

Active Ownership Report 2022



an ocean of opportunities

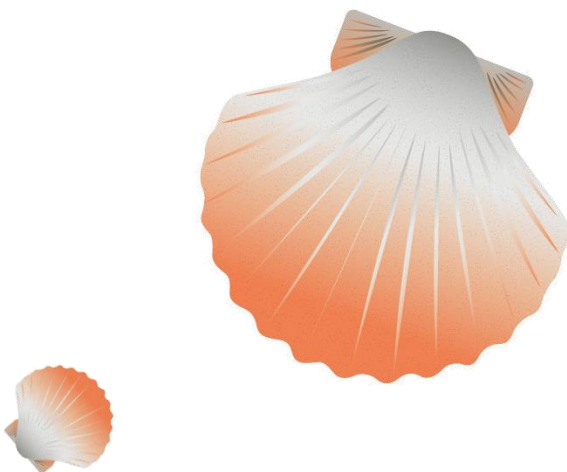
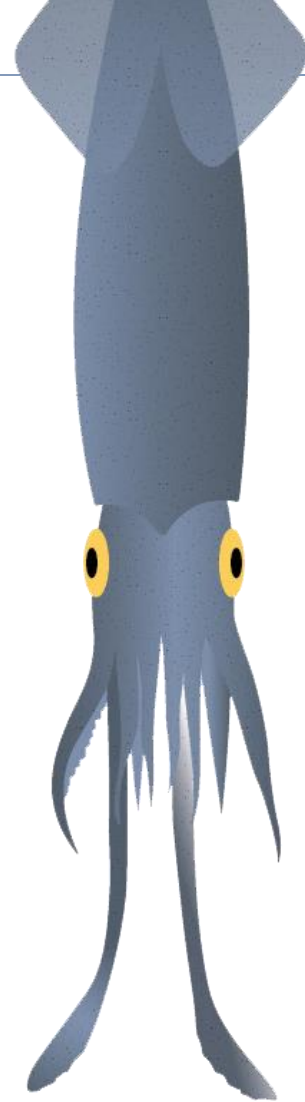
bonafide

Active Ownership Report

2022

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1. Executive summary

In addition to continuing the engagements launched in previous years, this year our efforts in the field of active ownership have primarily revolved around principal adverse impact (PAI) indicators and controversial weapons.

In order to address PAIs in line with the European Sustainable Finance Disclosure Regulation in the context of an engagement, we have worked to educate our investment universe on the importance of PAIs for the European financial industry and to initiate improvements, particularly in the case of binary PAIs.

We have also worked to clarify the potential involvement of Veolia Environnement SA in the manufacture of controversial weapons, which we were ultimately able to assess as inaccurate.

As active owners, it is particularly important for us to talk to the management and visit the companies on site. In 2022, we spoke with 17 different company managements and visited 12 businesses on site.

2. Thematic engagements

Communication of exclusion criteria

Since introducing exclusion criteria to our investment process, every year we contact all the companies in our investment universe which have been affected by the exclusion criteria and tell them why their company was excluded. The intention behind this is to make companies aware of the consequences of their violations and, if necessary, encourage them to rethink.

Overall in the last year, just under 6% of the companies assessed for their sustainability performance were excluded from our investment process due to violations of the exclusion criteria. The majority of violations concerned the UN Global Compact principles, as shown in the table below. Compared to the previous year, only Empresas Copec SA was able to clear itself of the allegations existing against it.

