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The MainFirst Multi Asset Team informs – Annual review of 2017

The Fund Managers of the MainFirst Absolute Return Multi Asset and the MainFirst Global Equities Fund are usually looking several years into the future to create valuable ideas for their clients, but today they take a different perspective. They are looking back at the Year 2017.

(Frankfurt, 12/5/17) Most investors will keep 2017 in memory as a year with superior performance. But the path to these returns was different than expected. In the aftermath of the election of Donald Trump, markets forecasted higher interest rates, a revival of value vs. growth stocks and an even stronger US-Dollar. Now it seems that the influence of the 45^{th} US President is limited and structural issues are more dominant.

Despite synchronized global growth the yield of 10 Year US Treasuries with 2.35% is now lower compared to the beginning of the year. As Janet Yellen remarked at Jackson Hole in 2016, the new level of real rates should be at zero due to structural issues. Demography, disruptive technologies and high debt levels tend to overcompensate the impact of cheap refinancing conditions. Therefore we kept our long-term view of a muted inflation outlook and a moderate tightening cycle by the US central bank. A mix of solid economic growth and relative loose monetary policy has resulted in tighter corporate spreads.

On the other hand we moved to a shorter duration on German government bonds in February on a tactical basis. The main reason for that was the upcoming presidential election in France and a very pronounced risk aversion in euro bond markets. Our research of the political landscape in France after the "Penelope-Scandal" of Mr. Fillon pointed to a clear run-off between Emmanuel Macron and Marine Le Pen. Accordingly, we switched Bunds into French OAT`s ahead of the elections on a spread level of 75 bps. In succession we expected to see progress in the integration process of the EU, respectively a stronger Euro. Based on that we initiated hedges on our US-Dollar exposure at a level of 1.06 $.

All that played out favourably for our investors. However, the main contribution for the fund performance has been delivered by our investment theme orientated stock selection.

We invest in stocks based on a multi-year time horizon within long lasting structural trends. There are better and worse years of stock markets anticipating the success of a structurally growing company. However, we are quite satisfied with the developments in 2017 - the average stock in our portfolio performed about 50%. In contrast to most other fund managers we invest regardless of any benchmark and regardless of shorter term market movements. Therefore we did not change our allocation after Trump's election last year. Instead, we simply identify long term structural trends and select the most convincing companies among these. We invest in around 40 fast growing companies with an average organic revenue growth of 20%. Since the inception of the strategy almost 5 years ago the approach has worked out quite well, resulting in a fund performance of 19% p.a. for the MainFirst Global Equities Fund and 6.3% p.a. for the MainFirst Absolute Return Multi Asset.

One of these trends is the takeover of robots and automation systems in industrial production. The robot producer Fanuc, one of Japan's largest companies, impressively demonstrates the smartness and usability of large-sized production robots. In the second half of the year we invested in Fanuc, which grew by more than 30%. Similarly, Universal Robots, a manufacturer of smaller-sized robots that cooperate with humans during production, has been a profitable investment. The company's revenues continue to increase more than 70% per year.

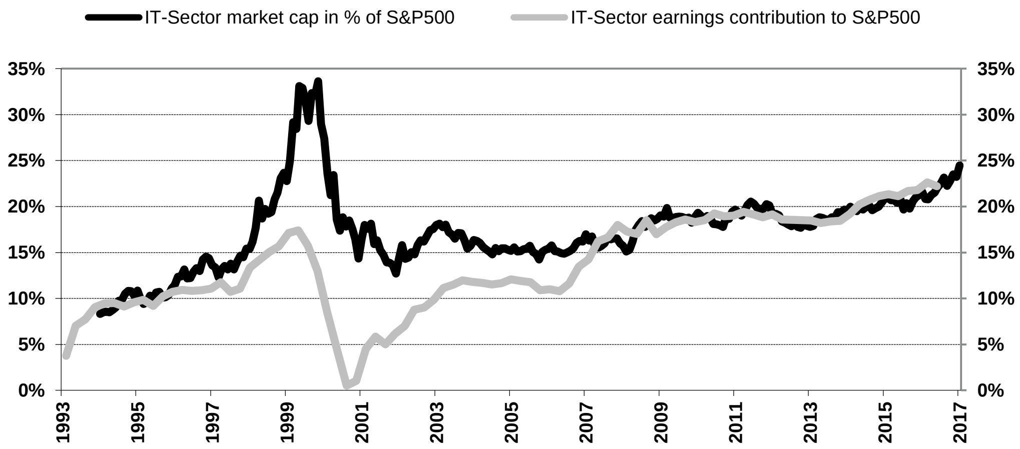
Amazon's Chinese copy named Alibaba is dominating the Asian e-commerce. This year investors were positively surprised by the accelerating growth rate of Alibaba's trade business. Smaller competitors usually fail due to their lack of size and the customer's convenience of using one big everything store. Alibaba's stock price rose by 95%.

In addition to Alibaba we increased the exposure in other successful Asian businesses such as Tencent, Softbank, Daifuku and Samsung. As of today, equal shares of the portfolio are exposed to Asia, the U.S. and Europe.

In the growing digital advertising sector we continue to be invested in powerful market leaders like Adobe and Facebook. Adobe's graphic design programs have evolved to a new standard in graphic education, schools and universities. This helps the firms to continuously sign new memberships and allows them to raise their product pricing. With price increases of 40% and 60% the stocks of Facebook and Adobe contributed significantly to the performance of our funds. In total more than 8 percentage points of portfolio performance derive from the development of digital advertising.

Driven by technological progress in batteries and regulatory tailwinds, we think the share of electric cars will dramatically increase within the next five to ten years. Tesla is positioned far ahead of its competitors and with the release of its mass production model this year, it became more likely that the fairly young company will play a major role in the automobile industry of the future. The success was rewarded by a stock price increase of 40%. We took a deeper look at the inner workings of electric cars and encountered the leading manufacturer of coil-winding machines that are used for e-motor production. Since its IPO this year, the stock price of the small company called Aumann AG benefited from new order intakes and a ramp up in production capacity.

Clients often wonder if a technology bubble is developing. But contrary to 2001, the share of the S&P500 IT-sector is covered by the same portion that its earnings contribute to the index. This is driven by strong earnings growth, on the basis of structural trends, which clearly relieves this concern.



Source: FactSet and Citi Research

For successfully managing our clients assets we can proudly announce, that we have recently been awarded by the highest possible “Citywire AAA-Rating” for conducting the strategies Global Equities and Absolute Return Multi Asset.