

Quarterly update

September 2022

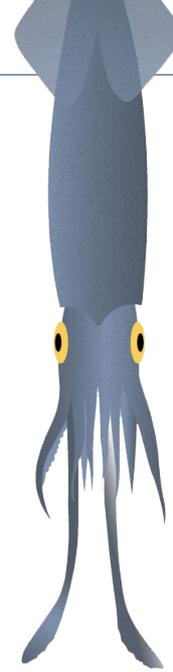
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Overview of our funds as of 30/09/2022

“The risk/return profile has become incredibly attractive.”

Christoph Baldegger, founder of Bonafide

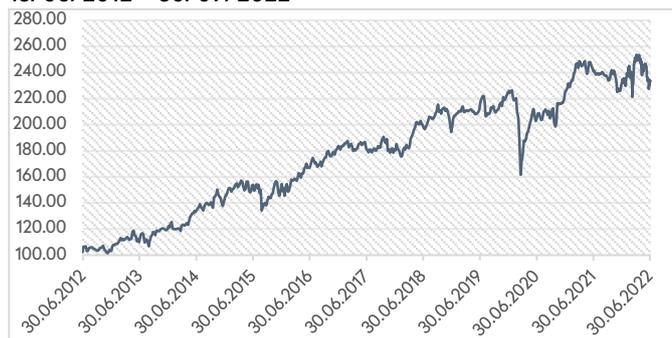


as of 30/09/2022	NAV	Δ3m	Δ12 m	Δ3 y	Δ5 y	return s.i. (p.a.)	Total AuM in Mio. CHF
Bonafide Global Fish Fund EUR	201.91	-13.65%	-14.33%	-5.75%	10.60%	7.06%	
Bonafide Global Fish Fund EUR -A-	93.57	-13.68%	-14.36%	-5.83%	10.36%	2.04%	
Bonafide Global Fish Fund CHF	123.08	-16.22%	-21.52%	-13.54%	-5.49%	5.58%	
Bonafide Global Fish Fund CHF -A-	86.54	-16.15%	-21.33%	-13.29%	-3.96%	0.18%	
Bonafide Global Fish Fund USD	106.13	-17.70%	-24.03%	-12.05%	-2.63%	1.03%	185
Best Catches I EUR	1'045.92	-5.31%	-1.16%	-1.76%	n/a	1.35%	18
Opportunities I GBP	113.78	4.26%	n/a	n/a	n/a	13.78%	4
HBC I NOK	425.50	-16.26%	-52.00%	n/a	n/a	-54.60%	4
HBC II NOK	421.68	-16.16%	n/a	n/a	n/a	n/a	8

A quarter with a turbulent end

“Higher interest rates will bring some pain”, Fed Chairman Jerome Powell announced in Jackson Hole at the end of August – and that is what has happened: September, already notorious as painful month on the stock markets, brought rising interest rates, falling stocks and massive upheavals on the currency markets. 2022 remains a “year of horror” for investors. They remain concerned about high inflation, slowing growth and the risk that restrictive central bank policies could trigger a deep recession. The Bonafide Global Fish Fund -EUR- maintained its satellite character in July and August, posting a slight gain. In late September, the Norwegian government shocked the local salmon industry by announcing a 40% resource tax, to which the market reacted strongly. Accordingly, the fund lost 14.84% in September (YTD: -13.09%).

NAV development of the Bonafide Global Fish Fund EUR 13/06/2012 – 30/09/2022



Stock price drop and purchase opportunity in Norway

On 28 September, the Norwegian government announced a new 40% resource tax on aquaculture. As a result, the stock prices of salmon farmers fell by up to 30%. Even if the salmon giants have to reckon with significant profit reductions, share prices were punished disproportionately. We used this market overreaction for rebalancing and to increase our Norway exposure. We have taken an opportunistic approach towards producers and made model adjustments to our portfolio. A lot of “bad news” has already been priced in and the fund is showing an attractive return/risk potential.

