

Monthly Report January 2017

Stock markets Mixed
Performance Outperformance
Investments Invested
Outlook Higher

Markets

Reports and studies predict a technology wave which will transform our future entirely. The expectations are evocative of the euphoria of the 1970's, when the great robot revolution and massive changes in the labour market were predicted, which, however, never materialised to that extent. That technology wave also did not reflect significantly in the actual productivity statistics. It never generated enormous economic growth. This is why it is very likely that the future development is greatly overestimated, too. Of course, it is possible today to get tremendous processing power for an incredibly low price. However, there are many activities in the economy which do not only require quick processing power but which demand physical or cognitive abilities that are difficult to automate. The prediction that the technological development could lead to mass unemployment is based on two assumptions. The first one is that the massive price reduction for computing power will continue – which, however, is debatable. The second assumption is that that the capacity of machines will not only improve but also expand, in a sense that it can be used for more and more tasks. This assumption seems particularly problematic.

Performance

In a volatile market environment the price of Formulafirst Ltd. increased by 2.89%. The MSCI Europe decreased by 0.42%, resulting in an outperformance of Formulafirst Ltd. against the index by 3.31% points for the month of January 2017. In 2016, it resulted in a minor underperformance of 1.06% points.

Investments

The setup of a final assembly plant for Tesla signifies a quantum leap for **Dürr**. Chinese manufacturers of electronic cars were also newly added as clients. These new producers have limited or no experience in the car manufacturing industry and only have a few in-house experts. This is why they rely on suppliers like Dürr which possess this expertise. This results in generally higher margins, as the client gives fewer specifications. Thus, Dürr itself can select the most cost-effective sub-supplier. Chinese orders are expected to again reach a high number in 2017. After Dürr began manufacturing robots about 15 years ago, the replacement cycle has now started. **ElringKlinger** has acquired a stake in the development firm Hofer AG. Three fourth of the 800 employees are engineers. Together the companies aim to develop and launch complete drive systems for electric cars (drive of the future). Hofer possesses the required research capacity (development competence) and ElringKlinger has the technical implementation expertise (realisation competence). Apparently Hofer has already produced drive systems for hybrid cars in the past. For its production, the company purchases additional components from third party vendors. ElringKlinger now wants to provide some of these. Those drives are supposed to be built into sports and luxury cars first, as these are pioneers in the adoption of new technologies, before they reach the mass market.

Outlook

The reflation trend is positive for stocks. This window should be open for the next two years. For this reason, in a year's time the global stock markets are expected to quote higher than today. The markets in industrialised countries with a high beta, such as Japan and Europe, will outperform the USA, as valuations for both markets are more favourable than the American and favoured by the local monetary policy. Neither the ECB nor the Bank of Japan will raise interest rates in the foreseeable future. In addition, the increasing inflation expectations in these two countries will reduce the real interest rates, which should weaken their currencies.

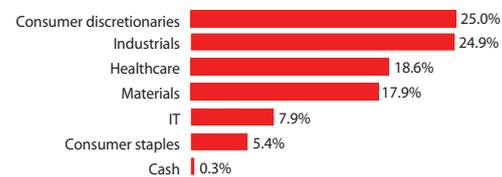
Performance as of January 31, 2017

Net Asset Value	January 2017	2016	3 years	Since inception
CHF 29.93	2.89%	-1.56%	26.77%	5.99% p.a.

Share price development as of January 31, 2017 (indexed)



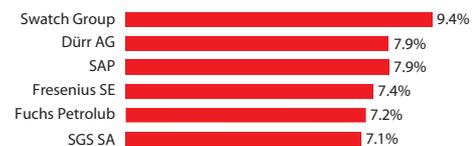
Breakdown by sectors



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, Christopher David Parish, 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: 1,206,651

Market capitalization: CHF 37 mn

Listing: Swiss Exchange SIX

Fees: Management fee of 1.5% p.a.,

Performance fee 20%

current hurdle at CHF 29.55

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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