

# Quarterly update

## December 2023



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# Overview of our funds

## As at 31/12/2023

**“COP28 marks a turning point: Sustainable agriculture & food systems are now key elements in climate protection.”**

Mariam Almheiri, UAE climate minister

As at 31/12/2023	NAV	Δ3m	Δ12 m	Δ3 y	Δ5 y	return s.i. (p.a.)	Total AuM in Mio. CHF
Bonafide Global Fish Fund EUR	214.84	-1.74%	-5.39%	-4.84%	8.73%	6.84%	
Bonafide Global Fish Fund EUR -B-	95.37	-2.08%	n/a	n/a	n/a	n/a	
Bonafide Global Fish Fund CHF	127.50	-4.75%	-9.71%	-14.67%	-6.86%	5.28%	
Bonafide Global Fish Fund USD	126.16	2.54%	-2.05%	-9.71%	8.62%	3.35%	
Bonafide Global Fish Fund EUR -A-	95.51	-1.71%	-5.38%	-4.91%	8.66%	2.57%	
Bonafide Global Fish Fund CHF -A-	86.21	-4.77%	-9.73%	-14.43%	-6.02%	0.65%	
Bonafide Global Fish Fund EUR -Q-	100.00	n/a	n/a	n/a	n/a	n/a	
Bonafide Global Fish Fund CHF -Q-	100.00	n/a	n/a	n/a	n/a	n/a	155
Best Catches I EUR	950.63	-8.22%	-18.11%	-16.94%	n/a	-1.09%	20
Opportunities I GBP	99.64	1.35%	-10.38%	n/a	n/a	-0.16%	3
HBC I NOK	338.47	-7.92%	-22.22%	n/a	n/a	-37.13%	6
HBC II NOK	339.36	-7.76%	-21.46%	n/a	n/a	-39.73%	3

Source: Bonafide/IFM

### The El Niño effect: a challenge during 2023, a catalyst for growth in the Blue Food industry in 2024!

We have come to the end of an imbalanced year for the sea-food industry, mainly influenced by the El Niño weather phenomenon as last seen in 2014. The fourth quarter began with negative market sentiment and price corrections due to global interest rate uncertainties. Although prices rallied during the last two months, annual return remained negative. The Bonafide Global Fish Fund -EUR- recorded a quarterly performance of -1.74% and a loss in value of -7.52% since the **interest rate cycle change at the beginning of 2022** (compared to the MSCI World Index with +0.08%). However, we expect 2024, the post-El Niño year, to be a turning point, like the post-2014 pattern when the anchovy fishing season failed and feed prices rose sharply. Current valuations are as attractive as they were ten years ago and earnings expectations for 2024 are positive, supported by a strong dividend yield.

### COP28 Dubai – in focus: Aquaculture

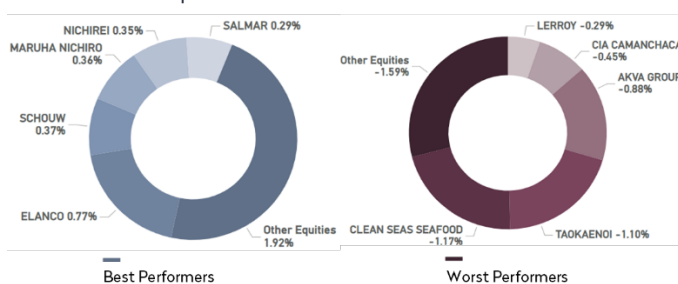
The aquaculture industry is experiencing a period of ground-breaking change. According to the FAO Roadmap 2040, the aim is to **increase aquaculture production by 75% by 2040**. This target was reaffirmed at the COP28 climate summit in Dubai, where food production was emphasised as a key factor in **achieving climate targets**. The focus is on sustainable "blue foods" such as fish, seafood and algae. For investors, this means a massive opportunity to participate in this industry of the future!

