

Portfolio manager comment

The beginning of the year was marked by a sharp decline in stock prices in most world markets, especially in Asia, mostly due to the slowdown in growth of the Chinese economy. Markets were spooked by the continuing fall in oil prices and by fear of a global economic slowdown. **In the Croatian equity market, the benchmark index fell below the 2009 level**, reflecting global investor pessimism. Despite high market volatility being one of the main characteristics, the Zagreb Stock Exchange experienced low trade volumes this month. An increase in Croatian investor caution could also be prescribed to uncertainty over the formation of a new government. In turn, January turned out to be the worst performing month for our fund since its inception, as **the fund endured a drop of 5.4% month over month**.

It has also been a tough month for European banks. While oil's plunge shook the stock markets and brought wide concern about oil and energy stocks, financial stocks, especially European banks, were down even more – a bit of a turmoil giving that concerns are now shifting from oil to the banking sector. Although being a member of the Italian UniCredit Group, which is down over 35% this month, Zagrebačka banka showed resilience with no significant loss in price.

The main driver of our negative performance has been our largest holding, the **Adris Group, which fell by 13.45%**. A company which we see as one of our favourite long-term assets showed continuous growth over the past couple of years, with this January being the first significant drop in value since we made our initial position. The price continuously fell from December 30th until January 18th resulting in a 16.36% drop, which also caused a significant dent in our portfolio. Despite it being quite drastic, we don't see this event as too important in the long-run, and regard it as a correction that was bound to happen sooner or later. Our theory is that, due to rumours of a potential **hostile takeover by the Czech private equity**

fund J&T late last year, a bidding war for the common stock occurred. When outside investors recognized this and joined in, the common stock became significantly overvalued as it plays a crucial role in takeovers. The preferred stock however, giving no voting rights, wasn't in such high demand. Through January, Adris preferred stock fell by only 7%, or half as much as the common stock, further strengthening our belief that this was just a one-off event. The Adris Group stays one of our most important holdings in which we see further potential for growth.

In the gloom of January's tough market, one of our smaller positions, Đuro Đaković Holding, exhibited a completely opposite trend. **The best performing stock of January's entire Croatian market, Đuro's stock price rose from 24.41HRK to 33.11HRK, an increase of 35.64%**. The main reason for this sudden movement lies in a general sense of positivity regarding the future of the company. December and January saw new contracts signed worth 173 million HRK in total, accompanied by a plethora of positive media reports. We see high long-term potential in Đuro Đaković, as it would seem that the restructuring process has finally turned the company around. Given this, we don't however dismiss the possibility of a negative price correction in the near future, given how abrupt the rise was.

Most of our other positions saw more or less negative returns, despite there not being too much significant company related news. Our most illiquid holding, the sugar manufacturer Viro, together with Viadukt led the way with double digit losses. Our tourism stocks: Valamar and Maistra, along with Excelsa Nekretnine, all being slightly cyclical in nature, showed market level losses. Having mentioned it several times, January was a tumultuous month with some record breaking negative numbers. We do still, however, have **a positive outlook for Croatia and most of the CEE region in the rest of 2016**, and await the publishing of 2015 Q4 results in February with high hopes.

Portfolio performance vs benchmark (indexed, since inception)



Investment approach

The Fund seeks to achieve positive long term returns by managing a portfolio of diversified equity investments that are believed to be undervalued at the time of purchase, or are expected to hold significant growth potential in the future. FK_HR1 is an equity fund, meaning it will be permanently exposed to any type of stocks.

Fund Characteristics

Fund name	FK_HR1 UCITS fund
Fund Company	Financijski Klub
Fund type	Equity
Currency	HRK
Starting Share Price	100
Share Price	140,17
Inception Date	Monday, April 14, 2014
Fund Domicile	Zagreb, Croatia
Reference Benchmark	CROBEX Index

