

Quarterly update

June 2022

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Overview of our funds as of 30/06/2022

«Stay the course, even when the waves are higher.»

Marco Berweger, Managing Director Bonafide



as of 30/06/2022	NAV	Δ3m	Δ12 m	Δ3 y	Δ5 y	return s.i. (p.a.)	Total AuM in Mio. CHF
Bonafide Global Fish Fund EUR	233.83	-5.97%	-2.95	10.73%	28.82%	8.82%	
Bonafide Global Fish Fund EUR -A-	108.40	-5.93%	-2.99%	10.69%	28.48%	4.83%	
Bonafide Global Fish Fund CHF	146.91	-7.41%	-9.11%	2.09%	17.85%	2.96%	
Bonafide Global Fish Fund CHF -A-	103.21	-7.39%	-8.92%	2.66%	19.81%	3.48%	
Bonafide Global Fish Fund USD	128.95	-9.84%	-11.05%	4.64%	22.20%	4.69%	220
Best Catches I EUR	1,104.57	-6.85%	2.44%	9.06%	n/a	3.26%	20
Opportunities I GBP	109.13	-3.13%	n/a	n/a	n/a	n/a	4
HBC I NOK	508.11	-22.47%	n/a	n/a	n/a	n/a	5
HBC II NOK	502.97	-22.42%	n/a	n/a	n/a	n/a	9

A resilient and diversified sector

The general uncertainties in the stock market continued in Q2 2022. This is demonstrated by the clear negative trend in stock indices around the world. Posting a modest gain of 0.65% since the beginning of the year, the Bonafide Global Fish Fund -EUR- is currently setting itself apart, in a positive sense, from many global equity funds. Our portfolio is comprised of a majority of non-cyclical "consumer staples", in addition to which we are globally diversified. Due to the preponderance of producers and suppliers in our portfolio, we are currently benefiting from the higher protein prices. Admittedly commodity inflation is also affecting fish farmers (feed), but sales prices are rising faster than costs. At the moment, producers are therefore able to achieve excellent margins and continue to grow. Bonafide offers a unique mix of value stocks, but in a strongly growing market. What remains consistent is the strong demand – and this **will remain true for the long term.**

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



Strategic innovations

The fish & seafood sector remains a young, fragmented market. There was no shortage of mergers and acquisitions in the first half of 2022. For example, portfolio company *SalMar* has become the second largest salmon producer after *Mowi* thanks to a merger with *NRS/SalmorNor*. The industry is not resting on its laurels. On the contrary, an increasing number of innovative projects are in the pipeline. In May 2022, our sustainability expert travelled to Norway to see the progress of the "Ocean Forest" project, in which the portfolio company *Lerøy Seafood Group* is involved. The "Ocean Forest" project is a breeding system in fish farming which relies on closed cycles to the greatest extent possible. The large-scale cultivation of algae and mussels is intended to help reduce climate change by absorbing and storing CO₂, thus further improving the sustainability of the sector.

The seafood sector shows little sign of profit warnings and valuations remain attractive. Animal proteins have generally increased in price and fish in particular offer a relative cost advantage as they require less feed to grow. Low supply growth is also supporting the price of salmon. Many analysts are predicting a golden future for the sector.

Webinar on 19 July 2022

We are pleased to invite you to our next webinar on 19 July 2022 at 9:00 (CET). The focus will be on the concept of principal adverse impacts (PAIs) under SFDR. Register now on our website (www.bonafide-ltd.com).

Research/portfolio management

Stock market environment in Q2/22

The financial press is currently experiencing a boom in negativity, stoking fears among investors with articles such as "Wall Street's worst half-year since 1970". There are good reasons to be cautious about investing at the moment, but the current bear market still offers many opportunities. What is required is a selective analysis. The world's central banks have finally started to turn the screws on interest rates to give savers at least a little protection from the currency devaluation that has been going on for months. The crux of the matter is to avoid turning one problem that we have supposedly solved into two more. On the one hand, higher interest rates cool down the economy, but on the other, they force heavily indebted states to pay higher coupons on their bond portfolios. The role of the central banker is a thankless task at the moment, as we have to ask whether they are truly independent from politics. In the past 30 years, US politicians have allowed their national debt to rise from around USD 3 trillion to over USD 30 trillion, which corresponds to an annual growth rate of 8%. In the same period, gross domestic product (GDP) only grew by slightly more than 4%, meaning that the debt ratio (debt as a % of GDP) increased from just under 50% to over 120%. For years, this development was supported by falling interest rates, thus cushioning the burden on the US budget. But now we're heading for a prolonged phase of higher interest rates, which, in addition to the marked increase in financing costs, will also mean lower revenues for the states (in the form of tax income). The world will keep turning, but will the consumption-happy states find enough creditors to continue lending them money? The market interest rate will be regulated by supply and demand, and these important signals must be monitored.