Overview of exclusion criteria violations

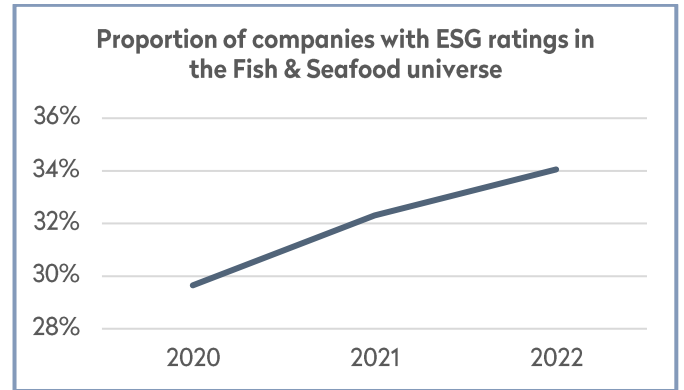
Exclusion criterion	Type of violation	Number of violations
UN Global Compact	Human rights	4
UN Global Compact	Environment	3
UN Global Compact	Labour standards	1

Improvement in the availability of ESG ratings

Over the past few years, our efforts to improve the sustainability balance of the Fish & Seafood sector initially focused on expanding the sustainability data available to us in the form of ESG ratings.

In many respects, the field of sustainability analysis is still being developed worldwide, meaning that sustainability reporting cannot yet guarantee the same level of transparency and standardisation as financial reporting. Providers of sustainability databases can provide a remedy to this, as by using consistent assessment criteria they can create a comparable, albeit subjective, data set which can be used as a basis for investment decisions. However, companies with relatively low market capitalisation (such as those from the Fish & Seafood sector) are usually only included in sustainability databases at a lower level, meaning that without our intervention, investors such as ourselves would be denied an important basis for decision making.

To counteract this, since 2018 we have been investing in the production of ESG ratings in the Fish & Seafood sector via our data provider, ISS ESG. A look at the chart below shows that last year we were once again able to increase slightly the proportion of companies in our investment universe with ESG ratings.



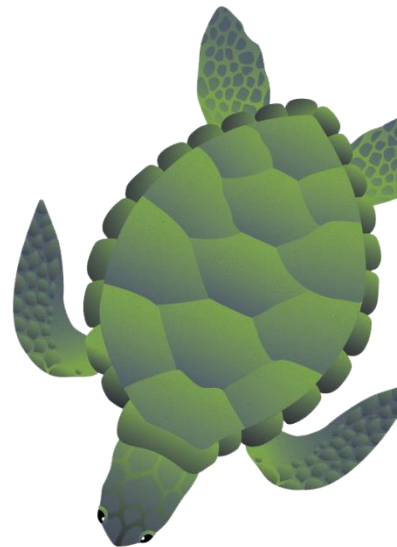
In our own portfolios, we have already achieved 100% coverage.

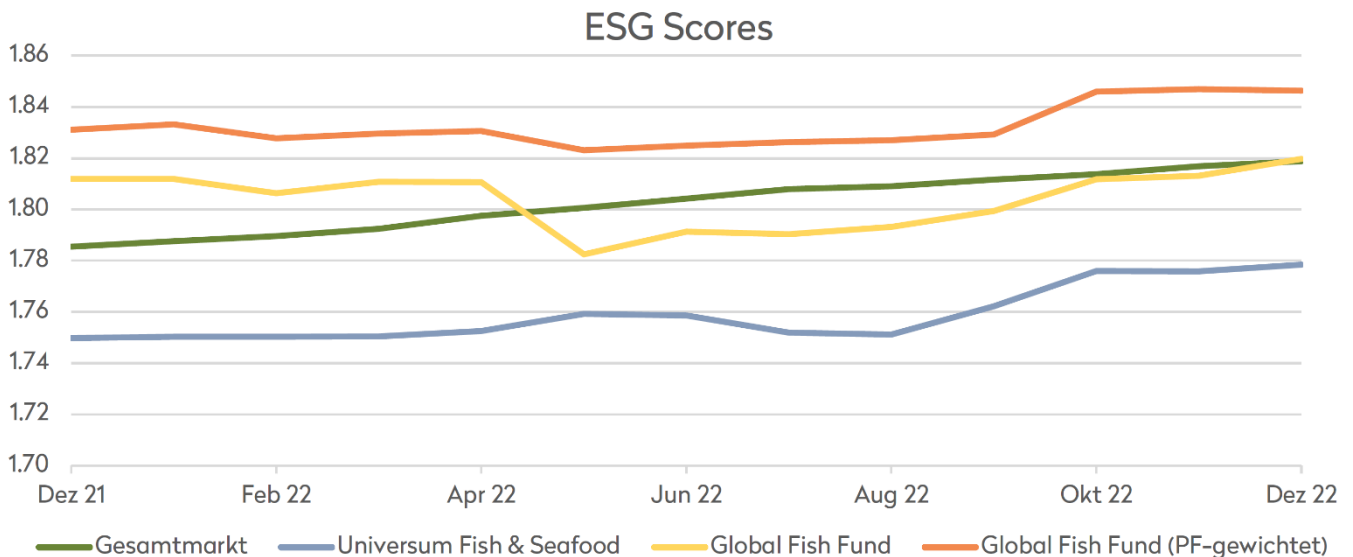
Improvement in the quality of ESG ratings

