PICARD ANGST

Q4 2023

The Food Revolution

Dear Investors,

The fourth quarter of 2023 was strongly driven by the high volatility in US interest rates. The US 10-year yields were up +8% in October and have since experienced a significant drop. As already discussed before, this development had an impact on the valuation multiples of our "Food Revolution" portfolio, which was significantly down in October and recovered strongly thereafter. The fund closed the quarter +8.85% in USD, +0.15% in CHF, and +4.34% in EUR, resulting in an overall performance for 2023 of +0.44% in USD, -8.63% in CHF, and -2.95% in EUR.

In this quarterly investor letter, we discuss the 2024 outlook for our portfolio, the key themes for the year to come, and how our "Food Revolution" portfolio is exposed to them.

OVERVIEW

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The “Food Revolution” in 2024

2023 was an eventful year in many aspects. It was a year that saw several of the drivers behind the structural shift of the global agri-food industry accelerating.

Food security has become a priority for a large number of countries that are aiming to reduce their dependence on foreign food sources in a world faced with rising geopolitical tension.

Furthermore, the agri-food system saw a number of the headwinds easing, e.g. distorted supply chains and inflated input costs.
Despite these developments, which are pointing to an improving fundamental mid-term outlook for most of our portfolio companies, valuation multiples remained under pressure as a result of increasing rates and an ongoing capital drain in the small- and mid-cap area. We have discussed this divergence between fundamentals and valuation multiples in previous quarterly investor letters.
In this investor letter, we look ahead and describe the dynamics we expect to shape the agri-food environment in 2024 and how we have positioned our portfolio accordingly:

1. Food price inflation to normalize

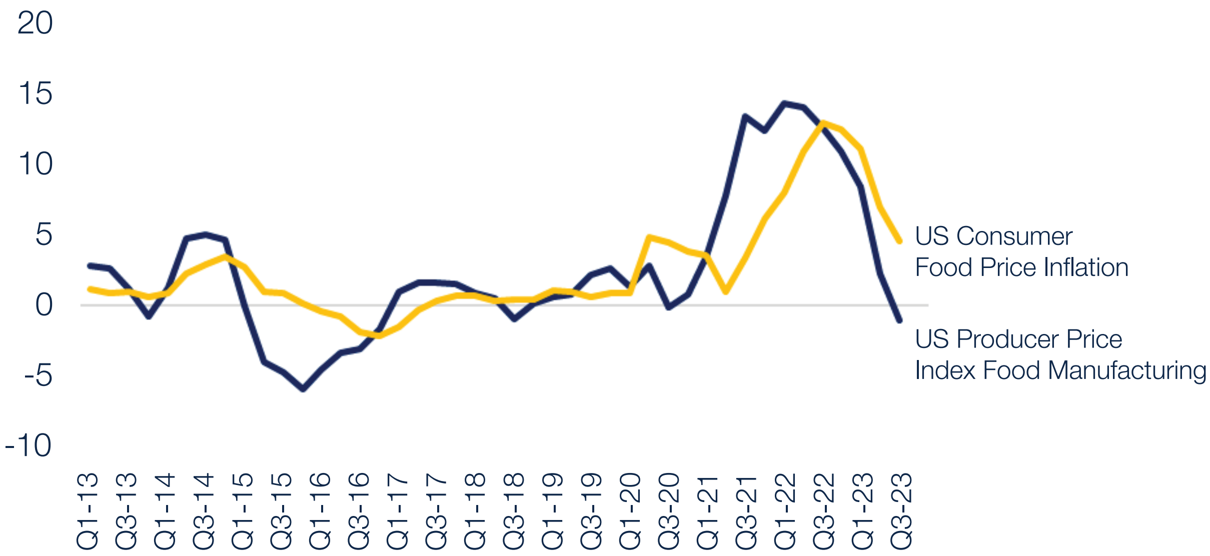
The inflation in general, as well as food inflation in particular, that we have seen in the past two years have been the consequence of numerous disruptions on the supply-side. The inflationary effects of the pandemic, including distorted supply chains and labor shortage, were further aggravated by the war in the Ukraine and its impact on energy and soft-commodity prices.