On the stock markets, experts are eagerly awaiting companies' second-quarter figures, due out in July and August. It is interesting to note, for example, that on average analysts are predicting that corporate profits in the S&P 500 will continue to rise in the coming quarters. Consequently, a recession is not yet priced in and could lead to further price slides when analysts begin to revise their estimates. In the second quarter, the world equity index lost about 10% in EUR terms, bringing its year-to-date loss to -13%. Regional yield differentials, converted into EUR, indicate more or less parallel developments in other indices. With regard to commodities, the price rally cooled off somewhat in June. The Russian war of aggression in Ukraine is still raging and sanctions are disrupting trade flows. However, fears of a recession, combined with changes in commodity flows, had a slightly dampening effect on the previous extremes. The second half of the year will still require cool heads and far-sighted investment decisions.

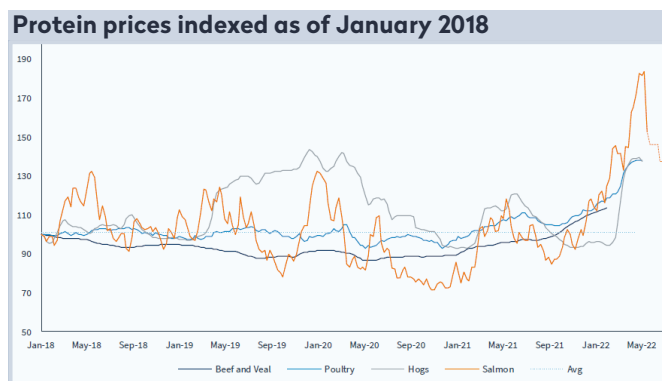


Source: Bloomberg, 5 July 2022

Developments in our sector

Once again, the fish & seafood sector was one of the few relative winners in the second quarter. Although the Global Fish Fund's valuation in EUR, which is derived from share prices, lost around 6% in value, it performed better than the overall market, just as it did in Q1/22. Profits were particularly hurt by currency depreciation in the typical seafood markets. The Norwegian krone (NOK), which is partly correlated with commodity prices, lost 7% in value against the EUR in the reporting period. The value of the Chilean peso (CLP) fell even more sharply, by over 11%. The Japanese yen (JPY) also created headwinds with a drop of 6%. In the case of the NOK, currency hedging helped to limit book losses and smooth out fund volatility. These fluctuations have been part of the fund since its launch 10 years ago. Since the vast majority of seafood companies produce for the global food markets (EUR and USD), a depreciation of the domestic local currency is synonymous with an increase in profits. An increase in profits in turn leads to a higher share price. Due to the reporting process, however, higher profits are not immediately reflected in the income statement. Until the reports come out, the market will remain rather inefficient, especially for small- and mid-cap stocks.

For protein producers, commodity inflation is causing rising sales prices across all meat categories. Indexing the different protein prices (beef, chicken, pork and salmon) as of January 2018, the price of salmon would be in line with the other proteins at EUR 7.8/kg. This would correspond to NOK 80/kg, which is still far above analysts' estimates for the coming years. In Q2/22, the average salmon price actually reached NOK 100/kg, though admittedly, as things stand today, this is probably not sustainable.



Source: Kepler Cheuvreux, 19 May 2022

Although higher salmon prices quickly created euphoria on the stock market, the increased vertical integration of companies with respect to end consumers is delaying the increase in margins by a few months. "Higher for longer" will continue to support the share prices of salmon producers in the coming quarters. We hear from other fish producers that they are just as likely to be able to easily push through higher prices due to general price inflation. The increase in earnings will likely be significant, as the year-on-year comparison is still greatly benefitting from the pandemic legacy. The first price increases in downstream processes such as fish processing are likely to follow soon, thus stabilising margins in the number sets and leading to gains. The gastronomy sector, however, appears to be missing out on this "spring fever" due to staff shortages and the possibility of an imminent recession.