Facing the future with euphoria

The portfolio's price-to-book ratio is at a record low of 1.25x and in no way reflects the earnings power of the companies. The sector will continue to grow strongly. Should the tax be introduced, Norwegian companies can expand in other countries, as other regions of the world will benefit. After all, it is important to continue to supply a growing world population with healthy proteins.

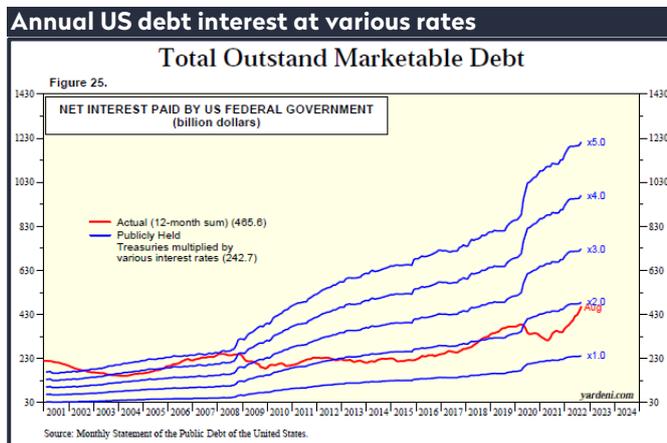
Webinar from 18 October 2022

We are pleased to invite you to our next webinar on 18 October 2022 at 10:30 (CET). Our experts will look back on the past quarter and the most important investment decisions. Taking into account the continuing turbulence on the markets, Bonafide will venture an outlook on expected developments in the coming months. Register now on our website (www.bonafide-ltd.com).

Research/Portfolio Management

Stock market environment in Q3/22

At the time of publication of our last quarterly report, the target range for the Fed Fund Rates was 1.50-1.75%. Since 22 September, the US central bank's new target range has been 3.00-3.25%. Taking the current US debt pile of more than 31 trillion USD as a basis, annual interest costs have theoretically risen by 465 billion USD over this period alone. However, this increase will have a delayed effect on household budgets in the US, since the loans always have longer terms. The average remaining term is more than six years. For the fiscal year 2023, the US estimates its total revenues at 4,638 billion USD against estimated expenditures of 5,792 billion USD, resulting in a net deficit of 1,154 billion USD. In the long term, the interest rate increases of the past three months will increase the budget deficit by more than 40%.



Source: Yardeni Research, 30 September 2022

We were unable to identify any measures intended to reduce the deficit in any way in the long term. This is tantamount to rolling out the red carpet for a new superpower, at least in economic terms. It is no wonder that the US is planning to further increase military spending to around 800 billion USD and to maintain its presence in crisis areas. In the eyes of some, it may be the last trump card up the country's sleeve to remain the world's number one power. And hanging on the US's coat tails is Europe: its values, while laudable, are simply out of touch with reality. Only when it comes to the budget deficit does the old continent surpass the US, but without its own raw materials for energy production, surpluses will decrease over time.

We could say a lot more about the budget deficit, geopolitics and inflation, but the essence is already clear. What level of interest rates can the US and the West bear? Wouldn't it be better for these countries to utilise inflation to purge themselves of debt at their creditors' expense? For once, Europe seems to be (deliberately?) ahead of the curve by dispossessing savers through high inflation, unnoticed by many. Interest rates will remain low for the time being, meaning that the states' debt burden won't become too great. If taxes were raised instead, the likely result would be

popular unrest such as we have not witnessed in a long time. Savers and investors must therefore be particularly careful when making investment decisions. Broad stock indices may not be the best tools, as all of the popular ones are currently in a bear market likely to last some time. Defensive sectors that produce everyday goods are to be favoured because of their resilience; however careful additional financial analysis is also necessary. Even for companies producing everyday goods, a lack of market power or too high a share of debt capital could lead to distress. Remember the case of toilet paper manufacturers Hakle in Germany: while the company has blamed high energy costs for its bankruptcy, market power (price pass-through) and capital adequacy also appear to have played their part.