### Outlook and positioning for 2024

2024 is shaping up to be a promising year for the Fish & Seafood sector. Read about our **6 key convictions** in the Research/Portfolio Management report, which we would like to share with you. We look forward to informing you in detail about the upcoming quarters. Finally: a stable supply will not be sufficient to cover the rising global demand for fish/salmon. The significant price increase per kg/EUR from 2021 to 2022 was fully confirmed at this higher level in 2023. The future prices for 2024 continue to rise, and we are already a hike of +12-15%! And the trend continues to point even higher....

### The top and flop performers of the last quarter

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



Source: Bonafide

### Webinar on 30 January 2024

We are pleased to invite you to our next webinar on 30 January 2024 at 09:00 (CET).

**>>> Register now.**

# Research/Portfolio management

## UN Food & Agriculture Organization (FAO) Roadmap 2040 calls for 75% (!) more fish from aquaculture

You don't necessarily have to like climate summits like the one in Dubai in early December 2023, but you should definitely be listening to what politicians and governments have in mind. After years of restricting discussions to emissions from energy production, the topic of food as the second biggest "climate killer" finally made it onto the main agenda. Governments from a total of 159 countries signed the Declaration on Agriculture, Food & Climate. Of the 10 declarations at COP28 in Dubai, no other attracted more signatories. The consequences of such declarations of intent can only be measured by the specific actions taken by individual countries, however **the content reads like an accolade for aquaculture operators and their supply industry**. We should combat climate change by transforming food production to less CO<sub>2</sub>-intensive foods, by promoting sustainable "blue foods" (fish, seafood, algae). That is what the paper says. As if that wasn't incentive enough, the UN Food & Agriculture Organization (FAO) published its **roadmap for 2040 with a clear call for a 75% increase in volume from aquaculture compared to 2020**. In absolute terms, this means an annual increase in volume of 3.30% p.a. (CAGR) or a volume growth of 3.3 million tonnes p.a. That's more than twice the size of Norway's entire aquaculture industry today – every year for the next 16 years!



Source: COP28.com & FAO.org, 2 January 2024

At the end of 2023, the supranational organisations laid out the red carpet for aquaculture as the industry of the future. We remember Paris 2015, which permanently changed the future development path for wind and solar energy. Governments around the world will now create the **necessary framework conditions** to ensure the required growth in aquaculture and **fundamentally stimulate** the sector. What does this mean for investors in the **Bonafide Global Fish Fund**?

### Stock market environment in Q4/23

2023 offered several surprises. Particularly astonishing was the rally in equities of the overall market at the end of the

year. On the one hand, share prices were driven by expectations of interest rate cuts by the FED in light of the cooling US economy, which made equities more attractive than bonds again. On the other hand, higher earnings estimates fuelled the desire to buy. Considerable earnings growth of over 10% is now forecast for the wider market in 2024. **Is it possible to price in a recession on the interest rate side, yet notable earnings growth for equities?** It is precisely this decoupling that is currently making it extremely difficult for all augurs in the financial world to assess the stock market situation.

