Seeking Singularity

Performance

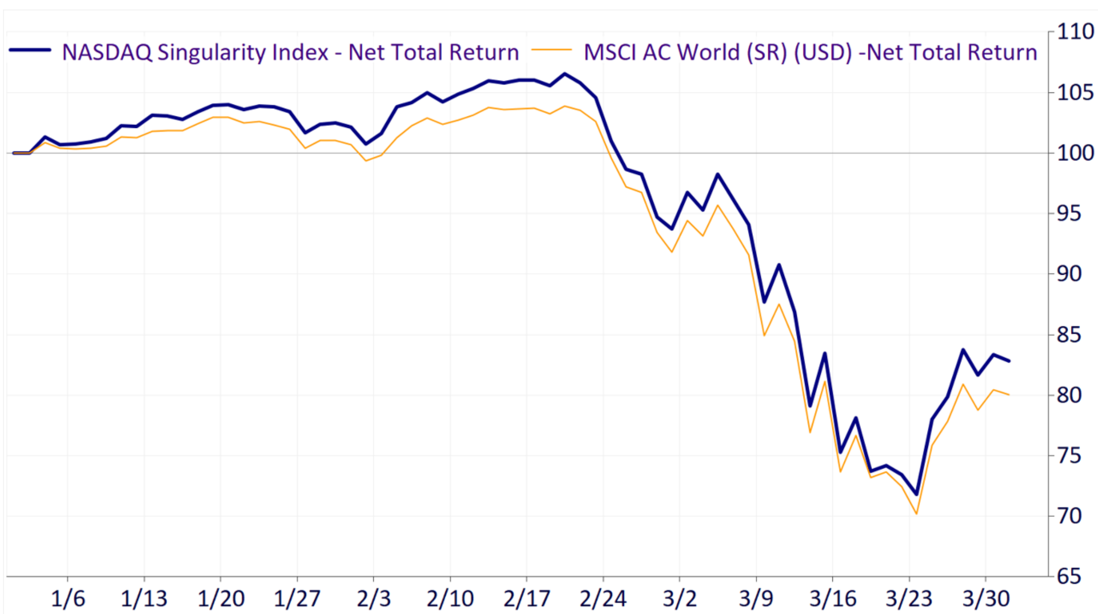
March 2020

The Singularity group

SINGULARITY PERFORMANCE - Q1 2020

Singularity Index SI (NQ 2045) vs. benchmarks: March was an extraordinary month by any measure with financial markets crashing at an unprecedented speed. Despite staging an impressive bounce during the last week of the month with the best three-day stretch since the 1930s, **the Singularity Index declined by -10.5%, but strongly outperformed the MSCI AC World Index** (MSCI ACWI), which lost -13.5%. All markets corrected heavily around the globe: S&P 500 -12.4%, MSCI Europe -14.3%, MSCI AC Asia Pacific -11.6%, SMI -3.9%. **On a YTD basis the SI is down by -17.2% vs MSCI ACWI (-21.4%)**, S&P 500 (-19.7%), MSCI Europe (-22.6%), SMI (-11.0%), MSCI AC Asia Pacific (-19.3%). The correction marks the fastest decline on record. It took the S&P 500 a mere 15 days to enter a bear market and drop by more than 20% from its previous peak, trumping both the sell-off during the Great Depression in 1929 as well as the crash in October 1987.

Performance YTD Singularity Index vs. MSCI ACWI per end March 2020



Compared to the MSCI ACWI, the SI had positive contributions from both stock selection (+1.2%) and sector allocation (+1.8%). In March, stock selection was most positive in Financials, Communication Services and Materials, driven by relative overweights in Ping An Insurance Group, Nintendo, Rio Tinto, and Nvidia relative to the MSCI ACWI, whereas overweights in Boeing, Airbus and Coca Cola detracted from returns. From a sector perspective, overweights in Information Technology and Health Care as well as an underweight to Energy were beneficial while an overweight in Industrials hurt performance. **YTD and for Q1, stock selection and sector allocation accounted for +2.1% each with respect to the outperformance vs MSCI ACWI.**

