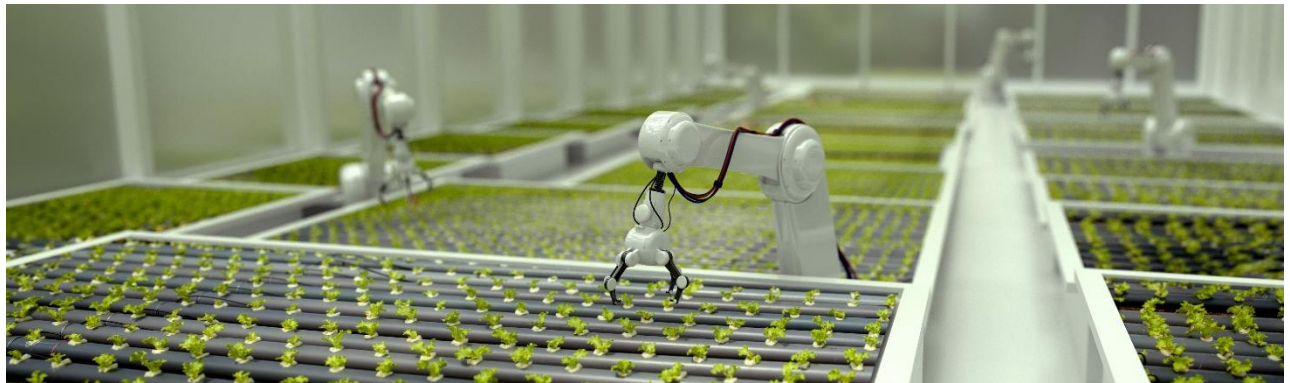


Quarterly Update: Smart Farming & FoodTech

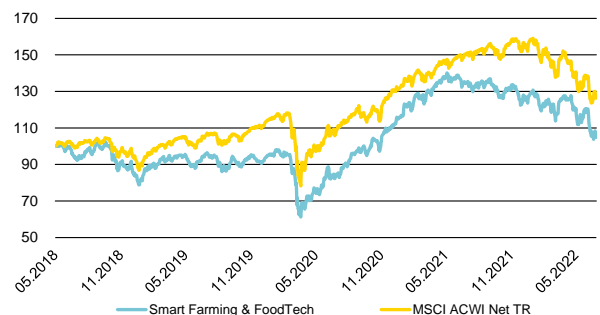
Strong start of the quarter was tempered by weakening farmers' sentiment



Summary

- Strong start of the quarter but uncertainty on future commodities' prices is weighing on farmers' sentiment.
- Significant number of transactions underlines our repositioning to weather the macroeconomic uncertainty.
- Differentiated outlook across sub-themes offers repositioning opportunity.

Graph 1: Net performance Vontobel Smart Farming & FoodTech AMC vs. MSCI ACWI TR Index, in USD



Source: MSCI, Vontobel. The return of the strategy may go down as well as up due to changes in rates of exchange between currencies. Past performance is not a reliable indicator of current or future performance.

Performance review

	1M	3M	YTD	1Y	Issuance
Smart Farming & FoodTech	-12.4%	-16.9%	-19.1%	-21.9%	4.9%
MSCI ACWI Net TR	-8.4%	-15.7%	-20.2%	-15.7%	26.3%

Source: MSCI, Vontobel. The return of the strategy may go down as well as up due to changes in rates of exchange between currencies. Past performance is not a reliable indicator of current or future performance.

The Smart Farming & FoodTech strategy has shown a strong performance vs. the MSCI ACWI benchmark in the months of February, March, and April, before receding and underperforming in May and, especially, in June.

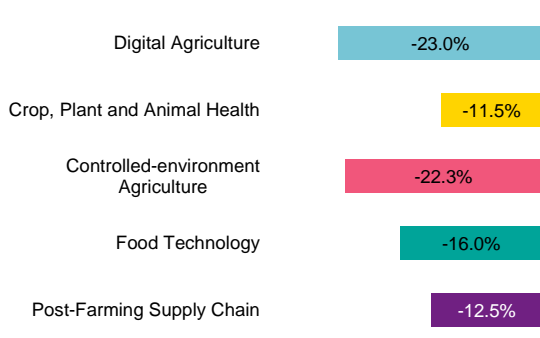
Earlier this year, we saw an increase in commodities' prices following the start of the war in Ukraine; Ukraine and Russia being global players in agricultural commodities and important exporters. Although the increase in commodities' prices has a positive effect on farmers' revenues, input cost inflation is weighing on margins. Uncertainty on the future path of commodity and input prices is now impacting farmers' sentiment, which has recently weakened.

