCI AC World: -9.49%. **Two key characteristics that differentiate the NSI significantly from peers are**: The ability to participate in strong market momentum through exposure to stable, yet nimble and high-growth equities, particularly in the mid-cap space, along with resilience in difficult markets, relative to peers, through high-quality large-cap companies that incorporate a focus on long term innovation and the integration of new technologies. Also, innovation has become the target of M&A. The NSI has experienced 11 acquisitions, boosting performance further. We expect these strengths to further materialize through 2019 and beyond.

For the first 3 months, the Singularity Fund (MFSIND1/MFSIND2 -13.53%) was a differential performer to all peers except the MSCI AC World (-12.81%) reflecting the challenge to equities in 4Q18 and into 2019. The intrinsic quality filters of the Fund have helped it outperform both Nasdaq Composite (-17.19%) and a slew of Tech, Sector and other undiversified strategies. As always, the broad constituent holdings and agnostic geographic reach of the Fund proved to be key performance drivers.

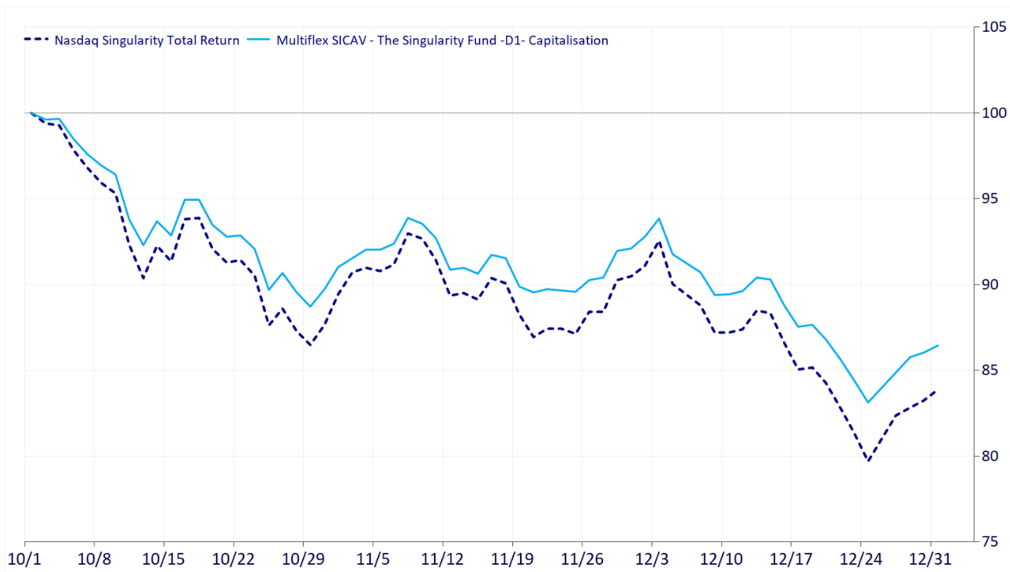
Performance 1 Year: Dec 21 2017 - Dec 21 2018



Performance Full Year 2018



Performance Singularity Fund - since Launch per End 2018



Source: FactSet

SINGULARITY SECTORS

Top Sector Performers: Top Performing sectors in 2018 were Bioinformatics (+6.08%) and **Neuroscience** (+2.33%). Healthcare and Biotech sectors had mixed performance in 2018, thus stock picking mattered. The NSI was well exposed to companies with strong product pipelines that were able to position themselves firmly in future innovation topics. Boston Scientific is primarily known for innovation in cardiovascular stents and Illumina is a leader in analysis tools for genome sequencing. **Boston Scientific (BSX; +42.56%)** and **Illumina (ILMN; +37.27%)** were the strongest contributors in Bioinformatics. For Neuroscience, **Sarepta Therapeutics (SRPT; +96.14%)** led the pack, followed by **Eli Lilly (LLY; +37.01%)**.

The weakest sector for the year was **Nanotechnology** (-35.88%), primarily due to weakness in the chemicals industry overall in 2018.