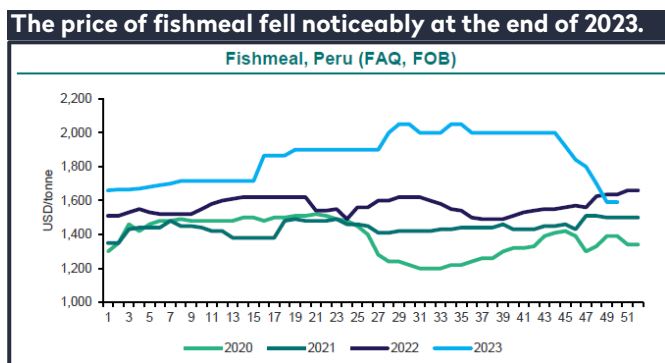
### Developments in our sector

The market's gaze remains focused on popular tech stocks. For other segments, uncertainty remains high. After a positive Q3/23 for the Global Fish Fund portfolio, in October 2023 we lost over 9% in EUR at the worst point before the upcoming results season. Not a single share delivered a positive return during this phase, although in the case of a few companies there were good fundamental reasons for this. We saw a slow recovery towards the end of the year in view of the reporting season, before the net asset value closed with a loss of -1.74% for Q4/23. This resulted in a negative return for 2023 of -5.39%. Overshadowed by the (positive) developments of the resource tax, **the aquaculture sector slowly but steadily slid into the next calamity, "cost inflation 2.0"**. We will analyse this topic in greater depth in the next section. Cost inflation completely negated other positive developments, such as the shift in political power during Norway's regional elections in September 2023 and the tailwind from the climate summit. Norway's current most popular party has already proposed an alternative to the profit-based resource tax in the form of an increased water rent per kilogram produced. This at least means less bureaucracy and better planning – exactly what the industry has always demanded. In November, Bonafide visited its portfolio companies in **Japan** for the first time since COVID travel restrictions. We have recorded our impressions of this visit in a dedicated **travel blog** and a **hunt for clues** as to whether Japan is belatedly becoming an aquaculture nation like Norway. On the currency front, the occasionally violent movements in October normalised towards the end of the year, resulting in a zero-sum game over three months. Based on the theory of purchasing power parities, investing in the Norwegian krone, the Japanese yen and the Chilean peso remains highly attractive. **All are significantly undervalued against the euro and the Swiss franc.**

### "El Niño" hit in 2023 after all

The largest fishery for fish oil and fishmeal, off the coast of Peru, was forced to cancel its first fishing season in 2023 due to the El Niño weather phenomenon. The anchovies migrated to cooler waters and only the juvenile fish remained on site. For reasons of sustainability, however, juvenile fish should not be fished, as this would result in a lack of biomass in subsequent years. **Compared to 2022, the price of fish oil from Peru has doubled, and certain farmers are struggling with price increases of over 60% for feed.** We cannot fully predict how, where and for how long "El Niño" will strike. What we do know is we saw this exact same pattern in Peru in 2014, the last time a fishing season was cancelled. Over the next 12 months, catches and the supply of fish oil and fishmeal normalised, causing prices to fall to

their usual levels. The second fishing season in Peru in 2023 began at the end of October and the **price of fishmeal has now fallen by 20%**, while the price of fish oil remains stubbornly high.



Source: The Fat Trout Weekly, DnB Markets, 29 December 2023

Optimists expect a further normalisation in the early summer of 2024, while pessimists are predicting the second half of the year or even 2025. For aquacultures, high costs in the income statement mean lower profits, while investments in fish temporarily tie up cash flow. Accordingly, **normalisation not only leads to higher profits, but also frees up large amounts of working capital** that companies can distribute to shareholders.

#### Negative contributions to fund returns

The biggest negative impact was made by Clean Seas Seafood (-1.2%-points), whose share price fell by over 44% following a capital increase. In the middle of its growth strategy, this small breeder of yellowtail kingfish was literally overrun by increased feed costs (see paragraph above) and urgently needed capital. Raising this in a dried-up stock market led to massive dilution of existing shareholders. However, Bonafide was able to participate as an anchor shareholder and hold the shares in the fund. **As painful as the unrealised valuation loss is, there is leverage in the upward normalisation of feed costs.** Taokaenoi (-1.1%-points) suffered the second-highest loss, with its share price falling by almost 30%. Quarter after quarter, the company far exceeds the estimates of third-party analysts. For 2024, the stock is trading at a P/E ratio of 17x, but delivering double-digit growth rates with a 4% dividend and no debt. In hot sectors such as IT, companies offering fundamentals and prospects like those of Taokaenoi would be rewarded with a valuation three times as high. **In other words, the price movement is a mystery and represents a clear opportunity to buy.** In third place is AKVA Group (-0.9%-points), whose share price reached a high for the year at the end of September with low trading volumes. The supplier of aquaculture equipment continues to struggle with the investment slump triggered by the **resource tax** in Norway. Management was forced to lay off **further employees due to a lack of orders**. Chile's Camanchaca follows in fourth place (-0.5% points). The Chilean wild-caught fishing company, which also produces fishmeal and fish oil, was the real winner from the "El Niño" effect. It was able to catch its quotas and the division shone thanks to the high prices in the quarterly report. On the other hand, the salmon business suffered, where only a black zero resulted. It is precisely this diversification that we like; other investors obviously sold

shares and the share price fell by around 13%. A total of 16 positions made a negative contribution in the past quarter.