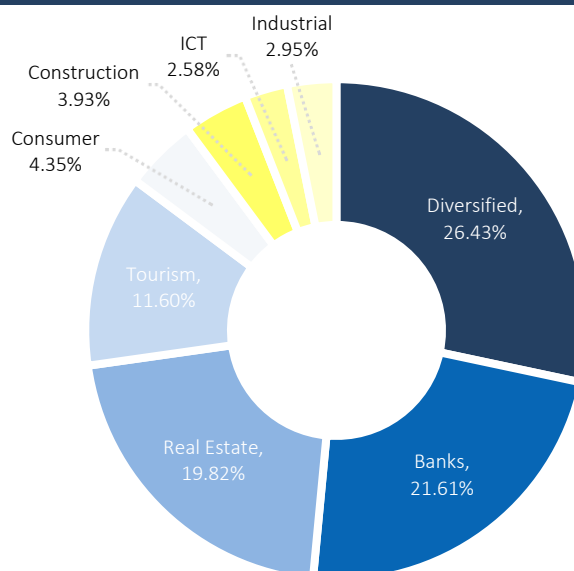
Return since inception

Price return (net of dividends)	40,17%
Total return (with dividends)	51,30%

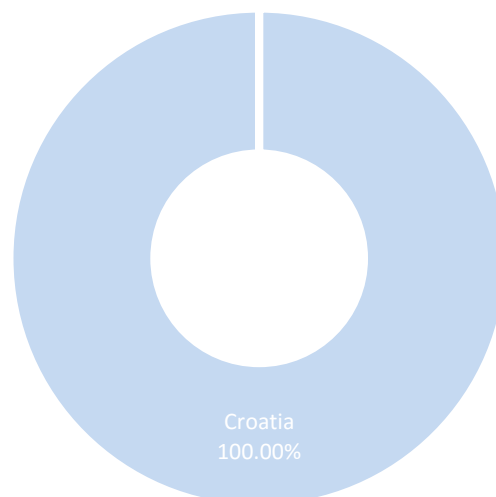
Top 10 Holdings

Ticker	Company Name	%	Country
ADRS-R-A	Adris Grupa d.d.	26,43%	CRO
ZABA-R-A	Zagrebačka banka d.d.	21,61%	CRO
ATLN-R-A	Excelsa nekretnine d.d.	19,82%	CRO
CASH	Cash account, HRK	6,72%	CRO
RIVP-R-A	Valamar riviera d.d.	6,14%	CRO
MAIS-R-A	Maistra d.d.	5,47%	CRO
VIRO-R-A	Viro tvornica šećera d.d.	4,35%	CRO
VDKT-R-A	Viadukt d.d.	3,93%	CRO
DDJH-R-A	Đuro Đaković Holding d.d.	2,95%	CRO
HT-R-A	Hrvatski Telekom d.d.	2,58%	CRO

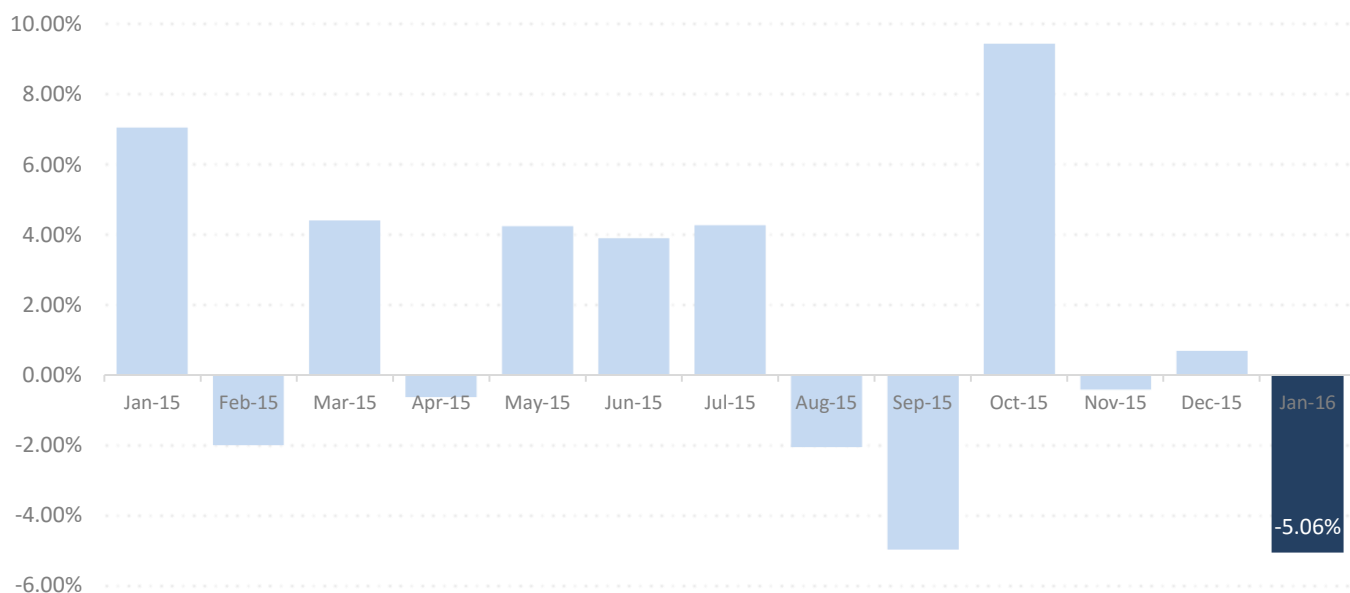
Sector Allocation



Geographic Allocation



Monthly Performance



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About Financijski klub

Financijski klub (the Financial Club) is a specialized student association which aims to provide its members with additional financial education. That being our core business, we organize different projects, lectures, workshops and numerous other social events. The Club has been active since 2005, and is situated at the Faculty of Economics and Business of the University of Zagreb.

With our ongoing activities we have established a significant role within the finance oriented academic population. Through the years, our work has been recognized with numerous Dean's and Rector's Awards, and our members with internships and jobs at leading companies. Our most recent highlight has been the award for outstanding contribution to financial markets education, awarded by the Zagreb Stock Exchange in 2013.

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All performance and holdings data as of 31-January-16.

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