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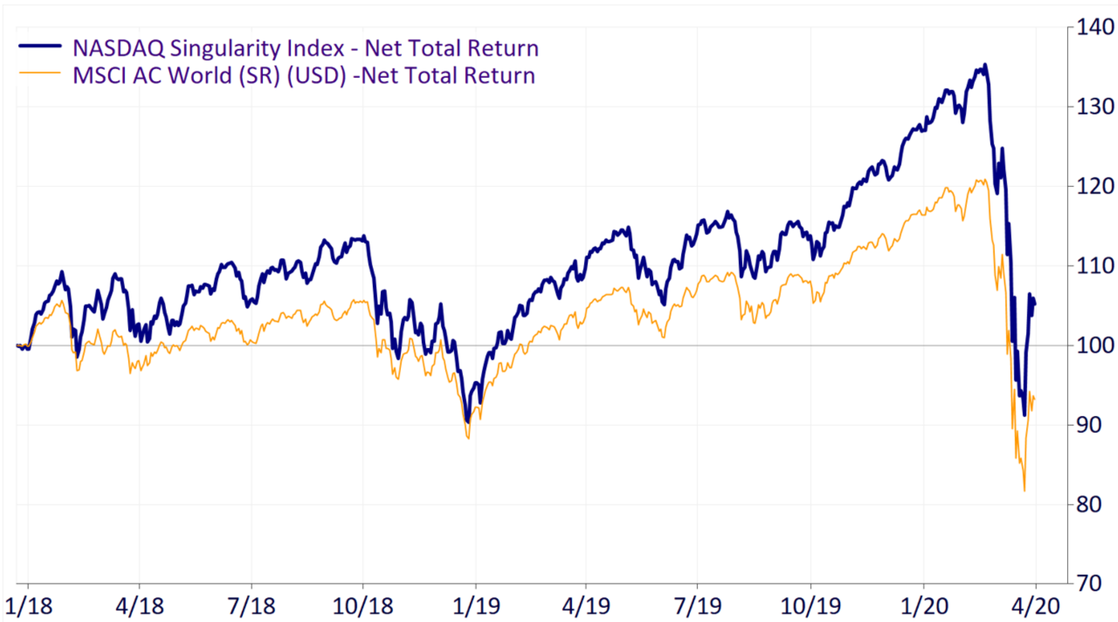
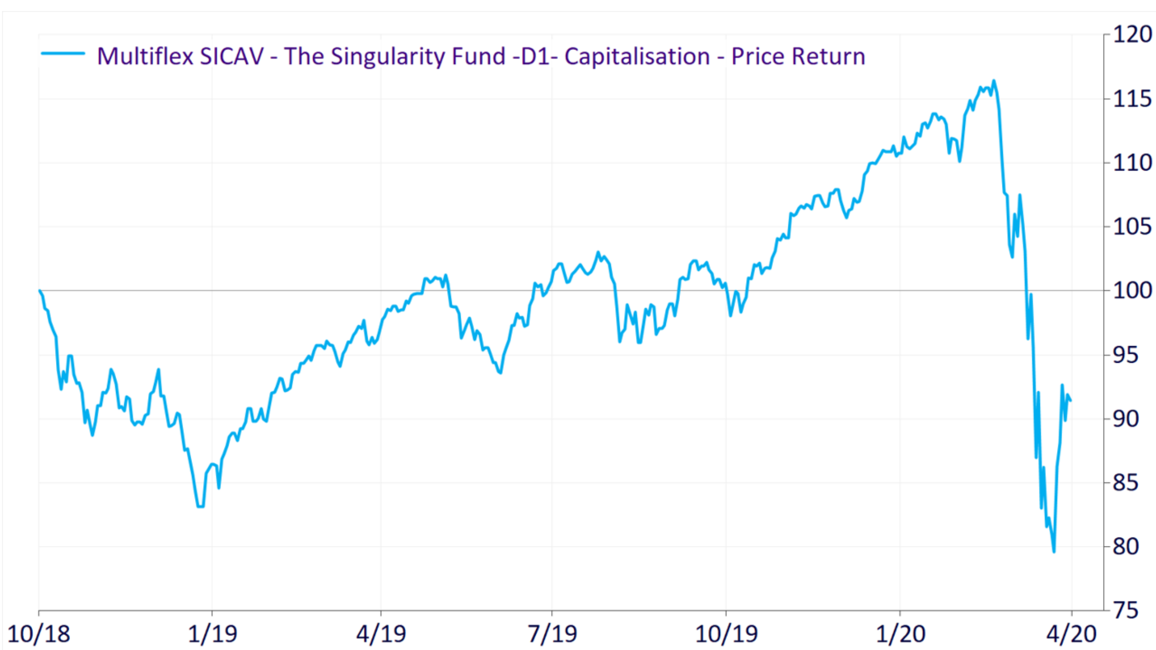
Performance Since Inception: Singularity Index vs. MSCI ACWI per end of March 2020