The resulting rise in input costs has been a drag on our portfolio companies’ margins, which was only partly mitigated by price increases. This headwind gradually disappeared in 2023, as supply chains normalized, and China lifted its COVID restrictions. Furthermore, energy, soft commodity, and logistic costs peaked during the year, resulting in the price-cost-dynamic turning positive and margins expanding again.

Just as inflation is “eating its way” through the value chain, deflation is doing the same. As shown in Figure 1, input costs for US food manufacturers (reflected by the PPI Food Manufacturing) had declined significantly from their peak by mid-2022. This points to a further decline in consumer food prices, which usually lag the PPI by two to three quarters.

Figure 1:

US Producer Price Index Food Manufacturing vs. US Consumer Food Price Inflation



Sources: FAO; U.S. Bureau of Labor Statistics

A more stable inflationary environment is generally good news for the whole sector, as price stability helps businesses to plan their savings, spendings, and investments more effectively.

This said, certain companies benefit more than others. While upstream companies (exposed to the earlier phases of the agri-food value chain) tend to benefit during inflationary periods, midstream food processors and food ingredients companies do so when inflation is normalizing.

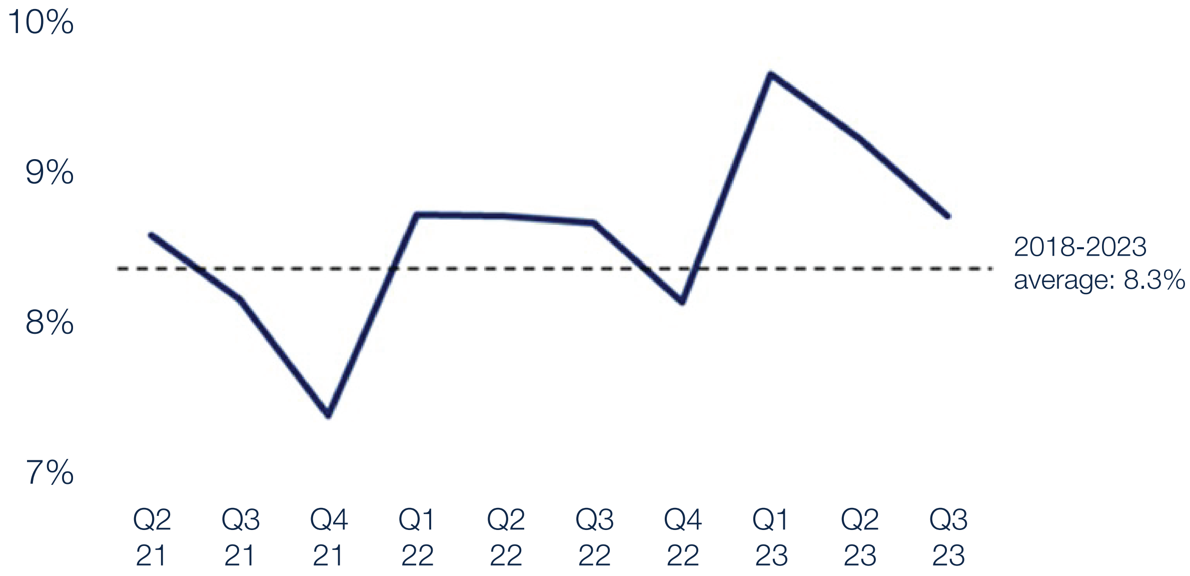
2. Destocking across the value chain coming to an end

The start of the Russian invasion of Ukraine in February 2022 was a major shock for the global agri-food system. Both countries, Russia and Ukraine, are key exporters of agricultural commodities. Russia is the largest global exporter of wheat and fertilizers, while Ukraine is the largest exporter of sunflower oil and the fourth largest exporter of corn. Their combined export market share for 2015-2020 was 28% for wheat, 15% for corn, 66% for sunflower oil, and 16% for fertilizers[1]. Coming hot on the heels of the COVID-pandemic, this proved to be the next shock for global agri-food supply chains and further aggravated existing tensions on the agricultural commodities market.