The bear market rallied briefly on the stock markets before fizzling out in the middle of the quarter: the bottom line, calculated in EUR, resulted in a zero-sum game in the world stock index. Earnings estimates for the S&P 500 Index published on the Factset data website were reduced from July to September. For 2022, the analyst consensus lowered expectations by 2.3%, for 2023 by 3.5%. In this regard, shares have become somewhat more expensive again in view of lower profits. The profit warning issued by logistics giant FedEx provided a foretaste of the imminent slowdown in business, with the company noting a noticeable slowdown in freight volumes.

Developments in our sector

The defensively positioned Fish & Seafood sector was able to maintain its stable results from the first half of the year until mid-September. However, the last two weeks of the quarter saw heavy losses. Up to 80% of these losses can be explained by the introduction of a resource tax on profits from salmon farming in Norwegian waters, which we will discuss in detail later. The remaining 20% of these high losses can be explained by the general stock market correction. Overall, the fund lost a hefty 12.3%-points in EUR. The first major event that affected the Global Fish Fund took place on 4 September 2022. In Chile, the new constitution was rejected by the population with a surprisingly clear majority of 62%. The constitution would have massively expanded the welfare state, with the "rich" footing the bill. The rejection is therefore a bitter defeat for the left-wing parties surrounding President Gabriel Boric, who has been steadily losing popularity since taking office. The next draft constitution is likely to be much more balanced in order to convince a majority of the population. For the capital market and foreign investors, the vote was a very good sign. However, capital inflows remained limited and the currency remained practically unchanged against the EUR. Good transaction timing nevertheless ensured a foreign exchange gain of 0.6%-points with the Chilean peso (CLP). It will take time for Chile to regain investor confidence. Investments in US dollars (USD) made a net contribution of 0.4%-points. The Norwegian Krone (NOK), which fell by 3% against the EUR, cost the fund -1.0%-points gross. Thanks to hedging transactions, however, the net loss was only -0.5%-points. The exchange rate against the Japanese Yen (JPY) is unchanged at around EUR/JPY 142.

Norway: 40% resource tax on salmon farms

The opening paragraph of the Norwegian government's press release is sufficient to establish the political forces at play: "... aquaculture industry makes billions of kroner on our common resources. The Government is now proposing that **more of the value created should go back to society.**" For 50 years, pioneers have invested in salmon farming at their own risk. Out of nowhere, they provided future prospects to local communities which had been dependent on stagnating wild capture since the 1980s. Today, the industry produces 14 million meals every single day. Universities have started to offer aquaculture courses. Factories have been built and 42,000 jobs have been created to date. A completely new supplier industry has established itself, with the domino effects resulting in the creation of countless jobs. The companies buy licences from the State to grow salmon in the fjords, they pay the ordinary corporate tax rate of 22% and since 2022 they have also paid an additional production tax of 0.4 NOK/kg. All jobs created are also subject to income tax. Many entrepreneurs have failed in the past 50 years, while a handful have made it and are now millionaires or even billionaires. The Norwegian state and all its residents have been benefiting without risk from this pioneering work for years thanks to the vast sums of tax generated. And now the father State can't get enough and sees excess profits in the industry, although it has not yet been two years since companies were almost bankrupted by government restrictions (!) which brought the gastronomic sector to a standstill. Developments such as those in Norway are bad signs for global entrepreneurship. The profits of salmon companies will now be taxed at an additional 40%, which will raise the marginal tax rate to 62%. The rate hike applies to production in the open fjords. The Norwegian parliament has not yet approved the measure, but the centre-left (still) holds a majority there.

"Hvis man ikke kender fortiden, forstår man ikke nåtiden, og er lite egnet til å forme fremtiden."

If you don't know the past, you don't understand the present and are hardly in a position to shape the future.

