Quarterly update
June 2023

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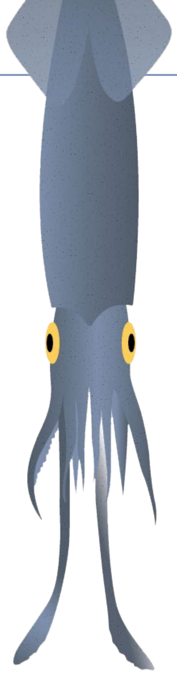
ocean of opportunities

bonafide



Overview of our funds
as at 30/06/2023

“Pearls don’t lie on the seashore, if you want one, you must dive for it.”

Chinese Proverb

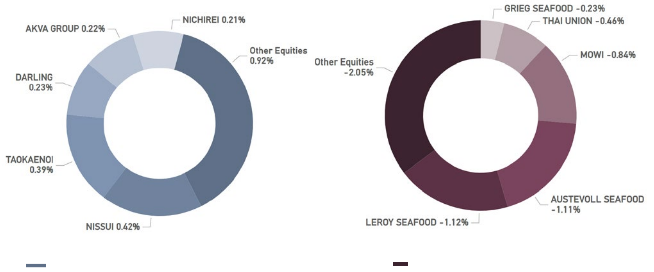
as at 30/06/2023	NAV	Δ3m	Δ12 m	Δ3 y	Δ5 y	return s.i. (p.a.)	Total AuM in Mio. CHF
Bonafide Global Fish Fund EUR	212.67	-4.12%	-9.05%	4.87%	6.30%	7.07%	
Bonafide Global Fish Fund EUR -A-	94.51	-4.12%	-9.11%	4.74%	6.19%	2.60%	
Bonafide Global Fish Fund EUR -B-	94.06	-4.82%	n/a	n/a	n/a	n/a	
Bonafide Global Fish Fund CHF	130.90	-5.31%	-10.90%	-1.50%	-7.76%	5.78%	
Bonafide Global Fish Fund CHF -A-	88.54	-5.31%	-10.80%	-1.19%	-6.67%	1.12%	
Bonafide Global Fish Fund USD	122.46	-3.57%	-5.03%	4.13%	4.13%	3.14%	182
Best Catches I EUR	1'038.09	-3.80%	-6.02%	8.99%	n/a	0.92%	23
Opportunities I GBP	102.28	-5.02%	-6.28%	n/a	n/a	1.30%	3
HBC I NOK	346.47	1.92%	-31.81%	n/a	n/a	-43.96%	3
HBC II NOK	345.83	2.29%	-31.24%	n/a	n/a	-47.87%	6

Lower spot prices for salmon, currencies and a share price slump in June lead to negative performance

The past quarter was disappointing for seafood investors. Despite good prospects for the portfolio’s companies and achieving clarity on the Norwegian resource tax, the Bonafide Global Fish Fund has not yet been able to regain its former strength. Sellers clearly outnumbered buyers on the market. In the second quarter of 2023, the Bonafide Global Fish Fund EUR yielded returns of -4.12%. Currencies were responsible for -2.20% of the performance, after FX hedging. In Norwegian salmon stocks, however, falling spot prices for salmon put pressure on shares. It is important to keep in mind that buyers paid record prices only recently, and that the June spot price of EUR/kg 8.24 is well above the average of recent years. Supply remains limited, justifying the increased prices. Once again, investors need to be patient until the market recognises the enormous potential.

Headwind from Norway, tailwind from Asia

Contribution to the performance of the Bonafide Global Fish Fund in %



Valuations of industry leaders Mowi and SalMar equivalent to 2013/2014

Investing in pioneering coastal companies with decades of know-how in the Fish & Seafood sector is currently cheaper than it has been for 10 years. A few years ago the market was paying twice as much, if you look at the price-to-book ratio. What has happened over the last 10 years? Companies have learned, diversified and become much more robust. Profitability has increased significantly. The persistent multiple contraction, which in our view is by no means justified in the long run, is mainly due to external factors, which the portfolio’s companies have managed well.

A portent for the future?

The last time such attractive valuations occurred, the Bonafide Global Fish Fund -EUR- returned 10.76% p.a. from 2014 to 2019. However, we are now in 2023 and the macro trends (sustainability, resource use, growing population) suggest an even stronger case for a prosperous future for the sector today. The challenges have been overcome. Now it’s time to use the power of innovation to shape the future.

Webinar on 18 July 2023

We are pleased to invite you to our next webinar on 18 July 2023 at 9.00 am (CET). Join our experts in taking a look at the coming months and learn where we see the “value” of our portfolio. Register now on our website (**www.bonafide-ltd.com**).

