

# Quarterly update September 2023

OVERVIEW OF OUR FUNDS	1
WEBINAR FROM 17/10/2023	1
RESEARCH/PORTFOLIO MANAGEMENT	2
SUSTAINABILITY	6
FOOD SAFETY – FISH AS FOOD	7
LEGAL NOTICES	8

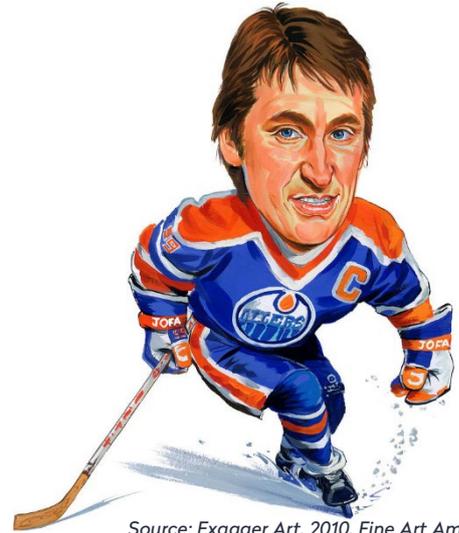


# Overview of our funds

## As at 30/09/2023

**“I skate to where the puck is going to be, not where it has been.”**

Wayne Gretzky, NHL's top scorer



Source: Exagger Art, 2010, Fine Art America

As at 30/09/2023	NAV	Δ3m	Δ12 m	Δ3 y	Δ5 y	return s.i. (p.a.)	Total AuM in Mio. CHF
Bonafide Global Fish Fund EUR	218.65	2.81%	8.29%	6.15%	3.84%	7.17%	
Bonafide Global Fish Fund EUR -A-	97.17	2.81%	8.26%	6.04%	3.73%	2.92%	
Bonafide Global Fish Fund EUR -B-	97.40	3.55%	n/a	n/a	n/a	n/a	
Bonafide Global Fish Fund CHF	133.86	2.26%	8.76%	-1.63%	-9.99%	5.86%	
Bonafide Global Fish Fund CHF -A-	90.53	2.25%	8.78%	-1.34%	-8.30%	1.42%	
Bonafide Global Fish Fund USD	123.03	0.47%	15.92%	-0.54%	-2.23%	3.10%	177
Best Catches I EUR	1'035.81	-0.22%	-0.97%	6.36%	n/a	0.81%	23
Opportunities I GBP	98.31	-3.88%	-13.60%	n/a	n/a	-0.85%	3
HBC I NOK	367.57	6.09%	-13.61%	n/a	n/a	-38.20%	3
HBC II NOK	367.89	6.38%	-12.76%	n/a	n/a	-41.26%	7

Source: Bonafide/IFM

### Strong performance anchored by giants from Norway, Japan and Thailand

In the recent quarter, the Bonafide Global Fish Fund EUR achieved a positive return of +2.81%. Despite the broader market's downturn towards the quarter's end, which influenced our defensively curated portfolio, the results could have soared even higher. The portfolio received a particular boost from the impressive results posted by the two Norwegian salmon farmers, SalMar and Mowi. Taokaenoi and the Japanese portfolio companies also delivered convincing results. Political disagreements in Chile weighed on the fund's performance, while lower grain prices alleviated cost pressures on companies. And let's not forget that there are 75 million more people on our planet than there were at the beginning of the year, and they all need to be fed.

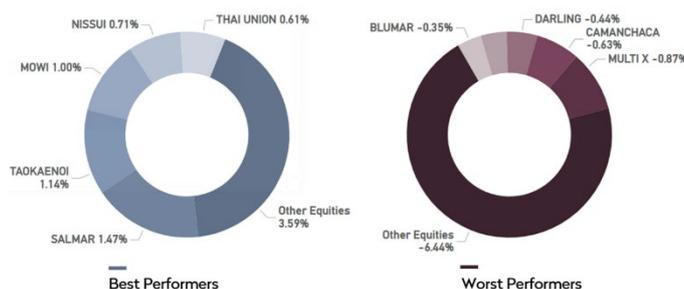
The #BlueRevolution is picking up speed, and with the Bonafide Global Fish Fund as a pioneer in the sector you are in prime position as a first mover.

