Quarterly update
September 2021

ocean of opportunities

bonafide

Overview of our funds
as of 30/09/2021

«When stocks go down and you can get more for your money, people don't like them any-more.»

Warren Buffet

as of 30/09/2021	NAV	Δ3m	Δ12 m	Δ3 y	Δ5 y	return s.i. (p.a.)	Total AuM in CHF million
Bonafide Global Fish Fund EUR	2'356.95	-2.18%	14.43%	11.93%	36.19%	9.66%	
Bonafide Global Fish Fund EUR -A-	1'131.70	-2.22%	14.36%	11.88%	n/a	5.75%	
Bonafide Global Fish Fund CHF	1'568.36	-2.97%	15.25%	5.46%	32.37%	9.00%	
Bonafide Global Fish Fund CHF -A-	1'135.88	-2.92%	15.29%	7.16%	n/a	5.46%	
Bonafide Global Fish Fund USD	1'396.98	-3.64%	12.93%	11.02%	n/a	7.22%	275
Best Catches I EUR	1'058.19	-1.86%	8.66%	n/a	n/a	2.43%	21
Deep Blue – SPC I NOK	42'200.18	n/a	-18.41%	189.12%	388.29%	24.80%	
Deep Blue – SPC III USD	1'362.68	n/a	-4.94%	36.55%	n/a	9.99%	
Deep Blue – SPC IV GBP	704.59	n/a	-12.70%	n/a	n/a	-11.96%	45

Patience pays off
Despite two negative quarters in a row, the long-term upward trend of the Bonafide Global Fish Fund remains intact. Since the record high in March 2021, the consolidation phase has cost us a little more than 5% performance. Nonetheless, we remain very optimistic as it is only a matter of time (patience) before some of our "small fish" in the portfolio develop into powerful predatory fish. Rarely in our 10-year history have we seen such attractive entry opportunities. To convince yourself, read our detailed analyses in the Research/Portfolio Management section. With many political and economic uncertainties, it is particularly advisable to deal carefully with what is happening in the market. Our more than 10 years of experience in the Fish & Seafood sector helps us with this.

NAV development of the Bonafide Global Fish Fund EUR
13/06/2012 – 30/09/2021

Analysts expect massively higher salmon prices
Analysts at the Norwegian broker Pareto Securities recently raised their estimates for average salmon prices in the fourth quarter of 2021 to NOK 60 ($ 6.93 / € 5.90) per kilo – **25% above today's price!**

We at Bonafide also expect a significant shortage of raw goods, not only over the coming holidays, but also for the next few years. Due to the operational problems of the land-based farms, they will not deliver the expected volumes in the foreseeable future. In addition, Norwegian aquacultures will not have such an exceptionally warm summer every year as this year, which has led to significantly higher harvest volumes. The conditions were perfect and the export volumes over the summer were at times 30% higher than in 2020. The demand is there, the question is how long can the supply keep up?

Investments in the Fish & Seafood sector combine the two styles "Value" and "Growth". The sector is growing rapidly, however, investments are still made in solid companies that offer "Value".

Webinar from 19 October 2021
We are pleased to invite you to our next webinar on 19 October 2021 at 9:00 (CET). Our team of experts will inform you about the development of our funds, news from the sector and the area of sustainability. Of course, you will also have the opportunity to ask questions. Register now on our website (**www.bonafide-ltd.com**).