Consequently, food manufacturers had no other choice but to adapt to ensure that they could continue to deliver the required products in sufficient quantities. This resulted in an inventory build-up across the whole agri-food value chain. This is shown in Figure 2, which illustrates the development of inventories as a percentage of annualized sales for ten of the largest US Food producers since mid-2021[2].

Figure 2:

Inventories as a % of Sales of Major US Food Companies



Source: Bloomberg; Picard Angst research

The peak level of inventories was reached in Q1-23 where it stood at 9.6% of sales, well above the five-year-average of 8.3%. As a result of the Black Sea grain deal as well as an ongoing redirection of key commodity exports from Russia and Ukraine, favorable winter weather, and slowing global economic activity, the pressure exerted on global agricultural supply chains has eased, allowing food companies to gradually reduce their excess inventories. Furthermore, rising interest rates have increased the cost of working capital, further shifting companies' priorities from holding sufficient inventory safety stocks to getting the balance sheet in shape and improving cash flow generation.

[1] Intereconomics (2022), The War in Ukraine, Agricultural Trade and Risks to Global Food Security

[2] PepsiCo, Coca-Cola, Tyson Foods, Mondelez, Kraft Heinz, General Mills, Hershey, Sysco, Kellogg, McCormick

The following destocking during Q2-23 and Q3-23, particularly in the US, has been remarkable and resulted in weak volumes for food ingredients companies. Most of our portfolio companies expect the destocking to gradually fade during Q4-23, which would be in line with the development shown in Figure 2. At 8.7% of sales (as of end-Q3), inventory levels are approaching the long-term average.

As the industry is entering 2024 with more normalized inventory levels, we expect volumes to start growing again.

The main beneficiaries should be food ingredients producers, which in total amount to 23% of our "Food Revolution" portfolio.

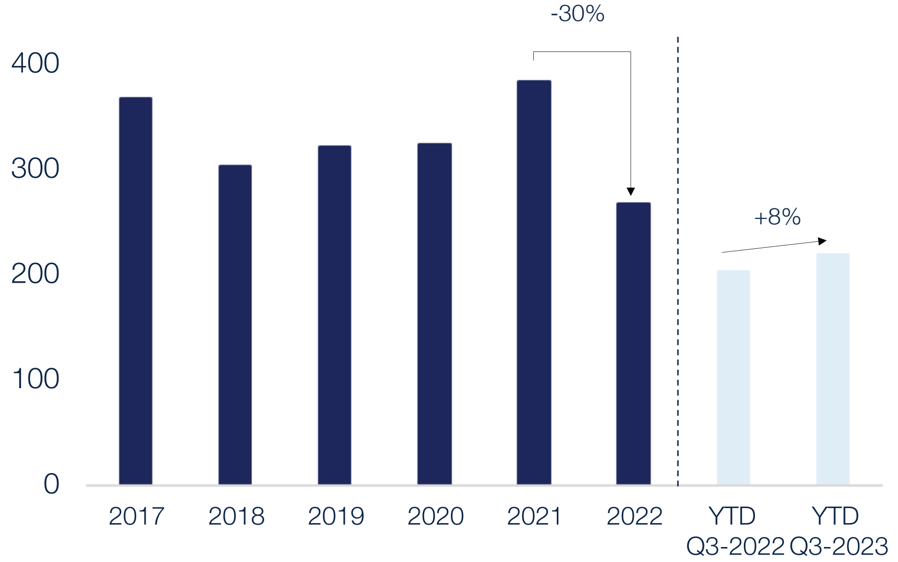
3. Increasing M&A Activity

As discussed in the previous investor's letter, the "Food Revolution" universe has experienced a significant de-rating in the past two years – despite the rally in November and December 2023. Our portfolio currently trades at 13x EV/EBITDA 2025E, which is well below the 2021 peak (19x) and the long-term average (16x).