### Solid fundamentals in a sector with long-term macroeconomic potential

Despite temporary market uncertainties and political challenges, our conviction for the sector remains very strong. The fund consistently focuses on companies with solid fundamentals that are capable of benefiting from long-term macroeconomic growth trends. An example of this is the Norwegian company SalMar, which aims to increase its annual volumes by 6%. Another highlight is Camanchaca from Chile: With a profit forecast of 35-40 million USD for 2023 and a current market capitalization of 220 million USD, it presents an attractive Price-Earnings Ratio (P/E) of 5.5-6.3x. On top of that, it promises investors very appealing dividend yields. Concurrently, we are witnessing a transformation in our Japanese Corporations as they evolve towards more modern business models.

### Nordic countries and Asia driving returns

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



Source: Bonafide

### Webinar on October 17, 2023

We are pleased to invite you to our next webinar on 17 October 2023 at 9.00 am (CET). We will be revisiting the ten bold forecasts we made at the beginning of the year and drawing some initial conclusions on how the Fish & Seafood sector has developed. Catch this wave of knowledge and ensure your spot by registering on our website today.

**>>> Register now.**

# Research/Portfolio management

## The "fish & seafood" megatrend - a land of plenty?

Before diving into the market report, let's address a few fundamental developments that have been on the minds of our research and portfolio management teams:

In 2023, the global population is expected to surge by an additional 100 million people. That's 100 million more stomachs craving healthy proteins. The average per capita consumption of fish worldwide stands at about 21 kilograms annually. To maintain market balance, an extra 2.1 million tons of fish would need to be produced in 2023 alone. This amount equates to the combined yearly salmon production of both Norway and Chile! The industry is, essentially, "condemned" to grow, necessitating substantial investments. So, what happens if short-term investments stall while population - and demand - continues to rise? **A gold rush and a potential land of plenty for companies in the "Fish&Seafood" sector?**

Now, what's the current price tag for investors to tap into this "land of plenty"? Presently, the portfolio of the Bonafide Global Fish Fund is available at a 40% discount from its historical valuation based on the Price-to-Book ratio in relation to the Return on Equity.<sup>1</sup> Such a lucrative opportunity was last seen in 2014, which was then followed by years of splendid returns for investors in the Global Fish Fund.

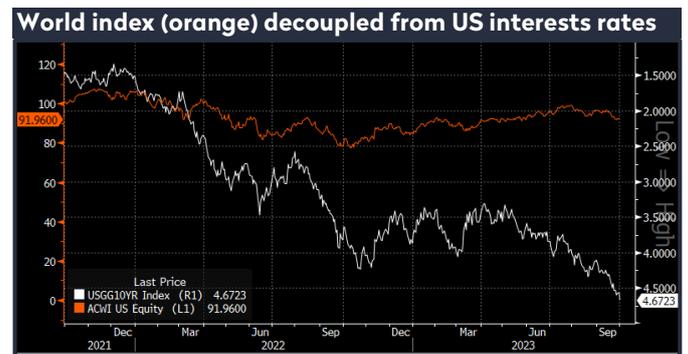
The *#BlueRevolution* is in full swing, making it a thrilling time to get involved. Are you ready to come aboard with us? We eagerly await your presence!

## Stock market environment in Q3/23

Market interest rates, which are orchestrated by the central banks, have a significant influence on stock market valuations. Ten-year US government bonds, which are considered risk-free investments, are now offering a 0.8% higher yield per annum than they were 90 days ago. The pure theory of the risk premium for shares would derive a price decline of around 13% for the world equity index at current valuation level. In fact, the index lost a mere -3.3% of its value in USD over the last three months. This is astonishing, as the stock market is repeatedly depicted as having manic depressive attributes; there was not much evidence of this at the end of the quarter, however. Volatility metrics for July, August and September were also modest. As previously observed, the relationship between interest rates and equity valuations remains decoupled.