The quantity of available ESG ratings is not the only factor; their quality also plays a decisive role. For companies which already have an ESG rating, we are therefore committed to improving the quality of the data provided.

In many of the 55 meetings we held with managers last year, we repeatedly called for improvements in ESG ratings.

Our portfolios in particular and the Fish & Seafood sector in general showed a stable evolution compared to the overall market. With a year-on-year improvement in their ESG ratings of around 35%, Elanco Animal Health Inc. achieved by far the strongest growth in the Bonafide Global Fish Fund.





Engagement on binary PAIs

As part of our efforts to consider the adverse impacts of our investment activities under the Disclosure Regulation, last year we conducted an engagement on binary PAIs in our investment universe.

The aim of the engagement was to draw the attention of our investment universe in general to the growing importance of PAIs for the financial industry, and also to initiate improvements in binary PAIs in particular.

In this context, we define binary PAIs as all PAIs that are evaluated on the basis of a simple *true/false* assessment and which therefore tend to offer less room for interpretation than PAIs that are dependent on a reference value.

Binary PAIs cover the following indicators:

- **Exposure to companies active in the fossil fuel sector**
- **Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises**
- **Lack of processes monitoring UNGC and OECD Guidelines compliance**
- **Investments in companies without carbon emission reduction initiatives**
- **Investments in companies without water management policies**
- **Natural species and protected areas**
- **Investments in companies without workplace accident prevention policies**
- **Lack of a supplier code of conduct**
- **Lack of a human rights policy**
- **Lack of due diligence**

In our investment universe as at October 2022, there were a total of 479 breaches of the PAIs listed above by 110 companies. We expect the number of violations to decrease significantly in the medium term.

3. Collaborative engagements

Support for the Business Coalition for a Global Plastics Treaty

In order to prevent our oceans from becoming even more polluted by plastic, in 2021 we signed an investor letter calling on the United Nations to create an international framework for a sustainable, circular economy for plastic. The UN has since begun work to develop the concept, and it is due to be completed by 2024.

In order to provide ongoing support for future treaty negotiations, the investor letter we signed in 2021 has given rise to the **Business Coalition for a Global Plastics Treaty** in which Bonafide is also involved as a supporter. The coalition aims to provide a unified voice for companies, financial institutions and NGOs and represent their views in the treaty negotiations.

The coalition will support the following key elements in the negotiations leading up to 2024:

- A timetable for phasing out problematic plastics
- Incentives for the expansion of the circular economy
- Mechanisms to ensure earmarked funding for the collection and recycling of plastics after their use
- Tools to support implementation and monitor progress

Investor letter on deforestation-free imports

Deforestation is responsible for approximately 10% of all global carbon dioxide emissions. In order to achieve the Paris climate goals and also to preserve biodiversity, it is urgent that we stop deforestation.

In December 2022, the EU decided to import only (selected) deforestation-free raw materials in the future, and the USA is likewise moving towards ensuring deforestation-free supply chains.