Interestingly, while the number of global Food & Agriculture M&A transactions declined by -30% in 2022, they have shown clear signs of stabilization in 2023. By end-Q3 2023, the YTD number of M&A transactions increased by +8% compared to the same period in 2022 (see Figure 3).

Figure 3:

Number of Food & Agriculture M&A Transactions



Source: Capital IQ; Factset; PitchBook; Capstone Partners

Despite the valuation de-rating seen in publicly listed agri-food companies, transaction multiples have shown a remarkable resilience and remained in a healthy range of 15-20x EV/EBITDA. What has changed though is the character of the average acquirer.

While PE funds and other financial investors were the main driver of M&A activity in 2020 and 2021, the last two years have mainly seen strategic buyers and consolidation within the different segments.

Examples of these types of deals from our universe include DSM/Firmenich, Novozymes/Chr. Hansen, Bunge/Viterra, and JBT, which is currently bidding for Marel.

With monetary conditions stabilizing, cash flow generation improving, inflationary and volume head-winds easing, and valuation multiples at depressed levels, we expect M&A activity to increase in 2024. This should provide the long-awaited support for historically low valuations of our "Food Revolution" portfolio companies.

Automation and Agritech

DEVELOPMENT OF OUR SUB-THEMES

The **Automation and Agritech subtheme** capitalizes on the trend toward a more sustainable and efficient food production system. **The sub-portfolio was up over the past quarter and recovered the losses from the previous quarter, as mostly resilient results evaporated some of the worries around the economic cycle.**

Bioceres, the Argentinian provider of crop productivity solutions and part of our "Disruptors basket", was the best quarterly performer within the sub-theme. Despite worries around the droughts in Argentina, floods in California, and other industry-wide headwinds, Bioceres proved the resilience of its business model, which resulted in adjusted EBITDA growth of +31% YOY.

"We feel good with what we see," was one of many upbeat statements made by *Lindsay's* CEO during the last earnings call. After already outperforming in Q3-23, the U.S. smart irrigation provider was the strongest contributor to the sub-theme's quarterly return. The company reported solid results in its irrigation business, supported by strong growth in Latin America and margin recovery. Management gave an upbeat outlook and considered the company to be well-positioned to benefit from global efforts to improve food security.

The German food processing manufacturer *GEA Group* was another strong performance contributor in the quarter, while the US companies *Trimble and John Bean Technology* were laggards. The latter initiated a takeover bid for its Icelandic peer Marel, which we consider to be a good strategic fit, but weighed on the stocks in December.

During the quarter, we initiated a new position in the German packaging and bottling machine manufacturer *Krones*. The group is well-positioned to benefit from increasing automation across the agri-food value chain and is exposed to the resilient beverage market. Given the healthy order momentum, stable capacity utilization until at least 2025, the net debt free balance sheet, and the low valuation (6x EV/EBITDA 2025E), the investment case provides an attractive risk-return profile.

Alternative Proteins

The **Alternative Proteins** sub-theme explores new sources for meeting the increasing demand for proteins. **The sub-portfolio, which we are significantly under-weighting, was broadly flat over the past quarter.**

The sub-theme consists of four small positions, which are part of the “Disruptors basket” and are very volatile. The quarterly return of these companies showed a high divergence, with the overall portfolio’s best performer *(Burcon Nutrascience)* and the worst performer *(Benson Hill)* coming from this sub-portfolio.