**«Currently, you can get the portfolio at a discount of 40% from its historical valuation.»<sup>1</sup>**

Philipp Hämmerli, Chief Investment Officer (CIO)



Source: Bloomberg, 2 October 2023

The division of the stock market into a few expensive shares and many cheap securities also continues to exist. Investors are therefore advised to remain selective. Highly liquid financial products such as exchange-traded funds are inevitably peppered with expensive, large-cap tech stocks from the USA. Even behind fund products with promising names such as "Newday Ocean Health ETF" (ISIN US8863645797), Apple, Alphabet and Microsoft build the three top positions. On the currency front, the USD has appreciated strikingly; since its low in mid-July, the USD currency basket (DXY) has gained almost 7%. For investors looking for a short-term "safe haven", current interest rates are certainly attractive. But without a change in behaviour, economically there is not much to be said for a strong US dollar in the medium to long term - the keyword here is "trade deficit".

On the commodity markets, oil prices in USD rallied by a remarkable 30%. Interest-free gold, on the other hand, lost almost 5% in value and dipped to lows last seen in March. In this asset at least, the market seems to understand the link to interest rates. Grain futures are weaker, for example corn futures, which have dropped to levels last seen at the end of 2020. For meat and fish producers, these lower prices are relieving some of the pressure on the cost side.

## Developments in our sector

Up to mid-September, the fund's valuation really shone, showing gains of 6% in EUR before the food portfolio started to crumble along with the overall markets. As of 30 September, the fund's quarterly return was +2.81% in EUR. Political risks are continuing to influence fund allocations and are ensuring few inflows into the attractively valued shares. As is well known, China has reacted to the release of cooling water from the decommissioned nuclear power plant in Fukushima by banning imports of Japanese fish products. The reaction is hardly understandable, since nuclear power plants all over the world discharge purified cooling water into the open sea. Plants must comply with maximum permissible radioactivity levels, which is enforced by the International Energy Agency. Incidentally, the amount of water being discharged corresponds to about six conventional shower heads running permanently. At the fund level, the ban is more of an opportunity than a threat, since the Japanese companies held by the fund produce primarily for the domestic market (keyword: self-supply). Since the beginning of the year, China has been buying record quantities of salmon from Chile and Norway at favourable prices. Meanwhile in Chile, President Gabriel Boric, who has had little

<sup>1</sup> We prepare our analyses and investment forecasts very carefully, but they can never offer an absolute guarantee of future performance.

success, is making another attempt to ban the salmon industry from certain areas. It was not until May 2023 that a corresponding article in the new aquaculture law was deleted, after the salmon industry and employees banded together and took to the streets in their thousands.



Source: SalmonChile, 4 October 2023

By planning to hit the industry with a fresh ban instead of working with salmon farmers to relocate the sites, Boric risks destroying 70,000 coastal jobs. This reckless approach by the president, who has been in office since 2021, would hit rural populations the hardest. Salmon production is the most important industry in southern Chile, so employees and their families will likely have to hit the streets again to protest against the flawed policy. For global salmon investors, the risk balances out. A massive drop in volume in Chile would cause global salmon prices to skyrocket.