To support this process, last year we decided to sign an investor letter calling on the US Congress to advance a bipartisan bill known as the FOREST Act (S.2950/H.R.5508). The FOREST Act requires that agricultural commodity supply chains must be traceable to ensure that only deforestation-free imports enter the country.

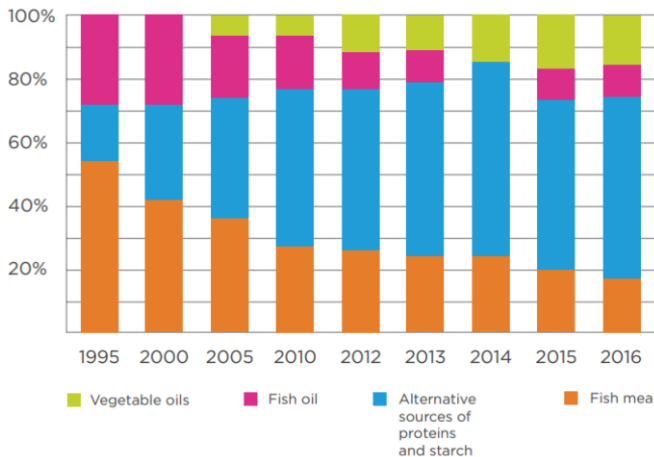
Collaborative engagement for sustainable fish feed – Phase 2

Fish feed is responsible for almost 50% of production costs and 60-90% of greenhouse gas emissions in salmon farming, meaning that it is a central issue for aquaculture from both a financial and a sustainability perspective. We are therefore happy to support FAIRR’s Aquafeed Engagement, the goal of which is to work towards the most sustainable feed supply possible.

The aim of the engagement is to encourage companies to become increasingly aware of the risks posed by soya and wild fish in fish feed. Strategies include the increased use of offcuts and alternative feeds such as algae oil and insect meal in the coming years to reduce further the dependence on soya and wild fish. Uniform key performance indicators will be used to measure the success of these strategies.

Great progress has already been made in this area. For example, the soya used by European fish farmers has been certified as deforestation-free for many years. And since salmon farming began in the 1970s, the composition of feed has increasingly moved away from high-value fish and especially fish oil, as the chart below shows.

Feed composition in salmon farming



Source: GSI

In Phase 2 of the engagement, support among investors has now significantly increased, as the following chart shows.



Source: FAIRR

However, companies are still reluctant to make specific commitments on using alternative ingredients. The advantages of substituting fish oil with algae oil are widely accepted in the industry, but the continued high costs are still hindering a large-scale switchover.

On the other hand, the use of insect protein as an alternative to fishmeal and soy protein is meeting with much narrower acceptance in the industry. Of the eight salmon farmers we contacted in Phase 2, only two companies consider insect meal to be a core component of their feed strategy, while three companies expressed concerns about the digestibility and nutritional profile of insect meal.

4. Company-specific commitments

Clarification of the potential involvement of Veolia in the manufacture of controversial weapons

On 15 September 2022, we received a report from ISS ESG that **Veolia Environnement S.A.**, one of our portfolio companies, had a verified involvement in controversial weapons.

In detail, ISS ESG assessed Veolia Environnement SA to be involved in the Triumphant class ballistic missile submarine (SSBN) programme through its wholly owned subsidiary Veolia Environnement Industries SAS. These submarines are dedicated launch platforms for M51 submarine-launched ballistic missiles, which have the sole purpose of carrying nuclear warheads. Défense Environnement Services (DES), a joint venture of Veolia Environnement Industries, is a provider of bespoke on-board and shipyard logistics for the maintenance and repair of Triumphant class SSBNs. Involvement by DES in the Triumphant class SSBN programme is confirmed by the company.

After receiving this report, we contacted Veolia to clarify the situation. In case we found Veolia’s involvement to be material and no amicable solution with the company were to be agreed within the framework of an engagement, Bonafide would have to divest its stake in Veolia within a couple months in accordance with our exclusion policy.