The Singularity Fund outperformed the SI by 48bp on a gross performance basis over the month. Since the end of January we have been actively reducing the fund's tracking error vs the SI to a current ex-ante tracking error of 0.65% by optimizing portfolio positions and increasing the number of holdings to 181 from 123 at the end of January.

Performance Singularity Fund - since Launch per end March 2020



Source for all charts: FactSet

Singularity Sectors: Top performing Singularity Sector in Q1 was **New Energy (+4.8%)**, which was held up by a strong performance from Tesla (TSLA, +25.3%), largely driven by an extraordinarily positive February performance based on a strong 2019 results announcement. Worst performing Singularity Sector by a notable margin was **Space (-36.5%)** with unsurprisingly negative performance driven by investors punishing industrials and aerospace companies particularly hard in the COVID19 crisis.

Singularity Stocks: Best performing stocks for the month were **Citrix Systems (CTXS, +37.3%)**, who profited from increased demand for remote access work-from-home solutions, and **Nintendo (7974 JT, +16.4%)** whose stock price gained thanks to strong demand for its consoles and games as a result of quarantining. **The biggest performance attributions came from Amazon (AMZN, +0.07%), Citrix Systems (+0.05%), and Nintendo (+0.04%).**

The worst performer in absolute terms was **Spirit Aerosystems (SPR, -54.7%)** suffering from the slump in air travel and a cut in growth and demand estimates. **Schlumberger (SLB, -52.0%)** declined in sympathy with an oil price in free fall to levels last seen during the 1973 OPEC embargo and related supply/demand worries. The biggest relative performance detractors were Boeing (-0.72%), Taiwan Semiconductor Manufacturing (-0.49%), and Airbus (-0.46%).

A VIEW ON RECENT DEVELOPMENTS

March was truly a historic month in the history of financial markets. Circuit breakers were breached multiple times throughout the month due to once-in-a-generation sized moves. The last time this happened was on December 1 2008. The velocity of the market plunge was the fastest on record and the VIX closed at an all-time high of 82.7 on March 16th, signalling maximum levels of panic. For the first time in history the entire US yield curve moved below 1%. Credit spreads exploded and stress in funding markets became rampant. Even traditional safe havens including US treasuries, USD/JPY or gold weren't spared from the market mayhem and sold off in the eye of the storm as investors scrambled to create liquidity, meet margin calls and tapped into credit lines.

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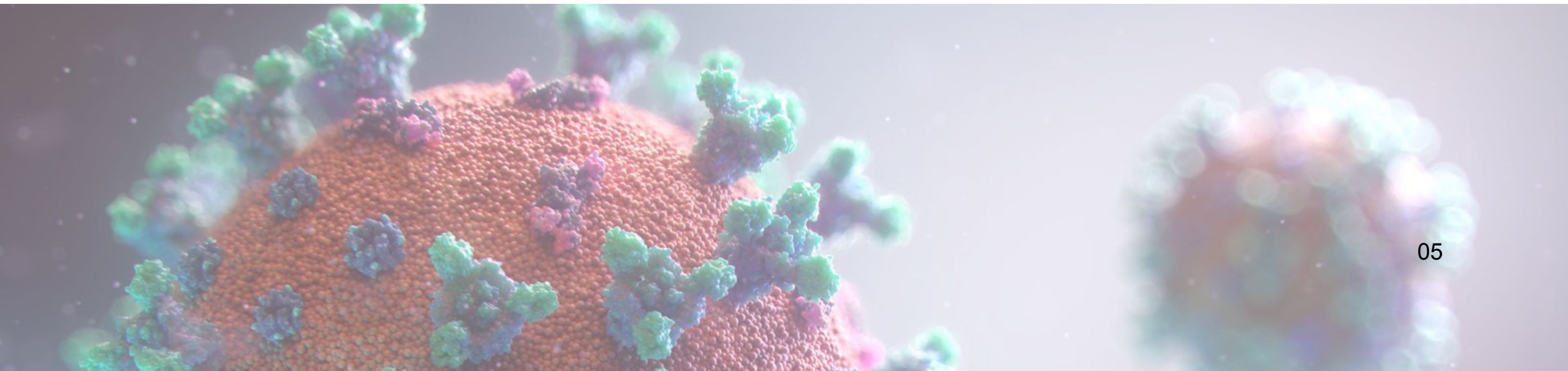
Against this background policymakers announced large monetary and fiscal stimulus packages and vowed to “do whatever is necessary” to calm markets and ease the economic pain. **The extent of these measures and the speed at which they were announced show that they have learned important lessons from past crises.** As a result, during the last week of the month, stock markets staged the strongest three-day rally since the 1930s! **Markets switched from full-on panic mode to fear of missing out.**