Regarding the sub-themes, Digital Agriculture was the worst performing with a performance of -23% over the quarter. Agricultural machinery companies, Deere and AGCO were the drivers of the underperformance. Deere reported disappointing results mid-May due mainly to supply chain issues that led to delays in deliveries. Although AGCO reported Q1 EPS above expectations and raised its FY22 guidance, the weaker farmer sentiment had a negative effect on the stock's performance. The second most impacted sub-theme was Controlled-Environment Agriculture. The salmon farming stocks performed better than the benchmark, but the overall performance was pulled down by Scotts Miracle's and Signify's performances. Scotts Miracle's consumer business was impacted by lower demand for lawn and garden products, while Signify's performance was impacted by the lower demand from the consumer side as well as supply chain disruptions due to Chinese lockdowns.

The Food Technology sub-theme performed overall in line with the benchmark, although Freshpet was an outlier within the category as it announced larger than expected capital expenditure plans and issued equity to finance it. On the other hand, food ingredients stocks withstood well given their ability to mitigate input cost inflation through pricing.

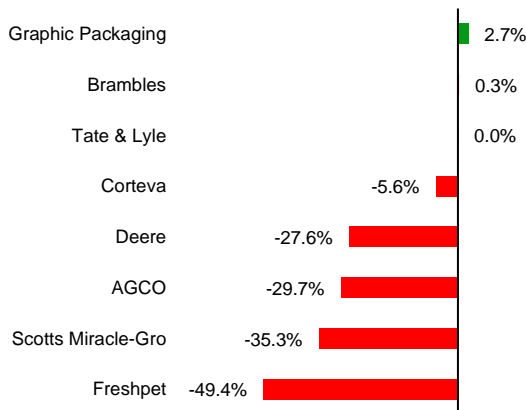
The two remaining sub-themes performed better than the benchmark pushed by crop protection producers (e.g. Corteva, FMC) and agribusiness companies (e.g., ADM, Bunge, Darling Ingredients), although the latter lost part of their overperformance in the last month, following the decrease in soybean oil prices.

Graph 2: Sub-themes quarterly performance, in USD



Source: Bloomberg

Graph 3: Top/bottom quarterly performers, in USD



Source: Bloomberg

Transactions in Q2 2022

We made a significant number of transactions in the Smart Farming & FoodTech strategy this quarter. In total, we initiated positions in 10 stocks and sold our positions in 8 stocks. The detail of the transactions as well as the rationale for each are presented in Table 1 at the end of this document.

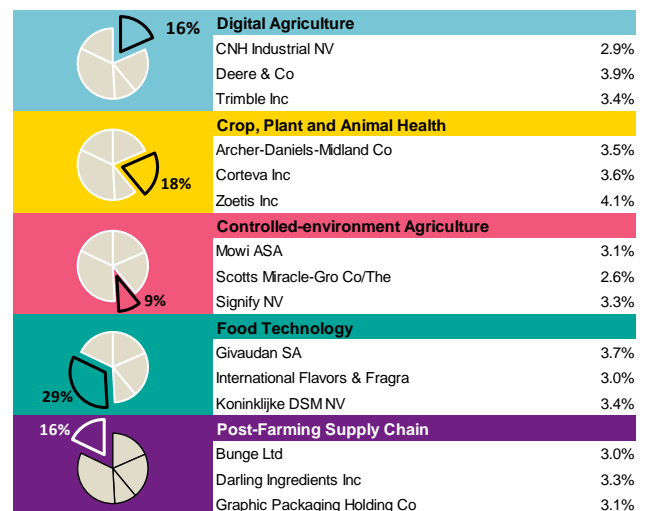
Outlook – Smart Farming & FoodTech

Despite current economic uncertainty, the underlying drivers for the “Smart Farming & FoodTech” topic remain intact. The population is growing on limited land resources, we will need to feed many more people in the decades to come, and current methods of growing food are unsustainable. Innovation and the use of technology are needed to help facing that limitation, and the tailwinds remain strong.