In order to assess whether Veolia has made a material contribution to the production of controversial weapons, we have attempted to answer the following four questions in the context of the engagement. You can read more about these questions in our related **blog post**.

- Should the weapon as a whole be classified as controversial in principle?
- Should the transport and delivery system be considered a component of the weapon in addition to the warhead itself?
- Exactly which activities are covered by the concept of manufacture?
- Is the activity being performed to be judged as essential?

In specific terms, in the present case we have come to the conclusion that three of the four assessment factors mentioned must be assessed negatively. However, we do not

consider the criterion of a material contribution, and thus the involvement of Veolia in controversial weapons, to have been met.

Unlike ISS ESG, we do not consider the criterion of a material contribution to have been met. Where ISS ESG considers logistics services performed by DES in the direct context of Triumphant class SSBNs to be an instrumental contribution to the maintenance and repair of these submarines, we also try to take into account the replaceability of the service rendered. With its team of 13 employees, which corresponds to about 1% of the people working on site, DES does not appear to have played a substantial role in the maintenance work. Moreover, the services provided, which include in particular the supply of air, electricity and power tools on board, as well as part of the goods logistics and warehouse management in the dock (in collaboration with other logistics companies), do not appear to be overly specialised. In our view, a competitor could quickly compensate for any failure by DES, meaning that there would be no long-term interruption of maintenance work.

Company visits and meetings with management

As active owners and responsible investors, we place particular importance on carrying out a detailed analysis of companies we invest in. This includes meetings with management and on-site visits. In many cases, our overall image and analysis may change if we have had the opportunity to visit the company in person and see how it operates. In particular, sustainability commitments are much easier to understand on site. We report on all company visits via our **blog**. In 2022, we held meetings with numerous management teams, visited companies in Norway and Chile and expanded our international network.

Following is an overview of the portfolio companies with which we were in personal contact or visited in 2022:

Portfolio company	Meeting with management	Company visit
AKVA Group	X	X
Austevoll Seafood	X	X
Bakkafrost	X	
Benchmark Holdings	X	X
Blumar		
Café de Coral		
Camanchaca	X	X
Charoen Pokphand Foods		
Clean Seas Seafood Ltd	X	X
Clover Corporation Limited Rg		
Darling Ingredients		
Elanco Animal Health		
Evonik Industries AG		
FEED ONE		
Froy Rg	X	
Grieg Seafood	X	X
High Liner Foods		
Hofseth Biocare ASA	X	X

Kyokuyo		
Leroy Seafood Group ASA	X	X
Maruha Nichiro		
Mowi ASA	X	
Multiexport Foods SA	X	X
Nichirei		
Nissui Corporation Rg	X	X
Nomad Foods		
SalMar	X	
Salmones Camanchaca Rg	X	X
Schouw & Co.	X	X
Sprouts Farmers Market		
STEF		
Taokaenoi Food & Marketing		
Tassal Group	X	
Thai Union Frozen		
Veolia Environment		

5. Conflicts of interest

In accordance with the existing legal requirements, Bonafide prevents the occurrence of conflicts of interest and always safeguards the interests of the funds. Only in exceptional cases, if a conflict of interest cannot be prevented after all available measures have been taken, is a disclosure made to the funds.

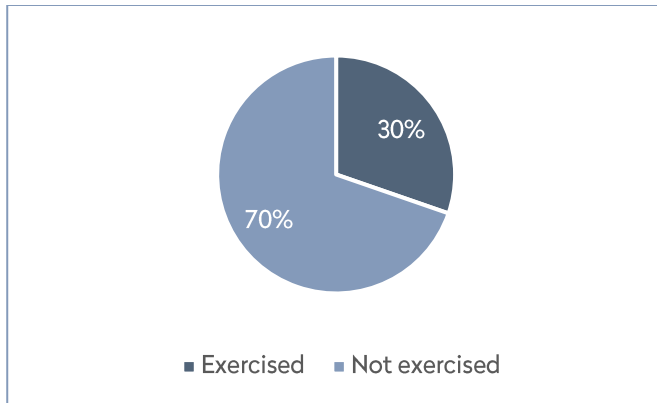
No unresolved conflicts of interest arose in the reporting year 2022.