Profitable performers

Despite the overall negative quarterly returns, the portfolio contains some winning stocks. Once again the stock market failed to reveal the true value of a company, resulting in a highly attractive M&A transaction. The stock price of Australian salmon- and shrimp-farming Tassal Group (1.5 percentage points performance contribution) rose by over 35% after the Canadian family-owned company Cooke Aquaculture placed a purchase offer at AUD 4.85 per share.

Takeover battle in Australia



Source: Company Websites, 5 July 2022

The Tassal Group's board has thankfully rejected the offer as it does not reflect the group's true value. We would agree with this. Our analysis shows the fair value of the Tassal Group to be more like AUD 5.50, which is why we remain invested. After Huon Aquaculture (August 2021) and Multi X (March 2022), mergers and acquisitions are still a good way to reveal the portfolio's true gems. And the fund contains plenty such gems, in our view. Norwegian company Grieg Seafood (0.5% points), which also farms salmon, continued its upward trend. Compared to the industry as a whole, the company has built up fewer downstream processes to date and has thus sold practically no salmon via contracts. This means that Grieg is benefiting disproportionately from the current high spot prices. The cash flow is coming in very handy for its expansion plans in Canada, while allowing the company to continue paying attractive dividends. In Chile, shares in Salmones Camanchaca (0.4% points) advanced as the company's operational recovery is now also reflected in the cash flow statement. On the Chilean stock market, political fears continue to weigh heavily on valuations. In September 2022, the newly written constitution will be put to the people. Current polling data from CADEM suggests that 51% will reject the new constitution, while 34% will vote in favour. The remaining 15% of voters are divided. Leftist President Gabriel Boric, elected in December 2021, has now garnered disapproval ratings of over 62% (+15% in just one month). Polls should always be taken with a pinch of salt, but there is much to suggest that a broad consensus is lacking. The risk/return profile in Chile remains attractive.

However, the volatility caused by politics is unlikely to disappear overnight and requires patience. At the portfolio level, a total of seven stocks made positive contributions in the past quarter.

What negatively affected fund performance

The other end of the profits league table is once again occupied by Austevoll Seafood (-1.1% points) and its consolidated but separately listed subsidiary Leroy Seafood (-0.8% points). Although the future earnings estimates for both stocks have moved consistently upwards since the beginning of the year, certain investors obviously lack patience. Leroy Seafood's results for Q1/2022 missed consensus estimates by 10%. The finished products division, which has production facilities in several European countries, delivered a negative margin because the group had to purchase its own salmon internally at extremely high costs.

Leroy Seafood's finished products



Source: Seafood Expo Barcelona, 26 April 2022

For the management team, it was important to fulfil contracts with the big supermarket chains in terms of "deliverability before short-term profit". Some of their competitors' reputations have suffered because they were unable to keep their delivery promises. Leroy Seafood is likely to gain market share in the coming auctions, pushing for higher prices, as the number one priority for supermarkets is to sell goods. The Hofseth BioCare share price has continued to slide (-1.0% points). Once again, less than 1% of all outstanding shares changed hands, but these trades are responsible for the drop in share price. In other words, more than 99% of the share capital is behind the company's business model. In terms of operating cash flow, costs continue to exceed revenues, which is why Hofseth BioCare needed another capital injection of NOK 141 million in early July 2022. Bonafide supported this at NOK 4.00 per share to avoid dilution of our investors. Regarding Hofseth's business model, it is worth taking a look at the company's LinkedIn presence. The sales department, which has been revamped since last summer, assiduously attends pharmaceutical and nutraceutical trade fairs, where the company's products are sold as ingredients to B2B customers. On a side note, the distribution partnerships signed less than two years ago are generating attractive sales volumes for the first time. Each individual activity starts with small test volumes before orders are ramped up. The AKVA Group (-0.8% points), specialist supplier of aquaculture technology, is showing a similar profile on the stock market. The 20% slide in this small cap was caused by trading of less than 0.3% of all shares. Operationally, AKVA's quarterly result was not convincing, as the production operation was also affected