SINGULARITY STOCKS

Along with Sarepta Therapeutics, Australian Big Data company **Altassian (TEAM; +95.47%)** showed remarkable performance through 2018, recovering to nearly October highs by year end. Atlassian is best known for its cloud based, collaborative work platforms Jira, Confluence and Trello (which it acquired in 2017). It's also known for its continued investments in future technologies and even more so for its diligent removal of older software systems from its shelf.

AMS AG (AMS; -71.91%) was the worst performer in the NSI portfolio and was ejected from the Index after rebalancing in November. As a reminder, the methodology permits companies with higher growth in Singularity Sectors to eventually outrank companies not keeping up. **This results in a natural replacement effect favoring companies with higher future potential.** For further detail on this, please do not hesitate to contact us.

SINGULARITY OUTLOOK: A Contrarians Feast?

What's undervalued, what's not, and what's cheap for a reason? Those are some of the questions one asks when looking to buy equities. It's not just about being exposed to the right theme or sector, it's about buying and selling at the right time. Timing may be the single most difficult thing in investing, and rarely does one catch that 'perfect moment.' **The TSG approach is all about being early ("on time") rather than late**, and about a **long-term view** where that absolutely perfect timing matters less than in a trading-oriented strategy.

When the rest of the market fasts, the contrarian feasts. It can be expensive (from an opportunity cost perspective) to be cute when timing the market. It's easier, we believe, with a longer investment timeframe, and **when one is willing to take a lonely road: in other words, to look where no one else does, when no one else does**. This is what everyone wants to do, but funnily, nobody wants to be lonely, and the confirmation of the wider market often takes a while, making that lonely road even more uncomfortable to stay on.

So are you willing to be alone for a while?

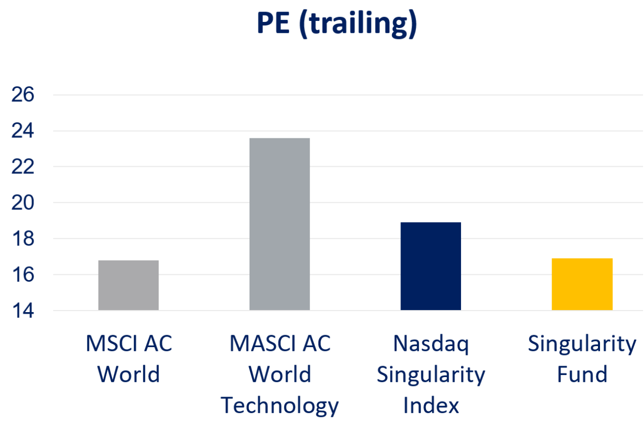
For those interested in being a loner, here is nevertheless one key item of our thought process explained: While 10-20% revenue generation from Singularity Sectors leaves 80% of the business outside of our scope, market participants with predominantly short- mid-term views will punish perceived low exposure to growth sectors and technology with lower valuation. Whether we are in a recession or not, their relative valuation will usually be cheaper at any given time. **Where we disagree with wider market participants is that we believe these 10-30% of any business have significantly more value creation potential than priced in. And we have been proven right**.

How is this showing up in the NSI portfolio? Of the 300 equities in the NSI, the average exposure to Singularity Sectors is 52%. The market-cap weighted average exposure is 41%. **The number of companies with below 30% exposure to Singularity Sectors is 152** - roughly half of the Index. This is relevant for one important reason: These are the companies that have demonstrated an ability to allow innovation and exponential technologies to become a significant part of their business model - up to 30% - **but this number is not significant to most equity analysts, and with that, the value creation potential in these equities is not priced in. This is where significant upside potential lies: where the market deems it irrelevant. No matter what phase of the market we are in, these are the points of interest for the NSI strategy**.

What are valuations telling us? In our view, there is **only one area that is still showing very high valuations despite the recent correction: Technology**. The MSCI World Technology Index is still trading at a (trailing) PE valuation of 23.6x, 40% higher than the MSCI AC World Index at 16.7x. Within Technology, particularly mid-cap pure-play companies in currently 'en vogue' sectors are showing valuations above 100x earnings. **The reason why is that investors want to be in the 'hotspot', in the future technologies, and often don't know where else to look than the usual suspects, market leaders, and media-favorites** with strong marketing budgets and high capex.