6. Exercising of voting rights

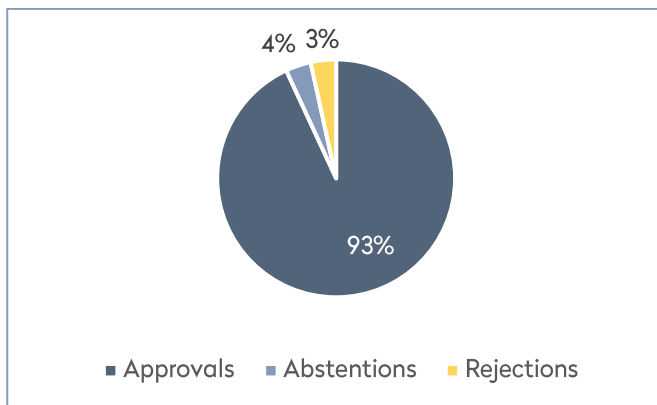
Last year, Bonafide exercised voting rights in accordance with the requirements of the fund prospectuses and the principles for exercising voting rights in the context of active ownership in conjunction with the funds as follows. In general, we follow the recommendations of voting advisors, each of which is reviewed by Bonafide in relation to the principles of active ownership and from which we may deviate in justified cases.

Voting behaviour at the level of the Bonafide Global Fish Fund

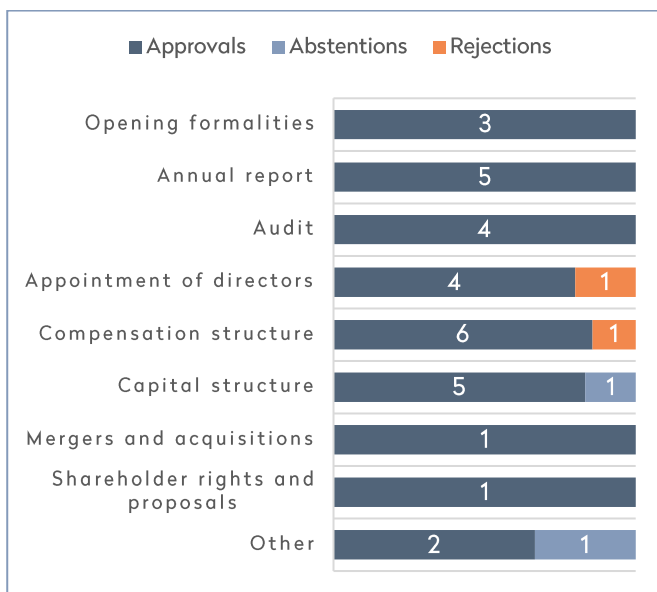
Proportion of voting rights exercised:



Voting behaviour:

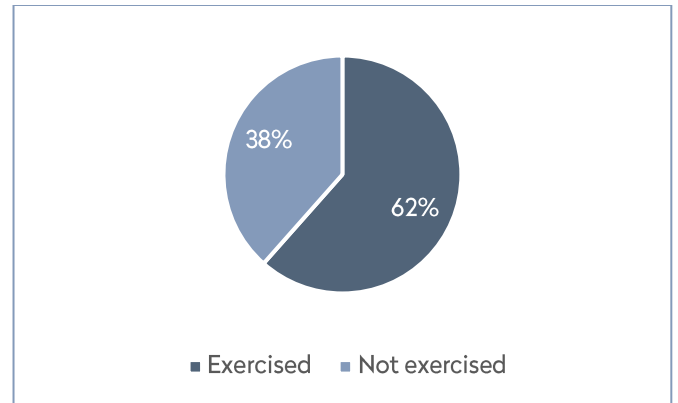


Voting behaviour by thematic area:

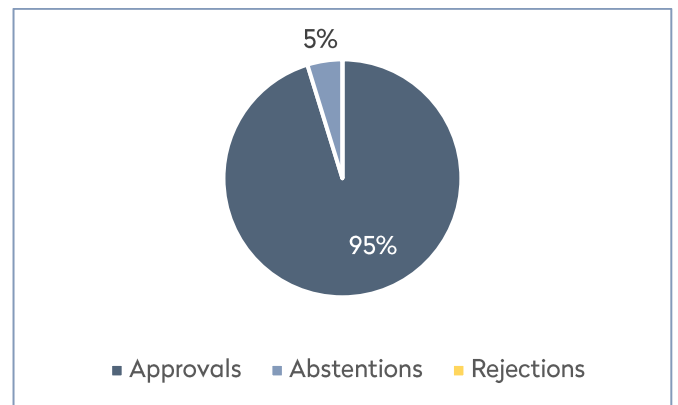


Voting behaviour at the level of the Bonafide Investment Fund - Best Catches I

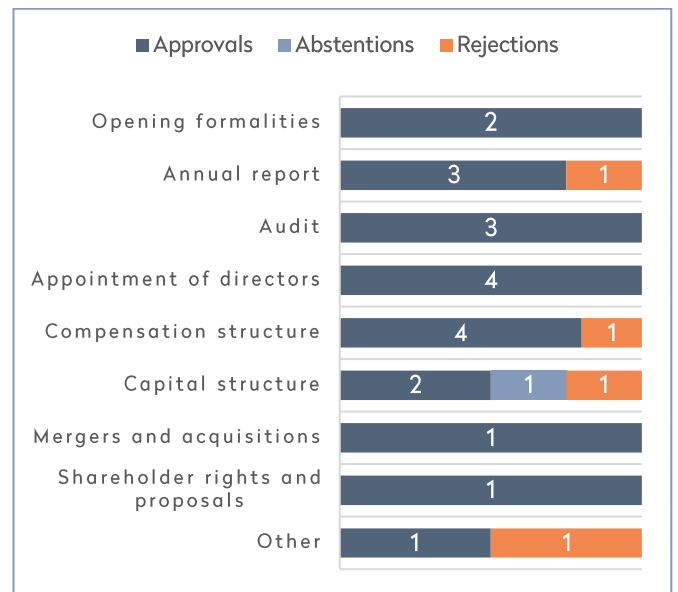
Proportion of voting rights exercised:



Voting behaviour:






Voting behaviour by thematic area:



Voting behaviour at the company level

	Opening formalities	Annual report	Audit	Appointment of directors	Compensation structure	Capital structure	Mergers and acquisitions	Shareholder rights and proposals	Other	Notes	Global Fish Fund	Best Catches I
AKVA Group ASA	✓	✓	✓	✓	✓	✓					✓	
Blumar SA		✓	✓		✓	✓			!	Abstention due to insufficient information	✓	
Clean Seas Seafood Limited				✓	✓			✓			✓	✓
FIH Group Plc		✗	✓	✓		✗			✗	Annual report: Rejection due to insufficient independence on the board Capital structure: Rejection due to possible dilution Other: Rejection of lobbying		✓
Hofseth Biocare ASA	✓	✓	✓	✓	✓	✓					✓	✓
Hofseth Biocare ASA*	✓			✓	✓	✓					✓	✓
Kyokuyo Co., Ltd.				✗		✓			✓	Objection against the appointment of non-independent auditors	✓	
Multiexport Foods SA		✓	✓		✓				✓		✓	✓
Multiexport Foods SA*								✓			✓	✓
Multiexport Foods SA*					✗					Vote for independent board members	✓	✓
Multiexport Foods SA*		✓							!	Rejection due to insufficient information	✓	✓

* extraordinary AGM

 Approvals
 (partial) Abstentions
 (partial) Rejections

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Supervisory authorities

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