Sustainable Packaging Solutions

The **Sustainable Packaging Solutions** sub-theme is focused on solving the food packaging challenge. **The sub-portfolio was slightly up over the past quarter,** showing some divergence between the positions of the sub-theme.
The best performer within the sub-theme was again a “disruptor”: *Carbios*. The French pioneer of enzymatic processes and other biological technologies used to recycle PET received EUR 42.5 million in public funding for the construction of the world’s first plant for the enzymatic depolymerization of PET. As this will be Carbios’ first industrial site, we consider this a significant catalyst for the investment case. We slightly increased our position in Carbios during the quarter.

US aluminum can manufacturer *Ball Corporations*, in which we initiated a new position in August, was the best performance contributor within the sub-theme, followed by its peer *Crown Holdings*. After selling its Aerospace business during Q3-23, which will turn the company into a pure-play and will help to significantly reduce debt, Ball experienced a re-rating in the following quarter.

At the other end of the range, we had Swiss *SIG Group*. The Swiss aseptic packaging producer came under pressure on sell-side comments suggesting a slowdown in the bag-in-box business because of de-stocking. We consider the market reaction to be excessive and took advantage of the stock price weakness to upgrade SIG back to a core position.

Food Safety and Clean Label

The **Food Safety and Clean Label** sub-theme supports innovation in the area of food and feed ingredients. **Our largest sub-portfolio contributed the bulk of the fund's quarterly performance** in anticipation that the de-stocking and inflationary pressures would end soon.

The two Danish bioscience companies *Chr. Hansen* and *Novozymes*, which announced their intention to merge around a year ago, were the two strongest quarterly performance contributors in our "Food Revolution" portfolio. The expectation that the deal would close soon was heightened further after the European Commission approved the deal, which provided both stocks with significant tailwind. The two food ingredients producers *Givaudan* and *DSM-Firmenich* benefited from de-stocking passing its peak as well as from valuation multiple expansion due to falling interest rates.

Badger Meter and *Xylem* both reported solid results and provided constructive outlooks for their Water businesses. While Badger Meter, which was a significant outperformer in 2023, saw its share price momentum waning, Xylem's shares rallied strongly. We trimmed both positions somewhat in December, as valuations started to look expensive, and we see only limited earnings upgrade potential.

Organic, Healthy, and Functional Food

The sub-theme Organic, Healthy, and Functional Food was up massively in the past quarter. As eight of the nine positions within this sub-portfolio belong to the "disruptors basket", this sub-theme is an over-proportional beneficiary of easing financial conditions.

After announcing the long-awaited sale of its frozen fruits business, *Sunopta* saw its shares soaring. This transaction allows the company to reduce debt significantly, improve its return profile, and position itself as a plant-based food and beverage pure-play.

Other strong quarterly performers were *Oatly*, which is starting to reap the early fruits of its restructuring efforts, as well as *Jamieson Wellness* and *Simply Good Foods*, which benefited from investors' increased interest in healthy eating and weight reduction in the context of the introduction of anti-obesity drugs.

During the quarter, we initiated new (small) positions in the Swedish probiotics specialist *Biogaia* and in *Vital Farms*, the US-based provider of ethically produced eggs. At the same time, we closed our position in *Celsius*, the better-for-you functional energy drink company, in anticipation of decelerating growth in 2024 and an overly rich valuation.

New Forms of Consumption

The New Forms of Consumption subtheme concentrates on the digitalization of food retail. The sub-portfolio was flat over the quarter and showed diverging share price developments.

SES-Imagotag was the strongest quarterly performance contributor within the sub-theme. The French electronic shelf labelling systems company and IoT specialist reported solid growth and anticipated an "excellent" Q4 in Europe. While the challenging macro-environment has been a drag on the high-margin revenues from Value Added Services (VAS), management expects the strong momentum to continue in 2024 and sales to accelerate in the US.