Research/Portfolio Management

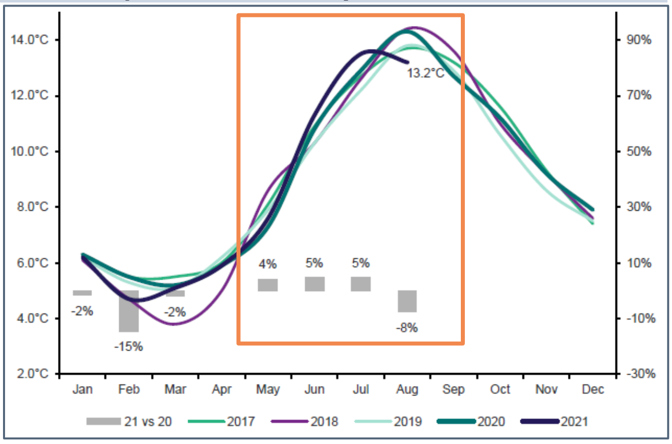
Stock market environment in Q3/21

The fears of further lockdowns as a result of the disease called COVID-19, which has been rampant for a year and a half, now seems to have definitely faded into the background on the stock market. Vaccination seems to be doing its part in the containment. Individual flashes in the pan, such as in Israel, where the registered cases of infection are associated with around half the death rate as in previous waves, are contrasted with reports from Northern European countries such as Denmark, Norway and Sweden, which have apparently achieved herd immunity thanks to a high willingness to vaccinate. They have announced the end of the restriction measures. A look at the COVID-19 statistics on Google shows that globally every third person is now fully vaccinated. Markets like Japan, whose vaccination program started a little later, gained ground in August and September. The TOPIX index rose by 10% from the beginning of July to mid-September, while the equity markets in Europe and the USA moved sideways. There was some movement in the market in September. Contrary to the opinion of the Federal Reserve, inflation in the US appears to be more persistent and the pressure for higher interest rates continues to rise. In addition, like every few years, the US government threatens to come to a stillstand unless the Democrats and Republicans agree on higher spending. The fact that the US dollar is still showing strength in the wake of the uncertainties seems a little ironic in view of the impending insolvency of the US and potential rating downgrades. The US has been muddling through for the last 20 years. As long as enough lenders are found to meet the annual budget deficit, the game can go on. In Europe, inflation rates also continue to rise. As long as the pressure from creditors with higher interest rates does not become too great, Europe can also afford low interest rates and higher debts. With the money-printing central banks, both economic giants have a significant creditor that they control themselves. The environment for shares, which protects against real loss of purchasing power, is therefore still attractive.

Developments in our sector

The fund's return in the third quarter of 2021 was definitely not satisfactory. With a loss of 2.2%, a second quarter with negative development joins the return history. Even so, the performance in the quarter was characterised by a low annualised volatility of 9.5%. The fund moved within a range from 0% to -2.2%. The defensive "narrative" that we attribute to the food portfolio was evident at the end of September when the fund outperformed some indices. All in all, this is little consolation for you and for us. The reasons for the negative return can at least be explained quickly and nothing has changed in terms of the very promising outlook for the "Fish & Seafood" sector. Our Japanese allocation shows that there were also rays of hope, where the market in our stocks shook off the COVID-19 bear market, and is starting to price in the future prospects. Our salmon bet needs a little patience. The weather conditions in Norway, the largest salmon producer in the world, enabled the best farming conditions for years. The water temperatures rose rapidly at the beginning of summer, but did not reach the usual highs in August. Consistent temperatures allow the salmon to thrive better. The risk of stress is lower and the fish are more robust against diseases or sea lice. The product quality is likely to be high, while the costs are probably slightly lower thanks to fewer treatments against sea lice.

Water temperatures in Norway



Source: DNB Markets, September 2021

The optimum conditions led to high fish growth. Since only a limited biomass is allowed to remain in the water for regulatory reasons, numerous salmon had to be harvested in the past few weeks. Exports from Norway rose in September by 26% compared to the previous year. This was 4,000 t - 6,000 t more salmon per week, which corresponds to 300 additional truck loads or 40 million portions of 150g each. However, the attractive volume growth prevents the supply shortage, so that the salmon price remains at a rather modest NOK 48. In relation to previous years, however, the price achievement is excellent. Such a supply shock usually leads to a temporary, sharp fall in prices. The expected supply shortage is likely to have shifted into autumn. Another important number is hidden behind the strong biomass growth: the number of fish. There are as many salmon swimming in the fjords of Norway as there were a year ago. In order to harvest just the same amount as in the past 12 months, the perfect conditions would have to be repeated exactly. This is unusual and our base scenario is therefore to expect less fish. Postponed is not the same as cancelled.