Research/portfolio management

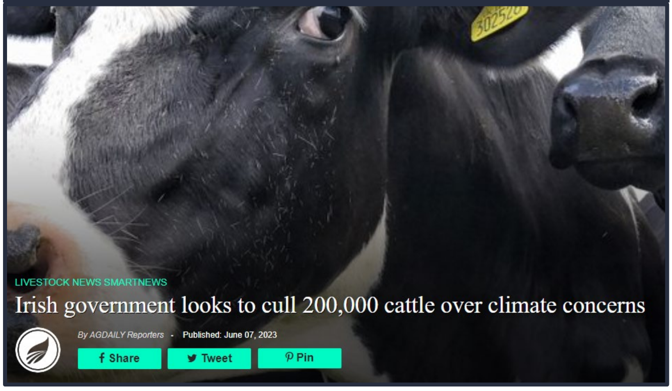
Stock market environment in Q2/23

After bank runs led to hectic activity on the stock markets in March 2023, an eerie calm is currently reigning. The US Federal Reserve's signal that "all bank deposits are insured in the event of a crisis!" is having an effect on trading centres. The volatility ratios of the major indices are now approaching the low levels we last saw before the pandemic broke out. The mega-caps around Apple and Microsoft are climbing to new highs thanks to steady price increases – ostensibly driven by the narrative of artificial intelligence. However, apart from Nvidia, whose actual orders for AI computing chips will drive striking revenue and profit growth, it seems that analysts have not yet truly been able to assess the AI opportunities for Apple and others. Indeed, earnings estimates have not risen. Either the financial experts are wrong, or the shares have risen in price "for no reason".
The credit markets continue to paint a completely different picture. Since spring 2022, bond volatility has remained at levels only experienced during the financial crisis and shortly after the dotcom bubble. Bond hedge premiums have fallen somewhat in recent weeks but are still sending signals of heightened alarm. Add to this the restrictive monetary policy being applied by central banks, withdrawing liquidity and making credit even more expensive by raising key interest rates. The sixty-four-thousand dollar question centres on the rationality of investors: **Why do investors prefer to buy risky mega-cap shares whose earnings yield is around 3% (inverse of the P/E ratio), while "risk-free" US government securities are already yielding a safe 5%?** If there were a lack of confidence in the government, corporate bonds with good credit ratings would be yielding up to almost 6% per year. Is the market once again lacking economic sense, or does it see the mega-caps as more secure than the US, which is still the largest consumer market in the world? Can Apple and Microsoft move their headquarters out of the US, thus ensuring that their high-margin business model remains untouchable? Will they achieve world domination or win control of the US military thanks to artificial intelligence? You see, we have to dive into the world of conspiracy theories to find reasons for the ills afflicting the capital markets. Perhaps the anomaly can simply be explained by investors suffering from FOMO ("fear of missing out"), thereby temporarily driving share prices. This momentum is difficult to grasp, but every wave breaks at some point. The higher it swells, the greater the damage.
Commodity markets are also signalling a recession. West Texas Intermediate crude oil is trading at around $70, down from $80 at the beginning of the quarter, even after the announcement of production cuts by the OPEC+ oil cartel. The futures price for industrial copper has lost almost 9% of its value in the past three months. For food producers, some cereals such as wheat and maize have continued to fall in price.

Developments in our sector

A broad share price decline in the Global Fish Fund's portfolio companies in the second half of June once again resulted in negative returns of -4.12% in EUR. Global markets also lost several percentage points in mid-June. However, they recovered almost immediately, while the Global Fish Fund's shares were literally on a buyer's strike. It is understandable that investors are looking for highly liquid securities in preparation for uncertain times, meaning that they end up either in large caps or in ETFs where market makers guarantee liquidity. We have looked in vain for the fundamental reasoning behind this broad punishment of stock market prices. The market has been talking about the dangers of a global recession since the start of the rate hike cycle in early 2022. Estimates are already factoring in tighter purse strings, yet valuations of several stocks in the portfolio have still hit 10-year lows: more on that later. There are several upcoming policy developments in the food production sector which are of particular interest. In 2024, a new EU law will come into force outlawing the import of raw materials, e.g. soya or beef, associated with deforestation and forest degradation. Producers will have to resort to more expensive, certified raw materials, which will ultimately drive up the price of end products. Our salmon producers in Norway began exclusively sourcing certified soya back in 2020, having had the foresight to distance themselves from the potential impact of the new law (fines of up to 4% of annual turnover) at an early stage. In Ireland, the Department of Agriculture has launched a debate on how to achieve climate targets. The heavily subsidised cattle farming industry, which is responsible for 11.8% of the country's greenhouse gases, has been tasked with sustainably reducing its herds by 8% or 200,000 head of cattle.