The left-wing Norwegian government experienced the consequences of a similarly misguided policy in regional elections in mid-September. For the first time since 1924(!), the Conservative party headed by former Prime Minister Erna Solberg gained more votes than the social democratic Labour party. The conservatives even won in the capital Oslo, usually a stronghold of the Labour party. This hints at what might come in the next general election, which will be held in 2025 at the latest. The massive shift to the right will re-launch the debate surrounding the resource tax on aquaculture. Nine months after the tax was introduced, we still lack important parameters for calculating the effective additional financial burden. Salmon stocks in Norway clearly overreacted to the new resource tax when it was announced about a year ago; however after these encouraging election results, prices didn't move. This illustrates the prevailing pessimism, meaning that worst-case scenarios are priced in. In currency terms, the Norwegian krone appreciated by 3.4% against the EUR, which gave the fund a net return of around 0.6%, i.e. after hedging transactions. In South America, the Chilean central bank began to cut interest rates in response to the cooling economy. The peso lost almost 8% against the EUR, which – in isolation – cost the fund -0.9% in returns. However, since the majority of Chilean export companies generate their income abroad in USD, an efficient stock market, ceteris paribus, would (have had to) allow securities to rise in step. Inefficiencies of this type balance out in the long term, meaning that the securities have continued to increase in attractiveness. The strengthening US dollar contributed a net return of 0.3% in EUR to the fund. The Japanese yen and Thai baht moved sideways against the EUR reference currency.

### Positive contributions to returns

SalMar shares posted impressive gains of 26%, contributing +1.3 %-points and leading the fund's performance. The last remaining concerns about the financial viability of the company's large acquisition the previous year were finally vanquished when it published its quarterly results in August. In addition, SalMar cancels some of its own treasury shares. As the icing on the cake, the company invited to Tromsø in early September for its first Capital Markets Day in over 10 years. The company laid out impressive guidance on how they will increase volume by 6% annually in the wake of the major acquisition. The silent movers and shakers behind SalMar are known to err on the side of caution with their estimates, which is why no one doubts that they can achieve their goal. The impressive thing about growth is that the investment has already been made. Apart from maintenance costs, the only thing that SalMar needs to invest in to achieve their forecast is feeding the fish.

### Up to 150 salmon per minute: Processing in Silsand



Source: Bonafide/SalMar InnovaNor, 7 September 2023

Thailand's Taokaenoi (+1.1%-points) also advanced strongly (+23%). The company's Q2/23 results were in line with our estimates; however, they seemed to exceed the expectations of the rest of the market. While the Bangkok plant has been strictly managing its costs since the pandemic, management has managed to increase sales of its seaweed snacks in all end markets. Improved capacity utilisation at the factory has led to higher margins, which have been in evidence for some time. As Chinese tourists are now returning to Thailand on holiday in greater numbers, the debt-free company has been able to increase guidance to 20% sales growth for 2023.





Source: Taokaenoi, 6 January 2023

A second salmon producer also made it onto the positive returns podium: Mowi (+0.8% points). The evolution of the share price was supported by positive figures as well as the increasingly clear prospect of minimal supply growth over the next 5-10 years, which is sustaining high salmon prices. The share of Japan's Nissui (+0.7% points) was also experiencing a small price firework after its quarterly figures were released. The stock thereby continues the positive price evolution it has been experiencing since April 2023. As with Taokaenoi, the market was extremely positive about Nissui's figures. But Nissui (formerly Nippon Suisan Kaisha) has just delivered what it promised about 18 months ago when announcing its 3-year plan. The company is trying to build market confidence through transparency and better investor communication. Since its rebranding in autumn 2022, it has also been trying to shed its dusty image as a fishing company ("suisan" in Japanese). Nissui is increasing its aquaculture volume annually with high-end species such as salmon and kingfish, which should help the company to sell its story to investors. The future belongs to Nissui. The fund's other Japanese allocations in Nichirei (+0.4%-points), Maruha Nichiro (+0.3%-points) and Kyokuyo (+0.2%-points) also contributed positively. On the Thai stock market, shares of Thai Union (+0.6%-points) broke away from their lows. In the past few quarters after the COVID pandemic, the company fell victim to the inventory cycle. Due to fears of renewed supply chain disruptions, orders were (too) high in 2021/2022, but the end markets are now reducing their inventory stockpiles. In total, 16 stocks in the portfolio made a positive contribution during the last quarter.