Positive return producers

Our allocation in Japan delivered 1.9 %-points of performance. The fund gained 20 base points of this due to the slight appreciation of the yen. In particular, Nippon Suisan Kaisha helped the companies, whose shares rose by over 26% and earned the fund 1.1 %-points. The stock is now slightly higher in JPY than it was before the COVID-19 crisis began. Obviously, the market wanted to receive several confirmations by means of quarterly figures that the globally integrated producer and processor of various fish products has succeeded in reshaping the sales channels in a sustainable and flexible manner. Nippon Suisan Kaisha raised the total dividend again. For several months now, the focus of the company has been on the various investments made prior to COVID-19. We and slowly also the market expect earnings momentum over the coming years, which is why we remain invested. In Thailand, the position in Thai Union (0.5 %- points) continued to shine. As already mentioned three months ago, the market began to recognise that the renewal of the product portfolio appears to be successful and that new product categories such as food supplements made from processed fish scraps will increase volumes and margins. The rally of almost 60% in the last six months went a bit too fast for us, which is why we reduced the position to "market weight". In Australia, we benefited from a takeover bonus. The Brazilian meat processor JBS made a purchase offer for the Tasmanian salmon farmer Huon Aquaculture (0.4% -points), which helps to reveal the "hidden value" of our entire portfolio. As already shown in the webinar in July (**Link**), the large meat producers are almost obliged to buy growth in the more sustainable aquaculture sector. It was known that the majority shareholder of Huon wanted to sell the company if the price was right. This offered a unique opportunity for an industry solution. The purchase offer of AUD 3.85 per share corresponds to a premium of more than 60% compared to the price in spring when the first rumours surfaced. We immediately sold our position, which was smaller due to low liquidity, via the market in order to continue to benefit from the numerous opportunities within our universe.

Negative contributions

The valuation of our Chilean companies based on stock exchange prices suffered again. Multi X, Blumar Seafood as well as Salmones Camanchaca and Cia Pesquera Camanchaca cost a cumulative return of 1.5 %-points. The sharp devaluation of the peso (-8% against the Euro) cost the fund a further 0.7 %-points. We have already pointed out in previous comments that the stock exchange is not efficient enough to value internationally operating salmon farmers correctly when the listing currency is devalued. This phenomenon can be classified as "Small cap bias". Income and expenses of the salmon farmers are linked to the international trading currencies and, apart from the low wage components of total costs, have no operational reference to the listing currency. The Chilean companies even prepare their income statement and balance sheet in USD. To show why we are sticking to the allocation in Chile and actively rebalancing, we have created the following blog that is well worth reading: **Chile and its political stock market.** We would like to show an example from this report, why it should be worthwhile to back the salmon farmers in Chile. For example, if you use the takeover valuation mentioned above which the meat giant JBS paid for Huon, then all shares in our Chile fraction would have to double in value immediately (!). The fact that salmon farming in Chile has the better cost profile and therefore deserves an even higher price should only be mentioned in passing. Hofseth BioCare made a high negative contribution (-1.1 %-points). A couple of investors are getting impatient at the modest sales reported in Q2/21 and are selling their shares. We remain convinced that HBC will succeed in winning multi-year supplier contracts from ongoing product tests in supermarkets and online shops. It remains to be seen whether these can be announced in Q4/21. On the personnel front, two more Top Shots who had contracts with DKSH, Novartis and Pfizer could be recruited. Given the multi-year return of HBC, long-term investors should be able to cope with the price setback.

Price history Hofseth BioCare since the end of 2018

Source: Bloomberg, October 2021

The Thai seaweed snack manufacturer Taokaenoi (-0.6% -points) also struggled with sharp price drops. The operational progress that we communicated three months ago is a step in the right direction. Sales in China are likely to rise again from Q3/21 due to the adaptation of the sales channels. Even in these difficult times, the company is generating free cash flow and is distributing it to shareholders. In our opinion, investors and financial analysts completely negate the recovery potential of the next 12 months. In total, 19 investments made negative contributions in the third quarter, compared with 14 investments with positive ones.

Reallocations

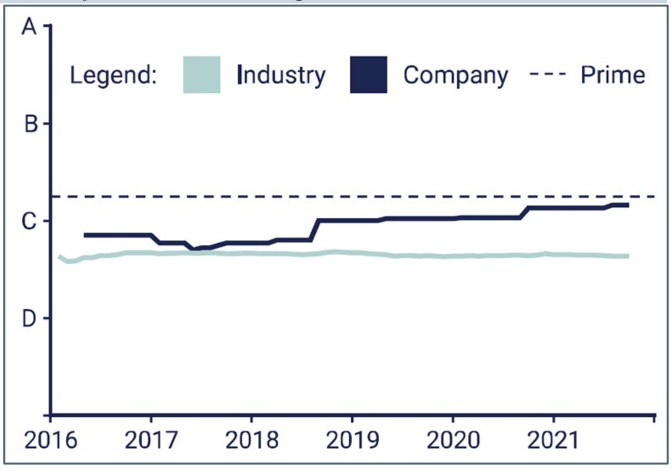
Once again, we refrained from major reallocations, as we are still convinced of the potential of the companies in the portfolio. As mentioned, we have reduced the allocation in Thai Union a little. We liquidated the position in Huon Aquaculture above the purchase offer price. We have shifted part of this to the more solid Tassal Group, which also is a salmon farmer in Tasmania, in order to benefit from the market recovery in "Down Under". We have slightly increased our salmon bet and declared SalMar, the global cost leader, to be our third-largest position in the model portfolio. A few months ago we wrote a blog (**Link**) about SalMar and its future potential.