#### Positive contributions to fund returns

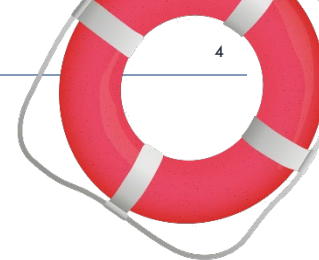
US-listed **Elanco Animal Health** (+0.8% points) staged a price rally, taking first place in the Global Fish Fund. The company was penalised in 2022 due to rising interest rates on high debt, but now is benefitting from the opposite effect in view of the expected interest rate cuts. In addition, the company's figures significantly exceeded the consensus, which led to positive earnings revisions. The Danish Schouw & Co. (+0.4%-points) also posted impressive quarterly figures. **The fears that weighed on the share price in September and October turned out to be completely misplaced.** The company is also calmly buying back its own shares at the current level – a bargain. The two Japanese positions in Maruha Nichiro (+0.4%-points) and Nichirei (+0.4%-points) performed equally well. The companies are delivering what they promise with the figures, and some buyers seem convinced. A total of 17 stocks made a positive contribution over the past 90 days.

#### Reallocations

Over the course of the quarter, **we took advantage of opportunities and reduced the fund's cash ratio from 8.5% to below 5.0%.** We increased the allocation in numerous positions to benefit from the **multi-year lows**. No new titles have yet been added, but we will soon be able to announce a very favourable new investment in Japan which we made in January 2024. Bonafide has been following the development of this new technology from the sidelines for more than seven years. Due to market distortions, the risk/return ratio is finally attractive enough to merit an investment. We can tell you this much: **we bought at 0.3 times book value.**

#### Outlook for 2024

Good advice is usually expensive. However, there are numerous indicators that speak in favour of a positive 2024 for the Global Fish Fund. Firstly, we would mention the fund's **attractive valuation**, which last appeared in this form in **2014**. What followed then were years of high returns for Fish & Seafood investors. Secondly, by investing in the **fastest-growing food sector** the fund enjoys a uniquely **defensive position** that practically no other niche segment on the stock market offers. The demand for Fish & Seafood is increasing by **3 million tonnes** every year thanks to population growth. Thirdly, 40% of the fund is invested in small caps and 35% in mid-caps – categories that have been underperforming on the stock market for some time, even though these are precisely the companies that **ensure innovation and outperformance in the long term**. Fourthly, there is a **tailwind from supranational organisations** (see first section), which are now calling on individual countries to create framework conditions for aquaculture to stimulate private investment. On the stock market, we could see the emergence of a momentum like that of wind and solar companies after Paris 2015, as the industry is **doomed to grow** with the blessing of politicians. Fifthly, and this is perhaps the biggest trigger in 2024, the end of El Niño is likely to induce **disinflation in the price of fish oil**, leading to lower costs and thus **higher profits** for fish producers. And



last but not least, investors will also be rewarded for their patience with **attractive dividends** in the coming year. The last few months have further sharpened the fund's profile and the **potential of the "blue revolution" is clearer than ever before!**

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

## FNG Label 2024: Awarded three stars

As every year, the award ceremony for the FNG Label took place in November. The FNG Label is the quality standard for sustainable investment funds on the German-speaking market.



For the first time, our funds were awarded **three out of three stars** in the rating system. We improved across all assessment categories, meaning that we can now also boast three stars in each of the five sub-categories.