While most tech-heavy companies, e.g. *Doordash*, *Just Ea*t, and *Ocado*, performed well during the quarter, *HelloFresh* was an outlier to the downside. The German meal-kit producer issued a profit warning, driven by a weaker-than-expected customer acquisition in the US, as well as some unforeseen issues surrounding the ramp-up of the company's ready-to-eat production capacity. Management stressed the temporary character of most factors leading to the profit warning, which was not enough the keep the shares from plummeting following the news, however.

During the quarter, we slightly reduced our positions in *Edenred* and SES-Imagotag, while taking advantage of the weakness in HelloFresh, following what we consider to be an exaggerated sell-off.

FACTSHEET

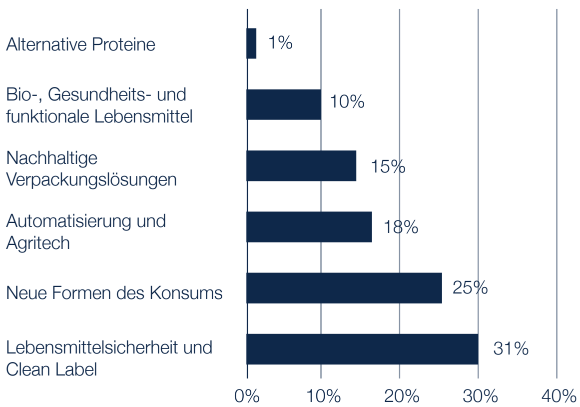
Key Information

Domicile	Luxembourg
Asset Class	Equity
Legal Class	UCITS V
Currency	CHF, EUR, USD
Currency Hedge	No
Dividend	accumulating

Fund Facts

Liquidity	Daily
Launch Date	30th April 2021
Management Company	FundPartner Solutions (Europe) S.A
Depotbank	Pictet & Cie (Europe) S.A
Investment Manager	Picard Angst AG
Auditor	Deloitte Audit
Registred	LU, DE, UK, CH, FR

Breakdown by Sub-Themes



Data as of 29.12.2023

AuM USD M	66.83
# Positions	43

Subscriptions & Redemptions

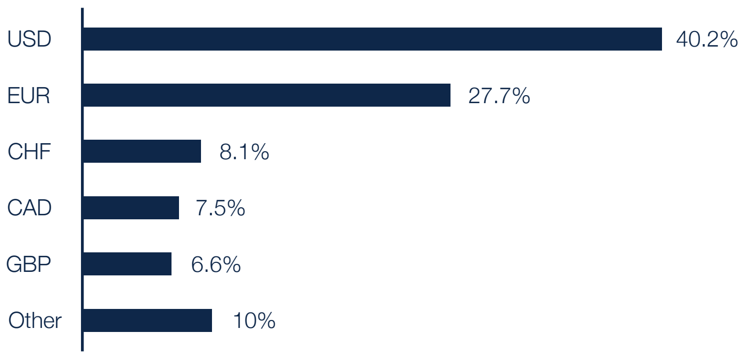
Cut-off	Daily 14:00 (CET)
Subscription	T+2
Redemption	T+3

Performance in USD

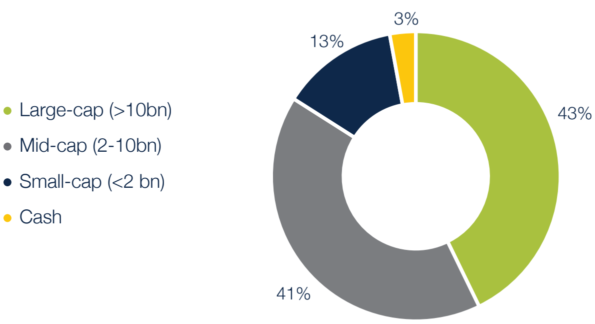
Performance in %

Since	1 Monat	3 Monats	2023 YTD	Since inception
USD	7.63%	8.85%	0.44%	-25.38%
CHF	4.18%	0.15%	-8.63%	-31.14%
EUR	6.31%	4.34%	-2.95%	-18.68%