by supply chain problems. However, more emphasis should be placed on the company's order book and its development of new products in the software, land-based and cage-based areas. Last year, AKVA's management team raised new capital at NOK 96.50 per share to drive innovation. The company is therefore well financed and the share price of NOK 65.00 in no way justifies its potential. Shares in US company Elanco Animal Health (-0.7% points) lost about a fifth of their value. In its quarterly figures for Q1/22, Elanco revised its 2022 guidance downwards by a paltry 1.3% due to the strong US dollar at the EBITDA level. How this could lead to a 20% drop in the share price is a mystery to us, as well as to external analysts. Elanco acquired the animal health division of German company Bayer almost two years ago. Management is now successfully working on integration synergies, which will increase margins. At Mowi, the world's largest salmon farmer, yields also dropped slightly (-0.6% points). Although shares reached a new all-time high of NOK 266.70 at the end of April, the stock has since lost about 16% of its value. Overall in 2022 Mowi will achieve a new record result, and the macro picture looks excellent for the coming years due to modest supply growth for salmon producers. Moreover, analysis of Mowi's results over the last few years show that the company is successfully removing volatility from its business results through vertical integration. Integrated salmon companies are degenerating into growing "food staples" whose valuation is fundamentally higher due to their defensive orientation. You could search traditional "food staples" in vain for a dividend yield of almost 5%. In Norwegian salmon stocks, previous legal risks hit the headlines again at the end of May 2022. Mowi, Leroy, SalMar and Grieg agreed to pay a total of USD 85 million to their American customers in a class action lawsuit. The continuation of the lawsuit would entail considerably higher legal costs than the current settlement with existing customers, the companies argue, and they are likely to be right. The lawsuit alleged price fixing from 2014, which the industry has consistently denied. The farmers have cooperated fully with all parties involved and have disclosed all documents. Two proceedings are still pending with the EU and the American authorities. We would question the extent to which price fixing is possible when a commodity future for salmon is traded weekly. A total of 24 positions weighed on the fund's returns over the past three months.

Reallocations

Within the portfolio, reallocations have remained manageable over the past three months. Among the salmon farming operations, we reduced Mowi and Grieg Seafood by 50 base points each, reallocating to Bakkafrost when the stocks were trading below NOK 600.00. Compared to Mowi, Bakkafrost offers significantly higher volume growth over the coming years and, compared to Grieg, lower operational risk. It also slightly increases the portfolio's diversification. The second notable change was the sale of our position in Evonik Industries, which accounted for just under 2% of the fund's assets. While the project (algae farming as a fish feed substitute) continues to hold promise for the sector, several members within the product's own investment committee feared an energy crisis in Germany, where Evonik has extensive production facilities. Since selling the stock in April, the company's share price has dropped more than 20% as a

consequence of the significantly increased threat to the industry posed by the prospect of natural gas rationing. At Hofseth BioCare, we reduced our allocation further as the share price fell. The majority of the money from Evonik and Hofseth went into cash holdings to increase our flexibility in the face of expected future volatility. The fund saw modest inflows over the past period as investors once again recognised the sector's resilience in a difficult market environment.

Outlook

As mentioned at the outset, the current environment still requires investors to be selective about their choice of stocks. The food sector, as a provider of basic staples, offers defensive qualities with simultaneous, steady population growth. Facing a scarcity of commodities, the Bonafide Global Fish Fund is investing in proteins with the best feed conversion properties. At the "UN Ocean Conference" held in Lisbon at the end of June, the importance of aquaculture for feeding the world's population was reiterated, meaning that further growth in the sector is high on the political agenda. The portfolio is sufficiently diversified and, due to the recent decline, even more attractively valued. The price/earnings ratio for 2022 is a modest 13.6x, while the portfolio's price-to-book ratio is just 1.6x. The dividend yield of 3.0% points to strong cash flows, which are being used for shareholder returns in addition to growth investments. And given the favourable macro picture, companies in the portfolio offer earnings growth. All in all, a balanced risk/return profile for long-term investors.