Category	FNG Label 2023	FNG Label 2024
Institutional credibility	★★★☆☆	★★★★★
Product standards	★★★☆☆	★★★★★
Selection strategy	★★★☆☆	★★★★★
Dialogue	★★★★★	★★★★★
Key figures	★★★☆☆	★★★★★
Overall result	★★★☆☆	★★★★★

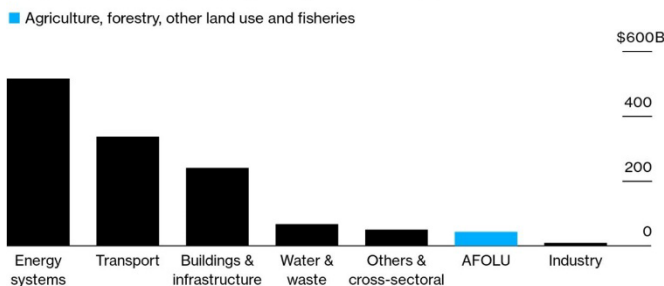
## Sustainable agriculture & food systems for the first time on the agenda at COP28 agenda

For the first time at a world climate conference, in 2023 an entire day was dedicated to the topic of food at COP28. It addressed everything from the way food is grown and processed to distribution, consumption and waste. High time, we think, but better late than never.

After all, our food system is responsible for around 1/3 of all global greenhouse gas emissions. Financial aid for the agricultural transformation is, however, lagging far behind other CO2-intensive sectors, as the chart below clearly shows.

### Agriculture Has Attracted Very Little Climate Finance

Global climate finance flows, average for 2021-2022



Source: Climate Policy Initiative  
Source: Bloomberg

Bloomberg

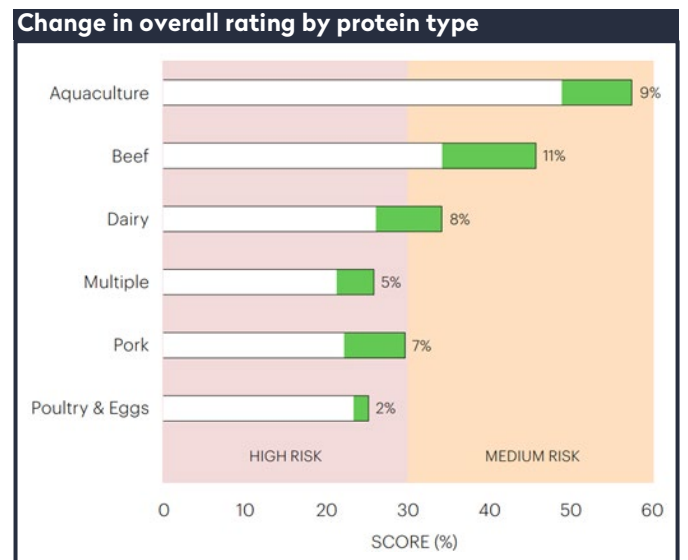
By the end of COP28, some initial promises of additional financing had been made and around 160 nations had signed a **declaration** to better incorporate food and agriculture in their climate plans in the future.

We hope that this finally marks the beginning of a serious transformation of the food sector. The potential for change is huge and we are certain that aquaculture will play a decisive role in the upcoming transformation.

## 7 aquaculture companies among the top 10 in the Collier FAIRR Protein Producer Index

Furthermore, the **Collier FAIRR Protein Producer Index** was released again in December. The index shows how the 60 largest publicly-listed animal protein producers have developed with regard to sector-specific sustainability risks.

Aquaculture companies could once again demonstrate above-average year-on-year gains, resulting in the placement of no less than seven aquaculture companies in the top ten.



Source: FAIRR

## Blog post on Thai Union, the Thai seafood industry's star pupil

Thai Union is the world's largest producer of canned tuna and a major exporter of fish and seafood.

The company currently ranks in the middle of the Collier FAIRR Protein Producer Index but has already undergone a remarkable transformation in the last eight years. After being threatened with trade sanctions by the EU in 2015 for failing to combat illegal fishing, the company began to take on a leading role in the traceability of fish and seafood. It has now decided to invest its entire annual profit for 2023 in further developing its sustainability strategy and to make tuna even more sustainable.