The NSI does not actively filter away highly valued companies, but the methodology allows companies outside the technology space with emerging exposure to innovation to replace them - resulting in only 35% Technology exposure vs 90-100% in any Tech Strategy and a portfolio valuation of 18.8x PE.

The Singularity Fund further filters away exorbitant valuations by Singularity Sector - resulting in only 31% Technology exposure and a portfolio valuation at only **16.9x earnings**. With that, **the Singularity Fund selects for value potential related to innovation, early on, in stable, Blue Chip companies globally and in all sectors.** For those willing to be alone for the beginning, a strategy worth considering vs traditional global equity portfolios or pure-play Tech!



A tale of two camps in 2019:

Current market volatility appears to reflect sentiment torn between 1) momentum focused ETFs/Algos/high-frequency Traders, and 2) the more fundamental investors who can see beyond short-term cycles and trades.

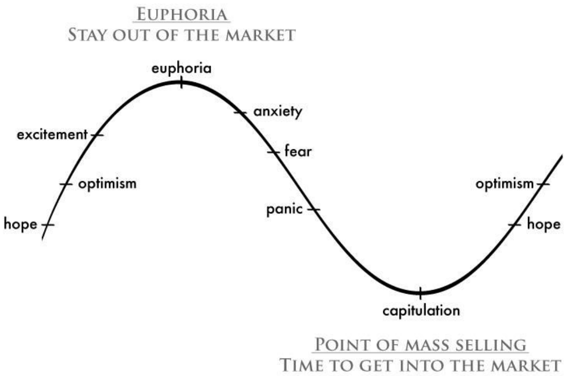
In our view, a well diversified approach to long term investment seeks improvements at the individual equity level and has performance potential both in up and down markets, where the market rewards the potential to capture greater margin in an evolving marketplace but also the ability to increase efficiency and lower costs during leaner periods. **This serves to protect and reward investors in both bear and bull markets.**

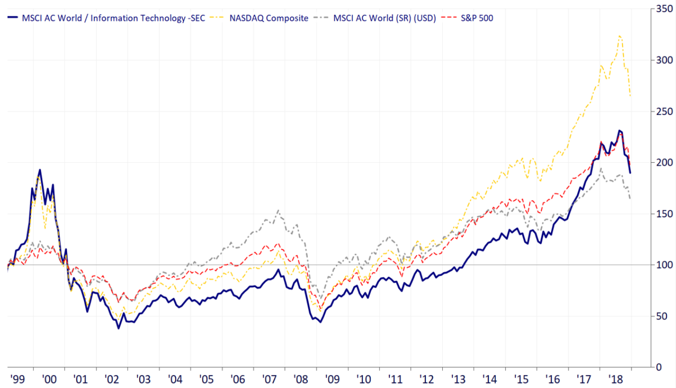
With regard to the broader market sentiment, while we acknowledge that the market has indeed changed in composition due to ETFs, Algorithms and extreme high frequency trading, **company and macro fundamentals still play out over cycles**. Even if these are shorter, they still exist and are evident in equity performance. We are optimistic about the global economy and the short, medium and long-term prospects **for the right set of equities**.

A look at market cycles and timing for equities - our two cents

Looking at the next diagram: Most investors will pride themselves in believing they can buy at the point of capitulation and sell at the point of euphoria. Still, most investors don't time the market perfectly. Instead they fall into the following category: Buying at the point of optimism and excitement and selling between fear and panic, practically netting out - which is better than losing, of course.

A Contrarian's View of the Market: where are we now?





Source: TSG. FactSet

We don't practice the art of 'market timing' in that sense. Again, **if anything, we try to be early in any one equity at any point in time**.

While not part of the investment process, our view on timing and the overall market for equities is the following: Looking at the current situation and sentiment, we could well be turning into a renewed phase of hope and optimism, having skipped or shortened a capitulation for lack of an overall economic situation that would warrant a recession. If not, in other words, if the economic situation does manage to follow the geopolitical one, we seem to be heading straight for the phase between panic and capitulation.

Looking at our portfolio and its valuation, it is **cheap vs the rest of the market**. And assuming investors will not be able to time that exact perfect moment of capitulation to buy, **now may well be that 'too early' moment or even the right moment to buy into a long-term equity strategy, especially one that seeks continuous improvement**.

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— Contact Us

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