### Negative contributions to returns

The fund recorded unrealised valuation losses on its investments in Chile. Bonafide's holdings in Multi X (-0.5%-points), Camanchaca (-0.4%-points), its subsidiary Salmenes Camanchaca (-0.4%-points) and Blumar (-0.2%-points) all posted price losses. The seafood segment on the Chilean stock exchange is failing to attract new investors. And the unrepresentative share prices continue to bob along. The wild-catch divisions of Camanchaca and Blumar are making a killing, while the salmon segments of all companies suffered price drops in Q2/23. The important US sales market was flooded with wild Alaskan sock-eye salmon due to the record harvest in 2022 (61 million fish). These had to be sold at knockdown prices prior to the new fishing season to free up storage space. The price of farmed salmon had recovered by July, however, which Chilean companies should confirm with their Q3/23 figures. Possible that investors may also be exercising caution due to the aforementioned

political risks in Chile. Nevertheless, the valuations are ridiculous. An example: Camanchaca will post around USD 35-40m profit in 2023, while the market capitalisation is USD 220m. This represents a price/earnings ratio of 5.5-6.3x for a growing food company. The book value of the share on the balance sheet is CLP 78.00, while on the stock market it only pays CLP 50.00. However, licences and wild-catch vessels are markedly undervalued on the balance sheets. Camanchaca has a fleet of six wild-catch vessels, each with a market value of around USD 20 million. As of 30 June 2023, the balance sheet value was a mere USD 46 million. Investors should remain patient and not be confused by the stock market prices. After all, the dividend alone will have generated gross returns of almost 8% in 2023. Ceteris paribus, the 2024 distribution will be in the double-digit percentage range. On the US stock markets, shares of Darling Ingredients (-0.5% points) and Nomad Foods (-0.5% points) were punished. The European-based manufacturer of branded frozen foods Findus currently finds itself in a difficult environment, but a valuation of less than 10x P/E for a strong cash flow generating food company is extremely attractive. The major British shareholders around Noam Gottesman (7.5% stake) and Martin Franklin (6.0%) will ensure that the corporation invests in its own shares as soon as finances allow. At Darling Ingredients, which makes products such as collagen and renewable fuel out of residual waste from animal processing factories, lower certificate prices are a burden. In the US, diesel must contain a minimum proportion of renewable fuel which is set by the government. In the long run, this proportion will continue to rise. For the moment, supply in the US seems to have grown faster than the government-mandated demand, which is why certificate prices have fallen back to 2020 levels for the first time. In the past 90 days, a total of 18 stocks made a negative contribution to returns.

### Reallocations

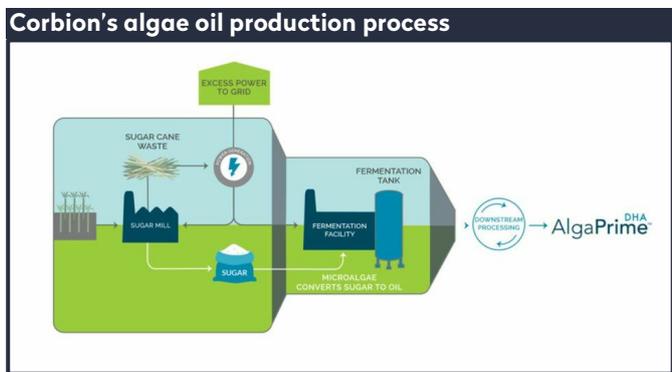
After price increases at SalMar, the allocation was steadily rebalanced, and profits were taken. As the insights gained in the last quarter have raised the intrinsic value of the share by 15%, the model portfolio ratio of 5% remains in place. In the case of Nissui and Taokaenoi, on the other hand, the share price has approached their target values. Their allocations were therefore reduced by 100 base points each. The allocation in Thai Union, shares of which are trading at THB 14.00, was increased by 100 base points at the beginning of August. With a 5% weighting, the stock has regained its top 5 position in the fund, lost when the portfolio sold half of its Thai Union shares for over THB 21.00 in the summer of 2021. The allocation in Nomad Foods, another long-time fund companion, was increased by 75 base points. The stock is trading at 2017 prices, but now has a more diversified country and product portfolio and is earning 60% more than in 2017. The share price simply does not reflect the company's fundamental performance in recent years. The fund also added 200 base points to its allocation in Bakkafrost. For some investors, the acquisition in Scotland is proving to be a waiting game. Since the M&A transaction happened in 2019, predictions were that it would take at least 5 years for Bakkafrost to modernise the facilities in the Scottish Highlands. At prices close to NOK 500.00, the stock is valued extremely attractively. The company, which