Read the full story [here](#).

# Food safety

When it comes to doing business sustainably, food safety is a central topic in the food industry. As such, it is included as an assessment criterion in many sustainability ratings. This is also the case with our ESG rating provider, ISS Stoxx, and the Coller FAIRR Protein Producer Index mentioned above. Exactly how the topic of food safety is addressed in the Protein Producer Index and how the various sectors and companies perform in each case will be discussed in more detail below.

To assess food safety, FAIRR calculates two key performance indicators on the topics of food safety systems and product recalls.

- The food safety system criterion evaluates the percentage of owned and supplier facilities certified to a GFSI-recognised scheme, disclosure on audits and corrective actions and food safety innovation.
- The product recalls criterion assesses the level of detail and disclosure around product recalls, bans, the company’s product recall system and their mitigation measures.

The Global Food Safety Initiative (GFSI) is the international standard for the certification of food safety systems. The GFSI does not issue certificates itself but sets globally recognised minimum standards that contribute to harmonisation and confidence-building in relation to regional certificates.

**GFSI-certified food standards**

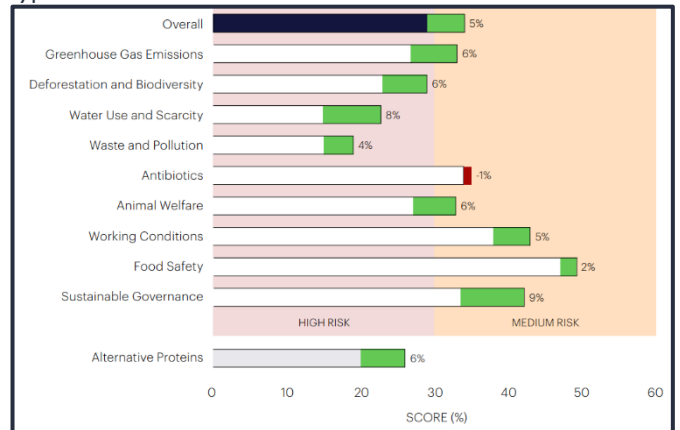


Source: GFSI

Encouragingly, of the nine risk factors assessed by FAIRR, food safety scored the highest across all protein sources. This means that no matter what animal protein you eat, food safety should globally be the least of your concerns.

**Changes in PPI assessment factors compared to 2022**

The chart shows the development of the nine risk factors underlying the FAIRR ratings and the opportunity factor across all protein types.



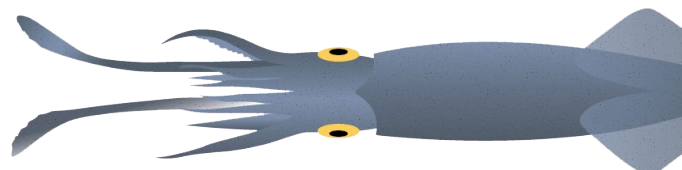
Source: FAIRR

In line with their overall rating, seafood companies also perform well in the food safety criterion. However, there is a clear discrepancy between European and Chilean companies on the one hand and Asian companies on the other. The latter have significant potential to catch up, at least in terms of transparency.

Some European and Chilean seafood companies still have room for improvement, particularly with regard to the certification of suppliers' food safety systems and detailed reporting.

Fortunately, not a single product recall was observed in these regions in 2023. However, should this ever become necessary, recalls should be able to be managed effectively and efficiently thanks to the implementation of modern and comprehensive traceability systems that enable goods to be traced back along the supply chain easily.

To summarise, it can be said that the FAIRR Protein Producer Index can empirically confirm high food safety standards in the seafood industry, especially in the EU and in Chile.



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## Responsible for the creation of this publication

Bonafide Wealth Management AG, Höfle 30, 9496 Balzers, Liechtenstein

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