What company will still want to take risks when two-thirds of the profits are flowing directly into the pockets of others? It seems almost ironic that less than two years ago the Norwegian government was loudly reiterating the growth forecast for up to 5 million tonnes of salmon in 2050 (2022: 1.5 million tonnes). By changing the macro environment for aquaculture, Norwegians may fear that they are digging their own grave. Business and capital are mobile, and the ocean is huge. Salmon farmers in Norway have already cancelled licence purchases for 2022 amounting to 1 billion NOK. Investments of 18 billion NOK are on hold. And all because of a resource tax that, with projected revenues of 3.7 billion NOK, is supposed to plug the budget deficit in 2023. Nota bene, in the richest country in the world, which even has net wealth per capita. Unfortunately, once again the short-term gains have been weighted higher than the long-term damage. On 28 September we wrote a market commentary on the resource tax with additional information: [Link to the market commentary](#)

What negatively affected fund performance

Although there are still numerous unanswered questions about the effective implementation of the resource tax, the stock market seems to be pricing in worse than the worst-case scenario. For example, flagship company SalMar's share price lost a total of over 48% in EUR, costing the fund 3.3%-points. However, it is more likely that the resource tax on a sub-sector of the value chain will have a disproportionately low impact on earnings per share. It will be exciting to see how salmon farmers go about optimising the resource tax. Allowing for transfer pricing within the group, smaller salmon produced by land-based plants could suddenly generate more profit in upstream processes where the tax does not apply. Salmon are only released into the fjords when they reach a size of 100-500g. Furthermore, SalMar has operations in Iceland and Scotland (including the Shetland Islands). Companies with growth ambitions will be welcomed with open arms by both Iceland and the UK.

SalMar semi-offshore plant soon to be located abroad?



Source: Bonafide, 21 September 2022

The shares of Austevoll Seafood (-2.6%-points), Mowi (-2.5%-points) and Leroy Seafood (-2.0%-points) each lost around 40% of their value. The smaller decline has to do with the fact that these companies are somewhat more diversified. In addition to Norway, Mowi has breeding facilities in Chile, Canada, Scotland, Ireland and the Faroe Islands. The drop in profits due to taxes is likely to be 20-30%. The same goes for Austevoll and its subsidiary Leroy, which both still run a wild-caught business and which have ventured closer to the consumer in recent years by opening numerous "value-added" factories in Europe. One fact yet to be addressed is that the resource tax will further thin out the already scarce supply of salmon in the short and medium term. Growth plans are already being put on hold. A further tightening of supply will further increase food prices for salmon and therefore also compensate for part of the tax losses incurred by companies. Once again it will be the consumers who suffer, having to endure yet higher inflation. Ironically, caused by their own elected career politicians.

Outside Norway, Elanco Animal Health (-1.1%-points) fell noticeably. The renewed price decline of more than 30% is difficult to explain. When it released its quarterly figures in August, the company cut its earnings guidance by 6%. At the beginning of September, the resignation of a board member, who with his investment vehicle represents a major investor, triggered a stock price slide. Shortly thereafter, the investor had to calm the markets by buying shares worth USD 10 million. He resigned because he believed that the company is now in an excellent position and he can now dedicate himself to other mandates. We share this view.

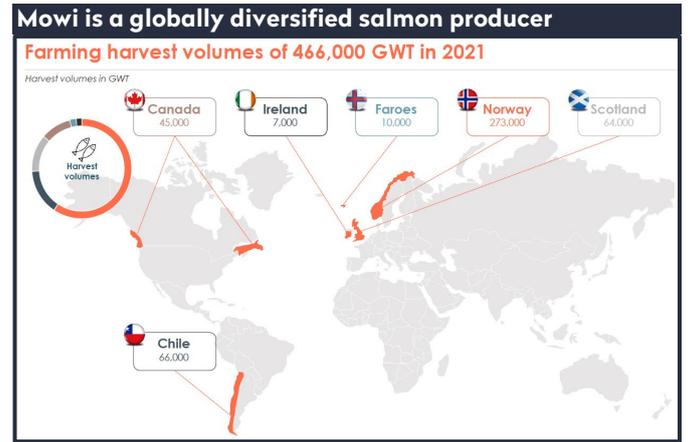
However, there really might have been a better time to retire. At Elanco, profits will increase due to synergy effects after its merger with Bayer Animal Health. Investors are not dependent on “pipe dreams” there. Nomad Foods (-0.9%-points), which is also listed in the US, is being penalised by the markets for being a European company. Sellers fear that consumers will switch away from Nomad’s more expensive branded products to discount products. These concerns are justified, but even discounters will be forced to raise prices and fall back on Nomad’s capacity if demand is too strong. The valuation of the share gives us the necessary peace of mind. It is trading at book value and 9x estimated 2022 earnings, which is unprecedented since its listing. A total of 21 positions weighed on fund returns over the past three months.