originates from the Faroe Islands, has the necessary licences and technology to increase harvest volume by 90% by 2028. It is always interesting to watch how many investors throw in the towel just when the volume potential is highest. Bakkafrost will bring much joy to anti-cyclical investors before the end of the decade.



Source: Bonafide/Bakkafrost Scotland, 6 June 2023

Finally, the fund added two new positions in promising business models. Norway's TOMRA Systems provides sorting technology for various applications, including food processing and plastics. The share was really hyped by ESG funds in 2020 and 2021 and the P/E ratio reached a valuation of over 100x(!). Meanwhile, the share price has fallen to 2019 levels, despite the fact that the company is earning almost 40% more than in 2019. TOMRA's plastics recycling and sorting technology is the future, which is why Bonafide has made a strategic allocation in this fast-growing but dividend-paying company. The second new position is in Dutch fermentation specialist Corbion. The company produces natural ingredients based on lactic acid which preserve food for longer. Lactic acid can also be used in the production of bioplastics and in medical applications. Most interesting of all, however, is Corbion's new algae segment. Corbion produces algae oil from sugar cane in Brazil, which serves as a substitute for fish oil in feed for aquaculture. Thanks to the high fish oil prices, this substitute has made a breakthrough and is being scaled at a rate of knots. After a long hiatus the share is now attractively valued again, which is why Bonafide has made a strategic allocation.



Source: Fishfarmingexpert.com, 6 October 2023

Allocations of 100 base points have been made in both TOMRA and Corbion. Thanks to the fund's cautious allocations over the past 18 months, Bonafide currently has room to manoeuvre in making further acquisitions.

**Outlook for Q4/23**

In November, the companies present their quarterly results as of September 30th. Recessive stock valuations will meet solid results which tends to provide support for price developments. Politics will continue to determine part of the environment, whether in Norway regarding resource taxes or in Chile regarding licenses. However, every decision, whether positive or negative, will reduce uncertainty and sharpen the investment profile. The left-wing governments are under a lot of pressure and cannot stay in power with further arbitrary decisions. In Japan, signals of a more restrictive monetary policy are expected which will support both the yen and inexpensive value stocks. And finally, the northern hemisphere enters the winter months where water temperatures drop, and salmon grow more slowly in Norway. Wholesalers and supermarkets will have to adjust to higher prices again. For share prices the question is, when investors will begin to recognize that salmon prices remain "higher for longer" and thus compensate for the political quarrels.

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

*Performance contributions of individual companies are shown in EUR and refer to gross profit. We prepare our analyses and investment forecasts very carefully, but they can never offer an absolute guarantee of future performance.*



# Sustainability

## Visiting the “Plastics” innovation forum in Amsterdam

In early October, representatives of the plastics industry met in Amsterdam to discuss the creation of a plastics circular system. As a supporter of the Business Coalition for a Global Plastics Treaty, Bonafide was also present to gain insight into the industry's sentiments.

Most agreed that the majority of companies recognize the signs of the times, but there won't be a single solution. Instead, based on the specific use-case, the pros and cons of various approaches must be weighed. For example, paper packaging saves plastic but has a higher water and energy consumption and often still contains some plastic, making it hard to recycle.

The industry is currently placing great hopes on the international plastics treaty, which is expected to be completed by the end of 2024. This treaty could establish global standards, simplifying the plastics circular system.



Source: PackagingNews, October 2023

## Attending Europe's first algae summit in Paris

A promising partial solution to the plastic problem was presented to us just a few days later at Europe's first Algae Summit in Paris.