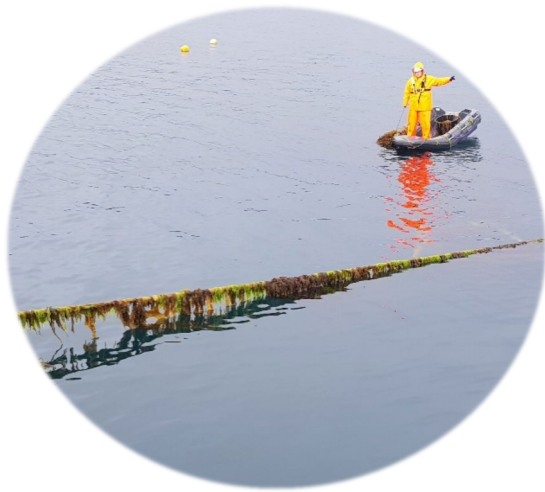
We thank you for your confidence in our investment capabilities.

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

Sustainability

Visiting Europe's largest algae farmer

After a long break due to the coronavirus pandemic, Bonafide employees finally had the chance to visit companies on site again. In May of this year, we visited an algae farm for the first time, which, in addition to producing animal feed, also provides important ecosystem services such as water purification. Good to hear then that Leroy, the farm's operator, has ambitious growth targets for the operation, wanting to roughly double its production volume each year until 2030. For us, it's a clear thumbs-up for algae farming. We will keep an eye on the sector.



Read more about our impressions of the trip in [this blog post](#).

Signature of the TCFD recommendations

Since the Task Force on Climate-related Financial Disclosures (TCFD) published its recommendations in 2017, an increasing number of companies and financial institutions have begun to provide data on climate-related metrics. Although still voluntary, the TCFD's standards for disclosure have played an increasingly pivotal role in the fight against climate change in recent years.

Cross-Industry, Climate-Related Metric Categories	
GHG Emissions¹	Absolute Scope 1, Scope 2, and Scope 3; emissions intensity
Transition Risks	Amount and extent of assets or business activities vulnerable to transition risks
Physical Risks	Amount and extent of assets or business activities vulnerable to physical risks
Climate-Related Opportunities	Proportion of revenue, assets, or other business activities aligned with climate-related opportunities
Capital Deployment	Amount of capital expenditure, financing, or investment deployed toward climate-related risks and opportunities
Internal Carbon Prices	Price on each ton of GHG emissions used internally by an organization
Remuneration	Proportion of executive management remuneration linked to climate considerations

Source: TCFD

As a sign of our commitment to the TCFD's recommendations, we have therefore joined the long list of signatories, now numbering over 3000. We are convinced that the market needs to become more transparent in climate matters and that Bonafide should play its part by publishing its own TCFD report.

MSC adopts revised environmental standard and publishes tuna report

Last quarter the Marine Stewardship Council (MSC) adopted the most far-reaching **changes** to the MSC standard since its inception 25 years ago.

The changes include:

- Simplification of the standard, thus enabling data-poor fisheries in particular to become MSC certified and further increasing the proportion of wild fish that can be certified in the future (from the current level of around 15%).
- Additional requirements for the protection of endangered species and the expansion of the species eligible for protection.
- The introduction of a "Fins Naturally Attached" regulation for better protection of sharks.
- New requirements for the quality of data provided by fisheries for monitoring.

In addition, the MSC has also published a new **tuna report (in English only last year's report is available so far)**. Public perception is that tuna is an endangered species, and dolphins are repeatedly harmed in the course of tuna fishing.

However, the new report shows:

- Just 3 of 23 tuna stocks are overfished.
- Only 1 of these tuna stocks lives in symbiosis with dolphins. Just 700 dolphins are now harmed annually – about 99% less than in 1985.
- In comparison to 2019, the share of MSC certified tuna in the German retail trade increased from 10% to 40%.

Species	Indian Ocean (IOTC)	Atlantic Ocean (ICCAT)	Western-Central Pacific (WCPFC)	Eastern Pacific (IATTC)	Southern Hemisphere (CCSBT)
Skipjack		East and West		0	n/a
Yellowfin					n/a
Bigeye					n/a
Albacore		North and South Atlantic	North and South Pacific		n/a
		Mediterranean			
Bluefin (three species)	n/a	East and West	Pacific Bluefin		

Source: MSC



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