Profitable performers

On the winning side, Chilean salmon companies helped. Multi X (0.7%-points) advanced slightly in the course of the constitutional elections. The dividend and capital repayments following the partial sale of the subsidiary to Cargill were paid out in September (see **quarterly report Q1/22**). We built up our position in the recycling company Darling Ingredients (0.5%-points) at the right time thanks to attractive purchase prices. Better-than-expected business figures have contributed to the price increase. After strong price gains at the Tassal Group (0.4%-points), where the management board was speculating on a better purchase offer from Cooke Aquaculture, we halved our position due to risk considerations. The offer was then actually raised by 8% from 4.85 AUD per share to 5.23 AUD. This offer enabled all parties involved to save face, which is why we realised the gains in full. In total, 12 positions made positive contributions.

Reallocations

Due increased fears of recession, our motto over the summer months was to build up enough liquidity to be ready for buying opportunities in stressed markets. Our 5% allocation in Tassal Group was fully allocated to the cash ratio. Furthermore, we significantly reduced our position in Grieg Seafood at rates between 145-155 NOK, most of which was also added to the liquidity ratio. We slightly increased our position in Bakkafrøst, which farms salmon in the Faroe Islands and Scotland, in order to diversify our farming regions. We had not expected the Norwegian salmon stock prices to fall at the end of September, but this offered an initial opportunity to use a third of our liquidity to rebalance ratios. In addition, we significantly expanded our allocation in Mowi. Mowi has breeding facilities worldwide and is less affected by the resource tax than its competitors.



Source: Mowi presentation at NASF, 23 June 2022

Our liquidity ratio remains elevated in order to take advantage of further buying opportunities in the coming months.

Outlook

Volatility on the stock markets remains elevated. All eyes are seeking data on inflation, jobs and central bank performances. The Fish & Seafood sector and the Bonafide Global Fish Fund have decoupled from the markets in a negative sense, but as mentioned at length, this is politically motivated and not due to a change in the underlying trends. Indeed, trends continue to paint a very encouraging picture for protein producers, especially salmon farmers. Scarcity is driving contract prices above 82 NOK/kg for 2023 and above 75 NOK/kg for 2024. On the other hand, commodity inflation has cooled noticeably and rates for international ocean freight have fallen markedly. The perseverance of patient investors is once again being strained. However, the risk of further losses in Norwegian stocks has fallen to a minimum. Looking at the Fish & Seafood sector globally, the values of companies outside Norway are likely to appreciate in the medium to long term, as their macro picture has brightened to Norway’s detriment. Seafood investors will switch to other markets and Norwegian companies will at most seek growth in other countries through acquisitions. When it comes to valuation indicators for the portfolio, only the price-to-book ratio is currently meaningful. At 1.25x, this has fallen to a record low (1.60x three months ago). It does not reflect the companies’ earning power in the slightest.

“Var det ikke for mørket, så visste vi ikke om stjernene.”
If there were no darkness, we would not have discovered the stars.

We thank you for your confidence in our investment capabilities.

Performance contributions are shown in EUR and refer to gross profit.