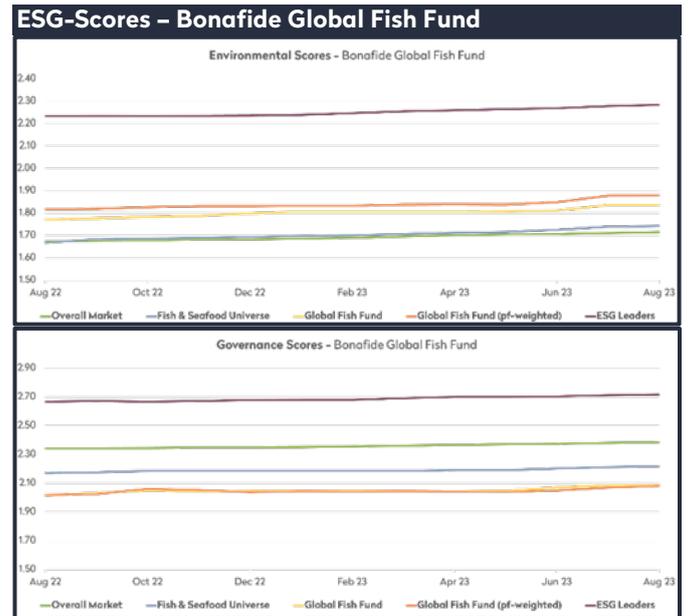
Algae is an incredibly diverse resource. The genetic differences between red and green algae are more significant than those between fungi and elephants. This diversity is increasingly reflected in the range of products available, which now includes cosmetics, food, climate solutions, fertilizers, feed, pharmaceuticals, and bioplastics. The industry agrees that algae are truly versatile, but their competitiveness still needs fine-tuning.

Pushing out established products is no easy task, but determination is evident. With a bit of luck, great things can happen, as shown by NOTPLA, a company that produces a compostable coating for selected food boxes. Thanks to a law, they virtually went overnight from being the most expensive to one of the most affordable suppliers in the Dutch market.

## Separate environmental, social and governance scores available online

Separate scores for the three ESG sub-sectors have been available on our website for a few weeks.

In summary, the Global Fish Fund (below in orange) is clearly outperforming in the area of environment, while in the area of corporate governance the opposite can be observed. There is a relatively simple explanation for these deviations: operations tend to focus on environmentally related products, plus there is a bias towards large-cap companies in the evaluation of corporate processes.

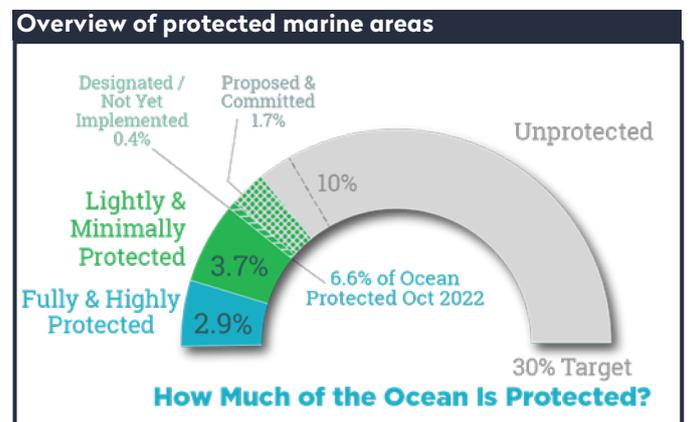


Source: Bonafide

## Blog post on the UN High Seas Agreement

In December 2022, the Global Biodiversity Framework was agreed in Kunming and Montreal. Among other things, the framework aims to ensure that at least 30% of land and sea area is protected by 2030. And just three months later, after fifteen years of negotiations, an agreement on the high seas was concluded. For the first time, this agreement creates a legal framework for establishing marine protected areas.

Read more about the pros and cons of marine protected areas and the current state of implementation [here](#).



