Innovation Funds by Serafin Asset Management

Invest in European and Global Innovation Champions

What is innovation?

Innovation refers to the implementation of newly developed or improved products, services, processes, or business models. For an innovation to qualify as a qualitative innovation, the focus must be on the long-term profitability of the innovation. Companies that focus on a qualitative innovation strategy try to keep profitability high through innovation and to cover research and development expenditures from existing cash flow and, if possible, to renounce debts.

Why is innovation important?

The return on equity (RoE) of companies typically declines over time. The reason for this is often a lack of continued investment and a resting on existing successes. In contrast, particularly innovation-efficient companies show a significantly lower average decline in their RoE over the course of time. This gives innovative companies an advantage over the broad market and enables them to compete more effectively. Technological change is increasingly affecting all sectors of the economy. Innovative companies can consolidate or expand their market positions in this change through regular new products and services or improved processes. Innovative companies also frequently realize new business models and markets and can thus open up new or additional sources of revenue.

How is innovation measured?

Our quantitative model enables us to compare companies from different industries. Using a mathematical and purely quantitative approach, the result is a ranking list that ranks the analyzed companies in terms of their innovation efficiency. This can be visualized in the so-called "Efficient Frontier" by looking at the input and output factors. (Fig. 1)

The adaptation of trends is important

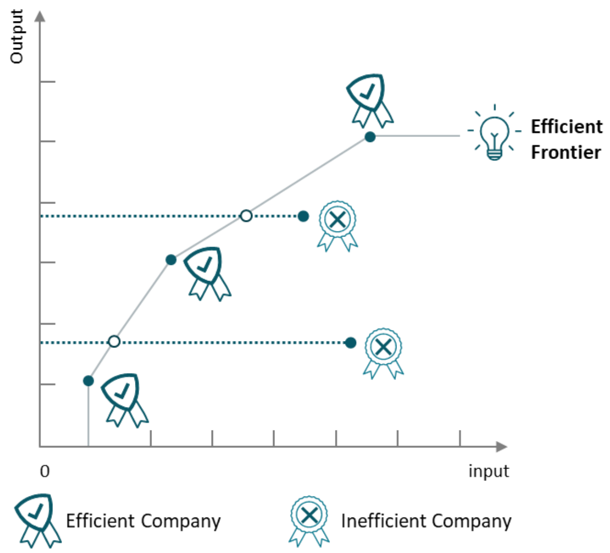
In addition to innovation efficiency, it is also important for companies to anticipate existing and emerging trends. Products and services must be adapted to new customer trends. Likewise, the incorporation of new technologies into products and processes often offers great potential. This can refer to new production technologies as well as to the integration of, for example, new sensors or AI solutions in new products. It is important that companies identify new trends at an early stage, monitor them internally, and then align them with their technology and innovation roadmap.

This can ensure that innovation-efficient companies remain innovative in the future by adapting relevant trends. New trends can be identified through Big Data evaluations, for example.

Innovation-efficient companies recover faster

Our results show that, on average, innovation-efficient firms fare better in economic crises than firms with low innovation efficiency. This is also one of the main characteristics of the ALPORA Innovation Europa fund: Since the fund was launched in October 2014, one of the fund's distinguishing features has been that its recovery time after market declines have been significantly shorter on average than that of the overall market, with comparable volatility.

Fig. 1: Efficient Frontier



Source: Serafin

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Fund profile: ALPORA Innovation Europe

The ALPORA Innovation Europe Fund invests in Western European listed companies with above-average innovation efficiency. The equity fund invests across sectors, excluding "utilities" and "financials". The annual portfolio construction and implementation takes place at the beginning of the 2nd half of each year. During the subsequent one-year investment cycle, the portfolio is continuously monitored. Every quarter, the portfolio weightings are returned to their original weightings (so-called rebalancing). The unique Serafin innovation evaluation paired with its long-standing competence in fundamental analysis distinguishes this fund.

Awards

REFINITIV LIPPER FUND AWARDS
2022 WINNER GERMANY

REFINITIV LIPPER FUND AWARDS
2022 WINNER SWITZERLAND

Further information about the fund

Fund profile: Innovation World Large Caps

The Innovation World Large Caps fund invests globally (only in "developed markets") in listed companies that have a high innovation efficiency. The equity fund invests across sectors, excluding "utilities" and "financials". The annual portfolio construction and implementation takes place at the beginning of each 2nd semester. During the subsequent one-year investment cycle, the portfolio is continuously monitored. Every quarter, the portfolio weightings are returned to their original weightings (so-called rebalancing). The unique Serafin innovation evaluation paired with its long-standing competence in fundamental analysis distinguishes this fund.

Further information about the fund

Innovation assessment by the Serafin Innovation Hub

Within Serafin Asset Management, the Innovation Hub is responsible for the development of innovation-focused models and the execution of innovation analyses. Besides, the Innovation Hub provides assessments of the latest technology and innovation trends and their impact on the equity market. The investment process for Serafin Asset Management's Innovation Funds to identify high-quality innovators consists of a three-step process. In the first step, we calculate an "Efficient Frontier of Innovation" using a mathematical optimization procedure, taking into account defined input and output metrics of the innovation process. Thanks to the optimization model, multiple quantitative parameters can be calculated on both the input and output sides in dynamic dependence on the comparison group. This enables an objective comparison of the company's performance. This results in an innovation score for each company, each measured in the context of the investment universe. Moreover, in the second step, the Serafin Innovation Hub conducts a detailed qualitative analysis of the innovators concerning their future viability and coverage of relevant market and technology trends. In the third, final step, the portfolio construction takes place, in which the approximately 30 most robust companies are selected using our fundamental analysis. The focus here is on the stability of the balance sheet, the business model, and the tradability. The company's financial strength should enable the realization of the existing potential. Valuation ratios are secondary for this selection so that companies in young growth phases can also be taken into account in the portfolio composition.

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