Online article on the reduction of cattle numbers



Source: AGDAILY.com, 7 June 2023

In a breakdown, this equates to 4.7kg less meat per person per year in Ireland. Discussions of this type will increase in all countries as the deadlines to meet climate targets move ever closer. Governments will need to educate consumers as to which proteins are more sustainable. Subsidies for livestock farming are pure poison for the climate and, sooner or later, politicians will be called upon to abolish them. As a result, meat will become even more expensive and low-CO_2 products such as fish will become a cheaper alternative. The true costs will only come to light gradually, and consumers can only be guided by their wallets. Furthermore, agricultural subsidies could even be diverted into the aquaculture industry. It is these long-term perspectives that make us and our investors certain that we are betting on the right

horse. Invest on the basis of long-term trends and don't let yourself be derailed by short-term fluctuations.
Returns in Q2/23 repeatedly suffered from currency effects. The Norwegian krone fell another 3% against the euro, costing the fund a net 0.4% despite hedging. The Japanese yen, which has been clearly undervalued for several years, experienced a sharp dive of 9%. This alone cost the fund returns of -1.3%. From a fundamental point of view, hedging the JPY was and is not advisable, since the fair exchange rate according to the purchasing power parity theory is EUR/JPY 106 (currently 156), which means there is now appreciation potential of 47%. The Thai baht cost the fund -0.4%, and the Chilean peso -0.2%.

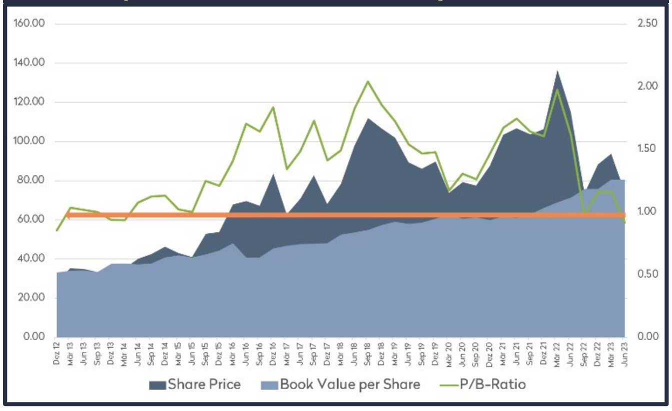
Final decision on the Norwegian salmon farm resource tax

The political wrangling in Norway finally gave way to clarity at the end of May: The final tax rate will be 25%, down from the 40% rate proposed at the outset. This may seem like a political compromise, but with an approval rating in parliament of just 55%, the tax is on shaky ground. Political shifts could lead to further attempts to find a more viable solution in 2025. Mowi, the biggest driving force in Norway, has now put NOK 5 billion (EUR 425 million) of long-term investments on hold, as the projects no longer meet the company's internal ROI threshold due to the additional tax burden. Not only would Mowi have created new jobs and tax revenue, the investment amount would also have generated turnover in the supply industry. This may seem like a harsh business environment, but the loss of this expenditure means reduced supply growth of Norwegian salmon. Mowi & co. will therefore benefit from the cheapest and least risky route to profit growth: price increases. However, the industry would still prefer to increase volumes and achieve efficiencies so that other stakeholders such as employees and consumers can get a slice of the action. Find more detailed information on resource taxes **here.**

Negative contributions to returns

The fund lost the most from its positions in Leroy Seafood (-1.0% points) and its parent company Austevoll Seafood (-0.9% points). Sentiments were extremely negative despite the better-than-expected outcome of the resource tax, and on top of this Leroy did not achieve its expected earnings for the first quarter of 2023. Earnings in salmon farming were burdened by the less-than-optimum harvest of small fish, which fetch lower prices on the market. However, the reduced earnings estimates in no way justify the 28% drop in the share price. You can turn the coin any way you want: Leroy Seafood offers extremely solid capitalisation and sustainably generates free cash flow that is distributed to shareholders. The fund collected a gross dividend yield of 5% in May and this with a pay-out ratio of just over 50%. At Austevoll Seafood, which in addition to its stake in Leroy has a pelagic fishing business, the almost identical stock market reaction of a -26% drop in the share price is even more surprising. Due to the cancelled fishing season in Peru, wild catch prices are going through the roof. Austevoll is also active in Peru but has identical operations in Chile and the north Atlantic. The Chilean and North Atlantic operations are earning so well that in Q1/23 they were able to compensate for the weak Leroy figures at group level. Moreover, consensus led to a slight increase in the 2024 earnings estimates. If you trust the analysts, you can currently invest in Austevoll at a P/E ratio of 5.3x for 2024. Equally interesting for value investors is the price-to-book ratio, currently a measly 0.9x, which has not been the case since 2013. The assets on the balance sheet (e.g. licences) are priced more conservatively than the market values that can actually be achieved. The effective proceeds would therefore be even higher. This is yet another sign of how negatively the market currently feels about Austevoll Seafood and what is in reality a promising outlook.