Outlook

Over the past two quarters, the Global Fish Fund's portfolio has consolidated by a little more than 5% from the record high at the end of March. With a price-to-book ratio of 1.8x and a forward-looking price/earnings ratio of 13.2x for the year 2022 beginning in 3 months, in the case of the diversified Global Fish Fund, an "expensive" or a "valuation bubble" cannot be spoken of. The companies in the portfolio are in a structural growth market ("Fish and Seafood") and are reinvesting their operating cash flow in expanding their volume. After some time was "lost" in eliminating the effects of COVID-19 (changed sales channels, supply chains, etc.), the focus is now again on the numerous growth opportunities. In the next 12 months there are important "triggers" which, according to our analysis, should have a positive effect on the valuation. As a "satellite", the Global Fish Fund has developed against the price trend of the general stock markets over the past six months. This "satellite" narrative, which is valid at certain times, is likely to repeat itself in the coming quarters, but this time in the opposite relationship in favour of the investors in the Global Fish Fund.

Furthermore, the chances are still intact that the advancing EU taxonomy for sustainable investments will classify aquaculture as a "green" investment. In addition, several companies are getting better and better in the ESG ratings, as transparency is increased with each new sustainability report. The above example shows the ESG rating of the largest salmon producer Mowi, which is just below the prime threshold (top 5% of the food sector).

Development of the rating of Mowi at ISS-ESG



Source: ISS-ESG, October 2021

All in all, with the Global Fish Fund today you are buying a moderately valued portfolio in a growing food sector with numerous "triggers" over the next 12 months. Such a combination of "Value" and "Growth" is rarely found.

We thank you for your confidence in our investment capabilities.

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

Sustainability

Investor Letter for a UN treaty against plastic pollution
Together with a group of investors who collectively manage assets of almost 3 trillion Euro, we have asked the United Nations to create an international framework for a sustainable plastic cycle.

Currently, almost 11 million tons of plastic end up in the oceans each year and ultimately also in our food chain. With planned investments of almost 400 billion USD in new petrochemical capacities within the next five years, this problem may get even worse in the future. To prevent this from happening, an international framework agreement is required that harmonises the numerous, often incomplete, national efforts and creates an international standard. This is the only way to evaluate information effectively, set local targets and make appropriate investments. In addition to the environment, companies should also benefit from such a standard, since bureaucracy is reduced, planning security is created and reporting is simplified.

You can find further details about the letter of investors and the reasons for this **here**.

SDG impact measurement
As part of our efforts to report increasingly transparently on the sustainability performance of our funds, we will in future disclose the contribution that our funds make to the Sustainable Development Goals (SDGs) in the form of the adjacent graphic.

The graphic shows the weighted contribution the portfolio companies make to the individual SDGs. It is up to the portfolio companies to decide for themselves which of the SDGs they believe they are contributing to. It can be assumed that companies tend to proceed subjectively with this self-assessment, but we consider this form of impact measurement to be currently the most appropriate due to the high level of transparency and easy comprehensibility it offers.

SDG Impact - Global Fish Fund

Disclosure of fund emissions
In light of the upcoming climate conference at the beginning of November, we would also like to provide information on the carbon footprint of our funds in the table below.

When it comes to the proportion of Scope 1 & 2 emissions data that companies publish independently and are therefore not dependent on estimates by ISS ESG, our funds appear to benefit greatly from the rather advanced stage of the many Norwegian and Japanese companies included.

Both portfolios also score relatively well in terms of CO_2 intensity. In line with the funds' large overlap with the GICS sub-industry "Packaged Foods & Meats", the CO_2 emissions per million Euro in sales are relatively low, while the Global Fish Fund even manages to beat its sub-industry.

The financed emissions, expressed as CO_2 emissions per million Euro of assets under management, confirm the previous impressions.

	Global Fish Fund	Best Catches I	Investment universe	Market
% Self-reported Emissions	52%	38%	18%	15%
Carbon Intensity				
t CO2e/Mio. EUR of revenue				
Scope 1	89	113	170	229
Scope 2	39	51	89	87
Financed Emissions				
t CO2e/Mio. EUR in AuM				
Scope 1	56	58	103	127
Scope 2	62	42	45	26
Scope 3	334	243	326	466

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