Sustainability

WTO agrees treaty against environmentally harmful wild capture subsidies

After slightly more than 20 years of negotiations and around 400 billion USD in subsidies, on 17 June 2022 the 164 member states of the WTO agreed to partially abolish harmful subsidies in fishing.

Harmful subsidies are defined as those that enable fishing in areas where it would not have been possible without subsidies, accounting for just over half of the 400 billion USD mentioned above. Almost 85% of the beneficiaries are larger fisheries, although the majority of jobs are created in smaller fisheries.

According to the “**Fisheries Subsidies Agreement**” the following in particular may no longer be subsidised:

- IUU (illegal, unreported and unregulated fishing)
- Overfished stocks, insofar as no measures have been taken to restore them
- Fish stocks that are not subject to any RFMO (regional fisheries management organisation), i.e. are not monitored and managed

If implemented consistently, the Fisheries Subsidies Agreement will certainly be a great success for the oceans. SDG 14.6, which envisaged the elimination of subsidies on IUU, overfishing and overcapacity by 2020, was nevertheless not fully achieved. Especially for subsidies concerning overcapacities, an agreement is still a long time off. In addition, the enforcement of the agreed bans could initially prove difficult in practice due to the poor data situation. Nevertheless, we are optimistic that the situation will now change for the better and that we won't have to wait another 20 years for further successes.

Inland fisheries and aquaculture are not affected by the decision.

Publication of PAIs and EET

We have recently included even more sustainability data on our corporate website in the form of the EET (European ESG Template) and the PAIs (Principal Adverse Impact Indicators).

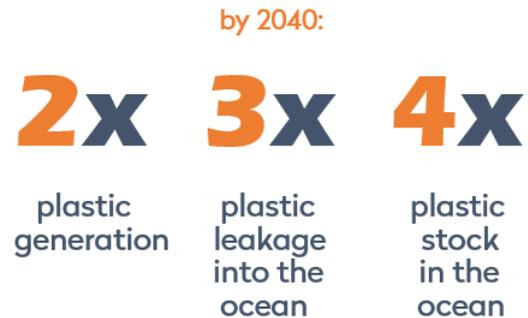
Using the **EET**, you can conveniently retrieve standardised, machine-readable ESG data from Bonafide, updated on a monthly basis.

In addition, the **document on PAIs** contains a further comparative analysis that compares our funds with these well-known benchmarks, the overall market and the seafood investment universe.

Announcement of a “Business Coalition for a Global Plastics Treaty”

On 21 September 2022, the Ellen MacArthur Foundation and the WWF announced the convening of a Business Coalition for a Global Plastics Treaty. The coalition aims to bring a clear and unified voice from business, financial institutions and NGOs to the contract negotiations with the United Nations for an effective plastic framework.

For more details on the coalition's goals, plastic pollution in the oceans, and potential health threats from microplastics in seafood, read a recent **article** we wrote.



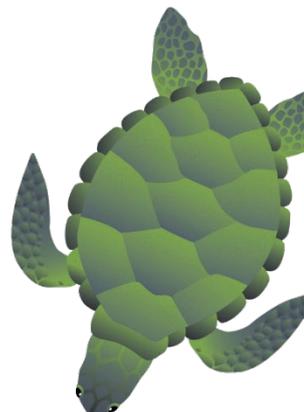
Source: SYSTEMIQ

ASC publishes new farming standard regarding salmon and fish lice

On 1 February 2023, a new farming standard will come into force at the ASC (Aquaculture Stewardship Council), which contains two significant changes on the subject of fish lice.

Firstly, limit values and risk times for fish lice will in future be set regionally instead of globally in order to create a more reliable reference value. In the future, the legally defined limit values and risk times will be adopted directly by the ASC, whereby the globally strictest limit value must be observed if there are no regulations.

Secondly, the information obligations regarding limit value violations have been tightened. While limit value violations were previously only sanctioned during inspection times, in future they must be reported within one day and eliminated within three weeks. Otherwise companies risk having the ASC certificate withdrawn automatically.



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