While the virus is causing a sharp plunge in economic activity, with our current knowledge, we estimate it is unlikely to leave a sustained long-term economic impact. That said, it will certainly take time to restart supply chains and for people to go back to a sense of normalcy with respect to discretionary spending, especially pertaining to social interactions and traveling. So whether we’ll see a V-, U-, or swoosh-shaped recovery is yet to be seen. The former seems supported by signs that economic activity in China is quickly returning to normal as Q1 drew to a close and is further encouraged by a peak in new infections in a number of European countries. The latter is coming more and more into play as questions arise as to how quickly an economy coming out of the deep freezer can be revived, how severe the company default picture becomes, how well economies can deal with a surge in unemployment, and to what extent health care systems are able to digest critical cases. What’s for sure is that the outlook would be a lot more dire were it not for decisive and aggressive monetary and fiscal policy easing. The question, however, is, is it going to be enough?

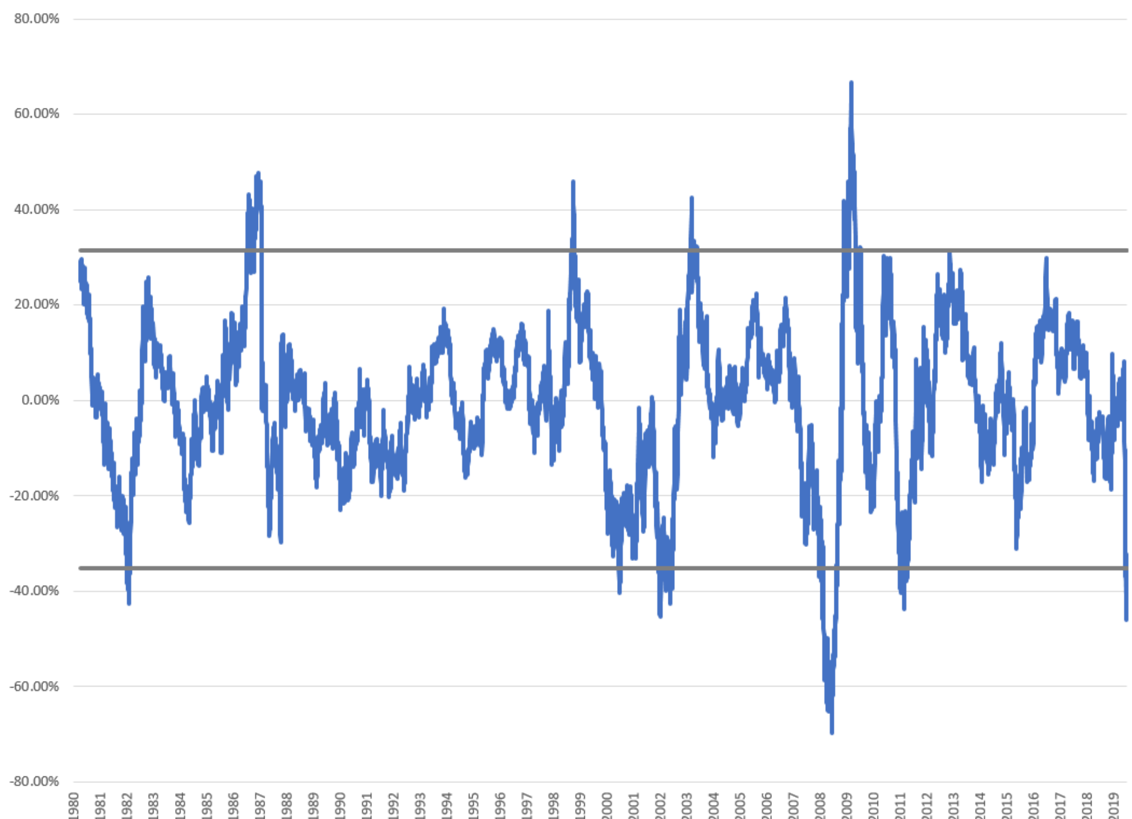
This time, it’s different - an opportunity for the selective

