

Monthly Report May 2018

Stock markets Mixed
Performance Outperformance
Investments Invested
Outlook Better

Markets

Since the transition to flexible exchange rates, the Swiss National Bank has mostly been of the opinion that the Swiss franc is overvalued. If this claim were true, the Swiss export industry would have shrunk and become less competitive. However, the Swiss export sector is still among the most competitive in the world and is flourishing at the moment. The exchange rate depends not only on the current economic situation, but also on the current and expected monetary policy and economic development. As the European economy grows again and expectations are rising that the ECB could soon adopt a more restrictive monetary policy stance, the euro is appreciating against almost all currencies, including the Swiss franc. The SNB is indifferent to this development and is maintaining its very expansive monetary policy. It is argued that the franc is still overvalued and therefore there is no risk of inflation. In view of a new wave of revaluation, it would be better to wait with the reduction of the money supply. A somewhat more restrictive Swiss monetary policy would neither prevent the upswing in the global economy nor would it influence the expected capital inflow in the event of a resurgence of global economic problems. If monetary policy were tightened, the SNB would increase its monetary policy scope in the event of a future crisis and somewhat reduce the risk of inflationary developments.

Performance

In a volatile environment, the price of Formulafirst Ltd.'s share gained 1.15%. The MSCI Europe lost 0.64%. The resulting outperformance of Formulafirst Ltd. against MSCI Europe was 1.79 percentage points for May 2018. Since the beginning of 2018 an outperformance of 0.82 percentage points has been achieved.

Investments

The 17% increase in order intake at **Dürr** Woodworking Machinery (Homag) could be achieved with rising margins! The demand for automated, flexible solutions is significantly stronger than expected. Dürr has to employ many temporary employees and work 6 days a week to meet demand. Digitisation is very important in this area. Many wood processors want to modernize their business in their home market. Those who want to go to China only do so with the most modern technology offered by Homag. A very large order worth EUR 60 million has been received from Poland for the construction of two furniture production lines by 2021. In 2019, **Fuchs Petrolub** subsidiary Pentosin will start production in China. However, the cost savings for the Group will not really come to fruition until 2020 when all customers have agreed to local production in China. Strong organic growth in Asia-Pacific continues, driven by China. The automotive business is developing very well there, as is the industrial sector. Fuchs Petrolub still sees a great deal of potential for itself in Asia, as this area has not yet been developed by the company. Sales continue to grow well in South Africa. As long as raw material prices continue to rise, sales prices will increase.

Outlook

The positioning of investors in bonds is mainly at the short end. At the long end, massive speculative short positions were built up. In the short term, this suggests an easing in US interest rates. The real economy is not being hampered by higher interest rates. Both the construction and investment sectors are in good shape. We expect global economic growth to stabilize at a pace above trend growth. This should allow the stock markets to rally until the end of the year.

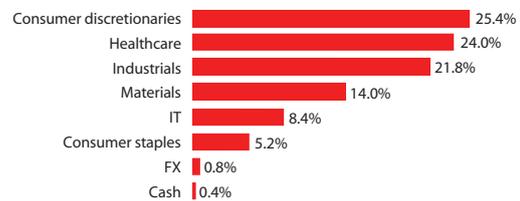
Performance as of May 31, 2018

Net Asset Value	May 2018	2018	3 years	Since inception
CHF 32.60	1.15%	-0.85%	15.97%	6.04% p.a.

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



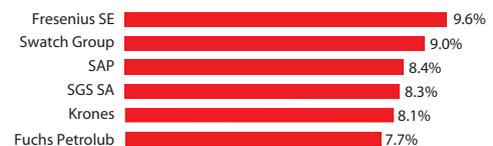
Breakdown by sectors



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: 751,933

Market capitalization: CHF 25 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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