Source: Marine Conservation Institute

# Food Safety

A 2017 **documentary**, which currently has around 9 million views on YouTube, dubbed Norwegian farmed salmon the most toxic food in the world.

The documentary's main argument was that high fat content in farmed salmon holds significantly higher concentrations of dangerous substances than found in wild salmon, and that this is due to fish feed.

What is behind the concerns about the safety of eating farmed salmon? We provide an insight:

## Harmful substances

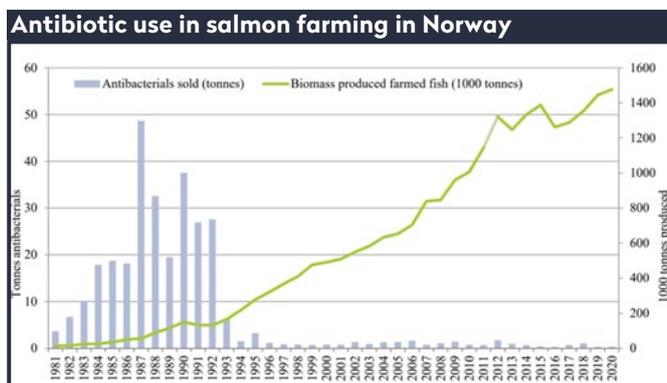
It is true that substances can accumulate in fat, and that the fat content of farmed salmon, at around 20%, is about 3 times higher than that of wild salmon (which, however, also means more healthy omega-3 fatty acids).

Contrary to earlier studies, however, more recent studies have not found increased levels of harmful substances, especially PCBs, in farmed salmon. Use of the antioxidant ethoxyquin in fish feed was under-regulated for a long time, but it has been banned for safety reasons in the EU since 2020 due to insufficient data. Heavy metals, which are increasingly found in animals at the top end of the food chain through bioaccumulation, are also no longer an issue for farmed salmon thanks to their diet, which is now about 75% plant-based.

## Antibiotics

As far as using antibiotics to fight disease is concerned, fish farmers were long deserving of their bad reputation. Especially before the turn of the century, fish were regularly administered large amounts of antibiotics, which not only had a negative impact on the environment, but also endangered the fish's health and contributed to increased antibiotic resistance.

Fortunately, the industry has learned from its mistakes and the use of antibiotics in Norway has now been reduced by over 99% to a negligible amount thanks to the development of vaccines and the implementation of mechanical delousing methods. In Chile, slightly higher amounts of antibiotics are still being administered, mainly due to the disease SRS, for which no vaccine has yet been developed.



Source: Norwegian Veterinary Institute

## Plastic

We wrote a **blog article** in 2022 on the subject of plastic. The article showed that, although we ingest about 5g of microplastics per week (which is about the weight of a credit card), the main sources of primary microplastics are synthetic textiles, tyre wear and urban dust.

A serving of 225g of mussels, in which (unlike most fish) we also consume the gastrointestinal tract and therefore more plastic particles, contained a harmless 7 micrograms of plastic.



## Colourings

The fact that farmed salmon are fed with dyes to turn their flesh the familiar pink/orange colour is often a topic for discussion. However, wild salmon ingest the dye astaxanthin in the same way when eating small crustaceans and shrimps. Accordingly, the practice is not unnatural or even questionable.

## Hormones

According to feed producers, no growth hormones are used in salmon feed.

## Summary

Every year, the Norwegian Institute of Marine Research tests random samples of farmed fish for PCBs, heavy metals, pesticides and flame retardants. This ensures compliance with the legal limits at all times.

For the vast majority of people, eating farmed salmon is therefore completely safe. Only small children and pregnant women should exercise increased caution due to the potential presence of heavy metals. Everyone else can enjoy up to 200g of salmon per week without hesitation. The World Health Organisation recommends regular consumption of fish (1-2 portions per week), which should ideally contain omega-3 fatty acids. The reason for this is that omega-3 fatty acids are "essential" – our bodies cannot produce them, so we have to get them from food.

Several independent studies have also found that eating fish is good for our health in numerous ways, including strengthening the heart.

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