The current recession literally came out of the blue and wasn’t triggered by an excessive endogenous build-up of an imbalance in the economy as is typically the case, which also speaks for a more benign outcome once we get through this difficult phase. If history is any guide, the 1918-1919 recession during the Spanish flu lasted 7 months, shorter than the average US recession of 13 months. With volatility likely to remain elevated we may well retest the recent lows in global stocks over the coming weeks as markets potentially start pricing in further worsening news. Nevertheless, barring significant knock-on effects, it seems reasonable to assume that towards the second half of the year stock markets can recover from this and **despite the sell-off being an indiscriminate one, the recovery will reward the selective amongst us.**



<u>Asset Allocation:</u> From an asset allocation perspective, compared to bonds, **stocks reached attractiveness levels last seen in 2011 and 2008**, typically leading to a prolonged period of outperformance for stocks. Importantly, the global dividend yield of approximately 3% compares to a yield of 1.2% on 30-year US treasuries.

Total Return Ratio: Global Stocks vs US 30y Government Bonds (12m-rolling with 2 SD bands)



Two tailwinds to economic activity should also not be forgotten: the fall in yield is decreasing the cost of capital for households and limiting the pain inflicted on the corporate sector as spreads widen and the collapse in oil prices is equivalent to a tax cut for households and companies that consume energy while of course it is a drag for the energy sector and may hit economies like the US disproportionately. Furthermore, **equity positioning is still close to financial crisis lows**. Systematic strategies are all extremely underweight equities and allocations from volatility control funds are also very low.

Source: Bloomberg, The Singularity Group

[As we've alluded to in our recent blog post dated 24th March](), we think it makes sense to get back into the market with a staggered investment approach based on a well-devised plan.

Since the 1950s the average time to recover from a -20% drawdown from a previous peak was approximately 2 years. On average, markets recorded a maximum drawdown of -35.5%. Trough P/E ratios were 12.4 historically with an average US 10y treasury yield of 6.3% at the beginning of the drawdown. On 23rd March the S&P 500 had declined by -33.8% and reached a P/E ratio of 14.7 before bouncing heavily into the month-end. Notably, the 10y yield stood at 1.6% prior to the sell-off, justifying a generally higher level of P/E ratios in general based on relative attractiveness arguments. Investors who bought into the market at the point of a -20% drawdown were profitable on average over the following 3/6/12/18/24/36 months. Wherever prices go from here, we think it makes sense to continue to steadily execute on a dollar cost averaging strategy, especially on days the markets make you feel most miserable. Meanwhile, confirmed cases in Europe are leveling off and new infections have peaked in Italy about three weeks after China. Other countries are following similar paths as social distancing is bearing fruit.