Austevoll price-to-book ratio over 10 years



Source: Bonafide, 7 July 2023

Further allocations to Norwegian salmon stocks such as Mowi, SalMar and Grieg cost -1.1% points. Outside Norway, the decline in Thai Union's share price weighed on the portfolio with -0.3% points. It is also 10 years since this crisis-resistant company was as cheaply valued as it is today. In the meantime, Thai Union's management has built up a product portfolio mix of "cash cows", "stars" and "question marks" in order to keep all options open. The insurance premium for globally falling share prices mentioned in the last quarterly report cost the fund -0.5% points and has been almost completely written off. The insurance cover against large price setbacks is still valid for a little over four months. In total, 15 stocks in the portfolio made a negative contribution during the last quarter.

Positive contributions to returns

At the other end of the table is Japan's Nissui (+0.8% points), whose share price has risen by 19%. When presenting its annual figures in mid-May, the company merely confirmed what it had promised 12 months earlier. The share price rise seems to indicate that the markets now have more confidence in the company's strategy, management and guidance. For next year, Nissui has forecast earnings of JPY 70 per share, corresponding to a P/E ratio of 9.2x. And again, the book value per bearer share of JPY 697 is almost 10% higher than the share price. In second place is Nichirei (+0.6% points), which is also mainly active in Japan. The two large segments, frozen food logistics and food manufacturing, are performing now as usual after a transition period. Food production in particular needed a few quarters to pass on the increased raw material costs to consumers through price increases. Why the market is still unwilling to pay the earlier multiples that allow 30-40% price gains is anyone's guess. In contrast to the West, interest rates in Japan are still low and better-yielding alternatives are rare. Shares in Taokaenoi (+0.6%-points), a seaweed snack producer from Thailand, took third place among the positive performers.

Although the company has been performing as promised in both the domestic and export markets for the last three quarters, the market keeps demanding confirmation. Taokaenoi's combination of double-digit growth rates with a debt-free balance sheet and existing production capacities is unique. The margin for each additional product sold is north of 40%, as fixed costs are incurred either way. The only fly in the ointment is that algae will become somewhat more expensive, making price increases necessary. In Chile, the allocation to Salmones Camanchaca and its holding Cia Pesquera Camanchaca contributed 0.3%-points thanks to high dividend yields. In total, 15 stocks made a positive contribution over the last 90 days.

Reallocations

At the end of April, shares in Mowi and SalMar anticipated a little too much in the heat of the political debate over the resource tax. In addition to taking profits via rebalancing, the salmon allocation was reduced by a net 175 basis points and reallocated in favour of Nichirei (+75 basis points) and Thai Union (+100 basis points). After disappointing quarterly figures from Leroy Seafood and Austevoll Seafood, rebalancing was dispensed with for tactical reasons and the quota was reduced by 50 basis points each. The price developments proved to be right, but in retrospect sales could have been even more active. The fact that sellers clearly outnumbered buyers on the market, despite the promising outlook and the better-than-expected tax rate in Norway, is very surprising. The fund took on new exposure in the Icelandic company Marel (+100 basis points).

Marel's FleXicut salmon technology

Source: Marel.com, 7 July 2023

Bonafide has been following this premium company since its dual listing in Amsterdam in the summer of 2019, and for the first time its share price is attractive enough for a purchase. Marel builds state-of-the-art processing machines for the protein industry (e.g. for poultry, cattle, fish). The trend towards increased process automation will support the company in the long term. The decline in Marel's share price is due to several disappointments such as lower order intake, delayed margin recovery and higher-than-usual leverage. The lucrative repeat business of machine maintenance has therefore been somewhat negated. In Japan, our allocation to Maruha Nichiro was also expanded by 50 basis points to increase the fund's exposure to the Land of the Rising Sun. Value investors like Warren Buffet are buying in Japan. Large caps will benefit first, although Japanese small and mid caps should also profit from the influx of international investment further down the line.