Breakdown by Currency



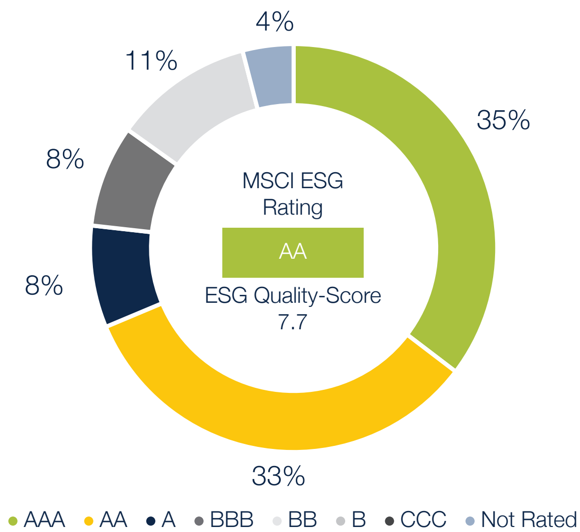
Portfolio Structure



Top 10 Holdings in the Portfolio

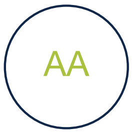
ISSUER	WEIGHT	ESG RATING
Xylem Inc/NY	4.27%	AAA
Edenred SE	4.22%	AA
Ecolab Inc	4.11%	AAA
Primo Water Corp	4.00%	BBB
SIG Group AG	4.00%	AAA
SES-imagotag SA	3.90%	BB
GEA Group AG	3.86%	AAA
TOMRA Systems ASA	3.80%	AA
HelloFresh SE	3.52%	AA
Simply Good Foods Co/The	3.38%	BB

Portfolio ESG Coverage by Market Value: 96%



Source MSCI - Picard Angst Data Center

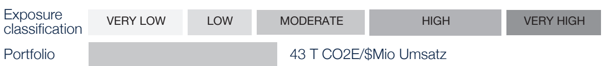
ESG Score, Impact Revenue & Temperature



AAA best,
CCC worst

Source MSCI - Picard Angst Data Center

Carbon Footprint



Source MSCI - Picard Angst Data Center

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Glossary (source: MSCI ESG Platform)

ESG Rating: Designed to measure a company's resilience to long-term, industry material enviromental, social and governance (ESG) risks. ESG Ratings range from leader (AAA, AA), average (A, BBB, BB) to laggard (B, CCC).

Impact revenue: Represents revenue exposure to Sustainable Impact Solutions which reflects the extent to which company revenue is exposed to products and services that help solve the world's major social and environmental challenges. It is calculated as a weighted average, using portfolio weights and each issuer's percent of revenue generated from Sustainable Impact Solutions. The impact revenue is classified in the following categories: negligible (<=1%), low (>1% bis <= 5%), moderate (>5% bis <=10%), high (>1 0% bis <= 20%) und very high (>20%).

Temperature: Implied temperature rise provides an indication of how the portfolio aligns to global climate targets and is based on the MSCI ESG Research methodology.

ESG Quality Score: Measures the ability of underlying holdings to manage key medium to long term risks and opportunities arising from environmental, social, and governance factors. It is based on MSCI ESG Ratings and is measured on a scale of 0 to 10 (worst to best). The distribution of scores is based on the universe of approximately 28,000 funds included in MSCI ESG Fund Metrics.

Carbon Footprint: It is based on MSCI CarbonMetrics, and is calculated as the portfolio weighted average of issuer carbon intensity. At the issuer level, Carbon Intensity is the ratio of annual scope 1 and 2 carbon emissions to annual revenue. Carbon Risk is categorized as Very Low (0 to <15), Low (15 to <70), Moderate (70 to <25 0), High (250 to <525), and Very High (>=525).

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