Bear Markets & Recoveries in the S&P 500 Index

									Performance after dropping more than -20% from peak					
Peak	Recovery	Length (years)	Max DD	Time to Recovery	P/E at Peak	P/E at Trough	Ratio	10Y UST Yield at Peak	3M	6M	12M	18M	24M	36M
02/08/1956	24/09/1958	3.1	-21.6%	0.9	13.8	12.2	88%	n/a	5.2%	9.3%	31.0%	47.1%	44.7%	38.6%
12/12/1961	03/09/1963	2.5	-28.0%	1.2	22.4	15.4	69%	n/a	7.3%	11.2%	26.1%	30.2%	44.8%	59.3%
09/02/1966	04/05/1967	1.8	-22.2%	0.6	18.0	12.9	72%	4.7%	7.9%	17.6%	24.6%	19.6%	36.4%	25.5%
29/11/1968	06/03/1972	4.7	-36.1%	1.8	18.0	13.2	73%	5.8%	-4.9%	-8.9%	10.7%	13.3%	19.9%	35.9%
11/01/1973	17/07/1980	10.9	-48.2%	5.8	19.5	7.5	39%	6.4%	0.7%	-9.2%	-28.1%	-6.3%	-6.3%	6.5%
28/11/1980	03/11/1982	2.8	-27.1%	0.2	9.1	7.1	77%	12.7%	3.0%	1.3%	32.1%	46.6%	39.9%	63.5%
25/08/1987	26/07/1989	2.8	-33.5%	1.6	22.5	14.7	66%	8.7%	11.0%	15.8%	26.4%	42.5%	62.4%	48.8%
01/09/2000	23/10/2006	8.9	-47.4%	4.0	28.4	17.3	61%	5.7%	6.6%	-6.8%	0.1%	-22.8%	-24.2%	0.0%
09/10/2007	02/04/2012	6.5	-55.3%	3.1	17.5	11.1	63%	4.6%	-26.4%	-28.2%	-24.2%	-4.0%	-6.5%	14.7%
19/02/2020	ongoing	?	-33.8%	?	22.3	14.7	66%	1.6%	?	?	?	?	?	?
	Average	4.9	-35.5%	2.1	19.1	12.4	68%	6.3%	1.2%	0.2%	11.0%	18.5%	23.5%	32.5%

Source: Bloomberg, The Singularity Group

Stock Selection (or where we come back into play): We believe that at some stage we will go back to normal while the definition of what we call normal will change. Now **Charles Darwin's quote resonates more than ever**:

"It is not the strongest of the species, nor the most intelligent, that survives, but the one that is most adaptable to change."

When considering adaptability or survivability, two things come to mind: **the ability to innovate and the ability to survive through a liquidity crisis and finance that innovation**. Selecting for innovation within business models is at the core of our strategy - on the former, we are naturally covered. A quality and liquidity check on our portfolio confirms that also the latter is in check: **vs the MSCI ACWI, the Singularity Fund fairs particularly well on overall profitability, return on capital, and the ability to stem short- to midterm crisis with sufficient liquidity**.

Quality Check of the Singularity Fund vs MSCI ACWI

Indicator	Singularity Fund	MSCI ACWI	+/-
Return on Capital	9.1	5.8	3.3
Return on Common Equity	16.7	11.7	5.0
Return on Assets	4.2	2.0	2.3
Operating Margin	12.9	11.4	1.5
Net Debt to Shareholders Equity	38.2	58.7	-20.5
Total Debt to EBITDA	2.4	3.6	-1.2
Profit Margin	10.3	8.2	2.1
Price to Earnings Ratio (P/E)	21.5	15.5	6.1
Dividend Yield	2.1	3.0	-0.9
Quick Ratio	0.89	0.68	0.21
Current Ratio	1.34	1.20	0.14

The **Singularity Fund is experiencing some light inflows** in recent weeks and with this is buying the current fund portfolio: **innovation equities across all sectors**.

Source: The Singularity Group, Bloomberg

SINGULARITY INSIGHTS

In light of recent developments, our team has socially distanced but not stopped metaphorically putting our heads together. We'd like to draw your attention once more to our **Seeking Singularity Blog**. In our latest post, we explore if now is the right time to invest and why innovation strategies will outlive the (corona) crisis. Please also **have a look at the press section of our website** where we share the latest coverage on us. Media such as ***Focus Money*** and ***Mein Geld*** picked up our thoughts on the recent market developments and the results of our "Exponential Technologies in Europe" scoping study. Exceptional situations require exceptional actions, that's why we are currently working on a limited mini video series giving our popular "Expert Access" events a different and temporarily virtual stage. Watch your inboxes.

Our research and analysis efforts are now stronger than ever, not last driven by the latest new-joiner to our team: **Aleksandra W. Gadzala, PhD** now heads our research efforts on larger longer term, but also short term Singularity topics. She will assure a deeper and more consistent exchange with our Expert Advisory Board - of which she has been a member since 2018 - and substantially support the investment office with insights and analyses. Please join us in welcoming Aleksandra on board and read more about her here.

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