

Monthly Report October 2018

Stock markets Correction
Performance Underperformance
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Markets

The relationship between China and the United States constitutes the most important economic relationship in the world. This relationship has been out of balance for the last twenty years because China has benefited much more from it than the US. This explains why the US has changed course under Trump and China is now seen as a rival rather than a partner. The trade war is just one of several measures to slow down China's growth. America has an advantage because China is much more dependent on trade with the US than vice versa. The trade war is estimated to be about four times as expensive for China as it is for the US. It is difficult for the Chinese to fight back effectively. They hoped that their retaliatory measures would get Trump into trouble and that the trade war would be unpopular among the Republican electorate before the mid-term elections. But this calculation did not work out. China will not use the enormous dollar reserves as a weapon because the Chinese central bank and the state foreign exchange office fear the unintended consequences of such a move for their own financial stability. Therefore, the Chinese will continue the trade war as before: with well-calculated retaliatory measures and with simultaneous domestic investments by the government to reduce the costs for the national economy.

Performance

In a weak environment, the share price of Formulafirst Ltd. fell by 10.51%. The MSCI Europe lost 5.41%. The resulting underperformance of Formulafirst Ltd. compared to the MSCI Europe amounts to 5.10 percentage points for the month of October 2018. Since the beginning of 2018, an underperformance of 5.24 percentage points has resulted.

Investments

With +17%, **Dürr's** Homag business unit achieved excessive sales growth in 2017. In H1 2018, Homag reached its limits. A brisk growth in sales was achieved and moreover they realized the changeover to SAP. In addition, the "One Homag" integration program was implemented, standardizing the design of the machines. That was too much of a good thing at once. However, Homag's output has now improved. At the main site in Schopfloch, production is being fundamentally reorganized, and an efficient production system is being introduced to enable further growth. Sales are expected to increase in 2019 with rising margins. The acceleration of sales growth at **Rational** in Q2 2018 came from the chain business. They received a large order from the hotel group Holiday Inn Express, of which 80-90% was delivered by the end of June 2018. Rational also expects good growth in H2, as the basis H2 2017 is relatively low. In addition, all other regions are also developing well. FRIMA's growth in H1 2018 was underproportional to its own expectations because FRIMA's distribution will be integrated into Rational's distribution. As of H2 2018 this will improve after the integration has been completed. Up to now, Rational is satisfied with this decision to merge the distribution activities of FRIMA and Rational. The aim is to enter new markets.

Outlook

The long-standing, and to this extent unprecedented outperformance of the US stock market against all other world stock markets could come to an interest rate-related end: Europe and Asia should thus perform better than the USA. The second most important factor for share prices after the interest rates - profits - should continue to rise in the USA at an annual rate of around 10% for the time being, but profit increases in the single digits - with relatively lower interest rates - are also realistic in Europe, China and Japan for the foreseeable future, providing tailwind for the stock markets.

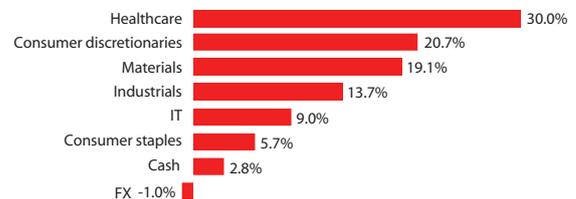
Performance as of October 31, 2018

Net Asset Value	October 2018	2018	3 years	Since inception
CHF 28.87	-10.51%	-12.20%	-0.14%	5.08% p.a.

Share price development as of October 31, 2018 (indexed)



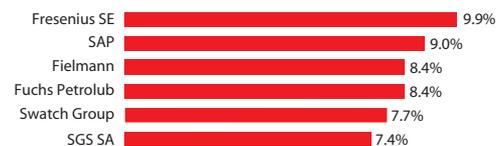
Breakdown by sectors



Country Breakdown



The largest positions



Formulafirst – investing in “smart owners”

Formulafirst: the concept

Investment idea

Experience shows that owners generally invest more successfully than employees. The investment company Formulafirst focuses on Smart Owners as they are known. The investment universe consists of owner-managed companies in Central Europe (D-A-CH).

Owner-managed companies and those that are controlled by owner-oriented groups of investors are generally distinguished by their consistent strategy of long-term and sustainable growth. Since owner-managers have a substantial share of their wealth and, in most cases, of their working time invested in the company, their strategic business orientation includes goals such as maintaining the company's independence, a smooth transfer to the next generation as well as safeguarding and growing the company's assets. The long-term perspective, in some cases spanning several generations, is a major reason why these companies are more focused on their long-term strategic positioning rather than on the short-term maximization of returns.

Investment criteria

For owner-managed companies to be included in the investment universe of Formulafirst, the following conditions must be met: a) headquarters in Central Europe (Switzerland, Austria and Germany), b) listed on a regular stock exchange, c) minimum market capitalization of EUR 100 million, d) managed by owner-managers holding at least 15% but no more than 75% of voting rights. The universe of owner-managed companies from which the best stocks are picked by Formulafirst for investment includes the 50 such companies with the highest market capitalization.

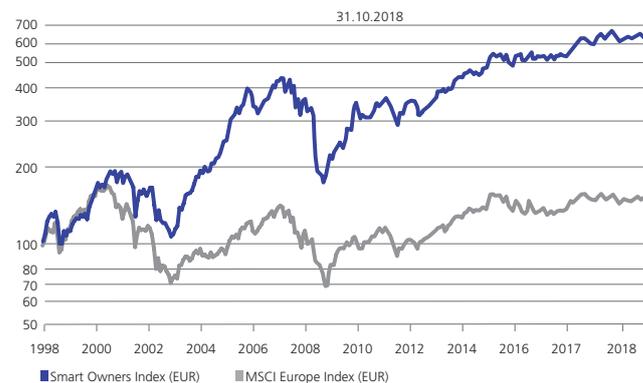
The companies selected form the basis for Formulafirst's investments.

Investment strategy

Made up of the 50 owner-managed companies the investment universe is screened by a thorough fundamental analysis in a primarily “bottom-up” approach and the most promising stocks are identified.

Formulafirst invests in equities convertible instruments, options (managing existing positions), futures (to hedge currency and market risks) and shares of holding companies and funds. Investment exposure is 100% of company assets. The investment horizon is long-term and the selection of portfolio positions is limited to a reasonable number. The size of individual investments may not exceed 10% of the portfolio when purchased (cost). The investment style is primarily based on the “value” approach and investments are made in an anti-cyclical manner. The maximum sector weighting in the portfolio should not exceed 30%.

Smart Owners consistently outperform the market (indexed)



Company details

Company: Formulafirst Ltd., British Virgin Islands

Board of Directors: Derek P. Baudains, Paul Broxup, Markus Gresch

Investment manager: Ztrade group Ltd., Zug

Management team: Sammy Matter, Martin Treffer, Daniel Biedermann

Auditors: PricewaterhouseCoopers, Zürich

Corporate structure: Public limited company

Inception: 18.12.02

Type of stock: bearer shares

Shares outstanding: 700,161

Market capitalization: CHF 21 mn

Listing: Swiss Exchange SIX

Fees: Management fee of 1.5% p.a.,
Performance fee 20%
current hurdle at CHF 33.19

Security number: 146 29 83

Reuters: FFI.S

Bloomberg: FFI SW Equity, FFI SW Equity NAV

Net asset value: Website daily, Wednesday/Saturday in FuW
(Finanz und Wirtschaft)

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