

Monthly Report June 2020

Stock Market Rising
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Outlook Better

Markets

From an EU perspective, China and the USA have the status of the great alternatives to its own reality. Since the collapse of Eastern European state socialism, the feeling of affinity has turned to China. In contrast to the alleged world of risk and stress in the USA, European friends of China imagine the Middle Kingdom as a social democratic welfare society whose citizens expect all conceivable care and redistribution services from the state and are allowed to keep their private sphere at a distance from state intervention. Why do so few Europeans take exception to the Chinese state's denial of freedom and self-determination? The secret affinity between the EU and China may lie in the desire for risk-free continuity. In contrast, in the American two-party system, politics is conducted according to the principle of controversy and not under an ideal of consensus and coalition. However, the fact that changes can only occur in societies of plurality and controversy that no one had planned or envisaged, is forgotten. One does not even have to be a voter of Donald Trump to see the discontinuity of his political style as a potential and provocation of change. Not to mention groundbreaking American inventions and their accomplished development, such as electronics.

Performance

In a rising trend of the market, the price of Formulafirst Ltd. gained 2.09% in June. The MSCI Europe increased by 2.88%. The resulting underperformance of Formulafirst Ltd. compared to the MSCI Europe is 0.79 percentage points for the month of June 2020. Since the beginning of 2020, an outperformance of 0.90 percentage points has resulted.

Investments

Under normal conditions, **Fielmann** can achieve growth of up to 10% for its products, which was the case in January and February 2020. The share of hearing aids will increase from 5% of sales to 10%. Fielmann intends to grow by an average of 5% p.a. in sales by 2025. In future, the company intends to make its eye measurement devices smaller and carry out eye measurements more quickly. Spectacle lenses are to be produced more quickly. In addition, in-house production will be increased. Fielmann achieves a gross profit margin of 70-80% on spectacle lenses and 40-50% on frames. A spectacle wearer may save on frames but not on lenses. **Henkel's** Laundry sector showed strong organic sales growth in Q1 2020, mainly thanks to the development of the core brand Persil (double-digit sales increase). The largest North American brand "all" also developed very strongly. In the Detergents sector, Henkel achieved double-digit percentage organic growth. The main drivers were the Pril, Bref and Somat brand families, with double-digit growth. With organic sales growth in the double-digit percentage range, the emerging markets were the main drivers of the very strong organic sales growth of this division. The mature markets showed a positive organic sales development. While sales in Western Europe declined slightly, North America showed positive sales growth.

Outlook

The combination of expanding monetary aggregates and falling inflation creates a "sweet spot" for risk assets such as equities. This situation will continue as long as the output gap is large, inflation is low and monetary policy is hyper-expansive. If a strong monetary expansion as a result of falling interest rates cannot push up inflation, then the supply of money will most likely drive up asset prices. The COVID-19 related liquidity increase of central banks creates the conditions for strongly rising stock prices or even for a stock bubble.

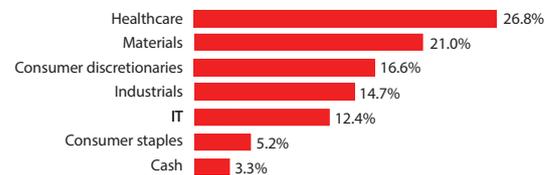
Performance as of June 30, 2020

Net Asset Value	June 2020	2020	3 years	Since inception
CHF 26.87	2.09%	-13.18%	-15.93%	4.17% p.a.

Share price development as of June 30, 2020 (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%.

NAV and performance calculation

The Net Asset Value (NAV) of the Company is equal to the total assets less total liabilities of the Company (determined on the basis of International Financial Reporting Standards, consistently applied). The NAV per share is calculated by dividing the NAV by the amount of outstanding shares of the Company on the calculation day of the NAV. The monthly, year-to-date as well as the 3 year performance are calculated by dividing the actual NAV per share by the NAV per share a month ago (26.32), at the previous year end (30.95) respectively 3 years ago (31.96). The performance since inception (18 December 2002) reflects the annualized yield since 18 December 2002 till today, using a start NAV of CHF 13.-.

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: 665,205

Market capitalization: CHF 18 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)

Address: Ztrade group Ltd. Baarerstrasse 2, CH-6300 Zug

Investor relations: Dynamics Group Ltd. Alexandre Müller Tel.: +41 43 268 32 32

Internet: www.formulafirst.vg

E-mail: info@formulafirst.vg