Outlook

Valuation metrics for the Global Fish Fund portfolio are now at levels last seen ten years ago in 2014. Ten years in which the same companies have invested millions in projects to strengthen their business model. They have expanded their value chains, developed new growth markets, refined proprietary production techniques and invested in their employees. All this has made the fund's companies more resilient to external disruptions such as recessions or even pandemics. Every industry is suffering total losses; the Global Fish Fund has been manoeuvring past icebergs for several years. The company valuations to be found in the fund's net asset value today are the product of a depressed market. These are financially robust companies with growing profits which are nevertheless “cheap as chips”. Have we already reached rock bottom, or is there more to come? We don't know. All we can say to you, dear investors, is that our daily analyses show enormous potential. Our fair share price targets, aggregated across the fund, are nearly 50% higher. Sooner or later, every share tends towards its “intrinsic value”, which is currently 50% higher than the published price. Whether our share price targets are reached, and how quickly, will be decided by the flows in the stock market. This could take one year, three years or five years. The fact is, there is an opportunity to achieve high returns with Fish & Seafood investments, and there hasn't been an opportunity this great since 2014. With this in mind: “Courage is good, but stamina is better.”

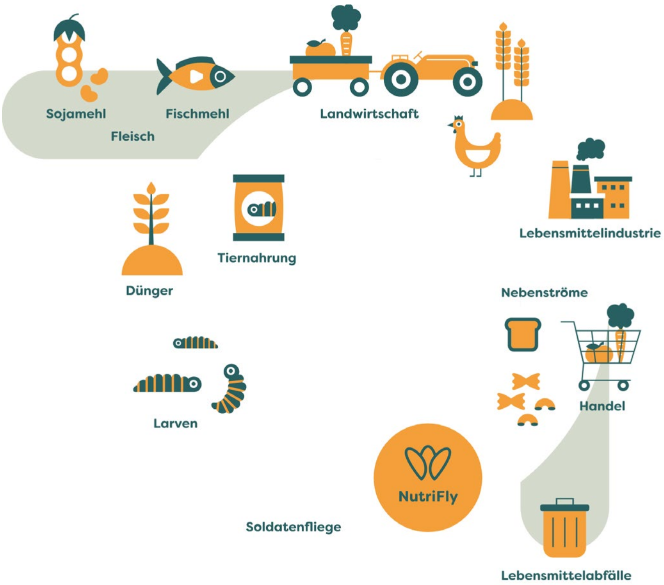
We thank you for the trust you have placed in us.

The performance contributions of the individual companies are shown in EUR currency and relate to gross profit. Our analyses and investment forecasts are carefully prepared but can never be a guarantee of future performance.

Sustainability

Blog post on insect protein
At the beginning of May, our last company visit took us from our offices just 10 kilometres away to the city of Vaduz, where we visited NutriFly, the first and so far only manufacturer of insect protein in Liechtenstein.

Details about our visit and the potential of the black soldier fly for creating a circular economy are available **here.**



Source: NutriFly

Agricultural sector yet to be included in the EU taxonomy
In early April, the European Commission published its **proposal** on the technical screening criteria for the remaining four objectives of the EU taxonomy.

The objectives include:

- Sustainable use of water and marine resources
- Transition to a circular economy
- Prevention and control of environmental impact
- Protection and restoration of biodiversity and ecosystems

Agriculture and forestry, including the fishing industry, were not taken into account in the proposal due to disagreements about the right objectives.

The proportion of taxonomy-compliant activities in the seafood sector will therefore continue to remain low for the time being. However, in view of the very low compliance rates, which are e.g. only 3% for the 40 DAX companies according to a **study** published at the end of June, and the resulting low adoption rate in the financial sector, no negative effects on our portfolio companies are to be expected.

Sustainability disclosure
As part of our reporting obligations under Regulation (EU) 2019/2088 (SFDR), we recently published a **statement on the principal adverse impacts of investment decisions on sustainability factors** (only available in German)**.**

In future, all sustainability-related disclosures for which we are responsible as part of our activities as asset managers will be made available **on this website.**

Signing of an investor letter for more sustainable agricultural subsidies
With our support for an **investor letter**, we, together with the investor network FAIRR, have called on G20 finance ministers to design agricultural subsidies in a more sustainable manner.

The core demands of the investors to the G20 include:

- The use of a measurable, performance-based framework to provide financial support to member states and farmers to help with the cost of providing public goods or environmental services.

- An end to incentives prioritising the yield of certain products at the expense of the climate and the environment and a shift to new monetary incentives for sustainable agriculture.

- The decoupling of subsidies from production metrics for single commodity transfers with high greenhouse gas emissions.

- An increase in the funding available for equitable transition mechanisms, or funds to unlock the necessary financial resources to support stakeholders affected by reforms.

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