On a sub-theme level, we see the following drivers:

- **Digital agriculture:** We see the agricultural machinery replacement cycle still at an early stage given the strong ag fundamentals, aging fleet, low inventories, and strong order backlog. Precision agriculture and automation are big topics as the lack of skilled labor and input cost inflation are big issues for farmers.
- **Crop, plant, and animal health:** On the crop protection side, significant raw material supply losses from Belarus and Russia could support the market for a couple of years to come. Regarding animal health, demand for products related to farm animals is tied to consumer spending and could be impacted by decreasing demand for meat in the short term. However, both companies we have in our portfolio provide solutions to the companion animal segment as well, which is less price sensitive and should help mitigate short term headwinds. Longer term, demand for animal protein is growing, pushed by the increase in developing countries’ purchasing power.
- **Controlled-environment agriculture:** Salmon farming companies are benefitting from the continued increase in salmon prices (demand > supply). Meanwhile indoor farming equipment providers are seeing some demand pull back.
- **Food Technology:** Food ingredients producers benefit from the relative inelasticity of demand given that food ingredients are crucial to the food producers yet represent only a small fraction of the total production cost. The outlook for the alternative food category is more mixed, but we see opportunities in single names that benefit from strong demand trends and now trade at attractive valuations.
- **Post-farming supply chain:** Food processing equipment providers benefit from relatively stable end markets and strong pricing power. Packaging companies could be more exposed to the decrease in consumer demand.

Graph 4: Portfolio excerpt




Source: Vontobel. Data as of 30.06.2022.

Strategic Certificate on the Vontobel Smart Farming & FoodTech Strategy Index

Reference Currency	ISIN	Index Fee
CHF	CH0441920805	1.25%
EUR	DE000VA8HXD6	1.25%
EUR (Italy)	DE000VQ1ZMR8	1.25%
USD	CH0409823058	1.25%

Table 1: Transactions in Q2 2022

POSITIONS BOUGHT 	
BellRing Brands	<ul style="list-style-type: none"> • Nutrition company active in the production of protein powders, shakes, bars, etc. • The product category continues to show healthy demand. • We reinitiate a position given attractive valuation combined with improving production capacity.
CNH Industrial	<ul style="list-style-type: none"> • Machinery company with strong revenue exposure (c.45%) to the agriculture sector. • Trading at large discount to best-in class peer (i.e., Deere). • Significant investments in precision agriculture offers growth opportunities ahead. • Currently reworking its supply chain to improve margins and keep better track of costs. • Currently benefitting from the low dealer inventories that should back demand in the short term.
GEA Group	<ul style="list-style-type: none"> • Machinery company specialized in food production and processing. • Leader in attractive markets with entry barriers. • Defensive player in times of economic uncertainty. • Growth opportunities given rise in alternative food products. • Strong pricing position and highly fragmented customer base.
Guangdong Haid Group	<ul style="list-style-type: none"> • Active in feeds, seedlings and animal healthcare products. • Soft demand in 2021 reflected in annual results but more visibility in feed volume expansion should drive growth ahead. • High customer stickiness and flexibility in product mix help mitigate raw material inflation.
IDEXX Laboratories	<ul style="list-style-type: none"> • Active in veterinary diagnostics market and leader in the strongly growing pet diagnostics category. • Recent decrease in valuation offers an attractive entry point. • Premium valuation justified in our opinion.
International Flavors & Fragrances	<ul style="list-style-type: none"> • Food ingredients company with exposure to specialty ingredients and alternative food trends with above-average growth. • First mover advantage in industry consolidation with acquisition of DuPont's Nutrition & Biosciences business in 2021. Rapidly divesting non-core business segments.
John Bean Technologies	<ul style="list-style-type: none"> • Machinery company specialized in food production and processing. • Currently shows strong orders and backlog. • Stable demand for food processing equipment given relatively stable end markets. • Fragmented competition with a few big players and many small, opportunities for M&A.
Mowi	<ul style="list-style-type: none"> • Seafood company and global leader in salmon production. • Salmon demand has been growing for the last decade while supply is growing less fast given limited places in the world to farm Salmon (e.g., Norway, Chile, etc.). Positive impact on Salmon price for the producer. • We are switching from Salmar (salmon company) to Mowi, as we expect Salmar to issue a large private placement which would negatively impact its stock price.
Oatly Group	<ul style="list-style-type: none"> • Alternative dairy company with oats used as base for production of oat drink, ice cream, yoghurt, etc.

	<ul style="list-style-type: none"> Valuation has decreased tremendously since IPO on May 19, 2021, due to lack of visibility on pace of margin expansion. Entry price now quite low while plant-based dairy opportunity still intact.
Symrise	<ul style="list-style-type: none"> Food ingredients company with exposure to growing trends such as pet and baby food. Positive on sales growth and margin recovery in 2022 as we see the company able to increase prices to pass through inflation of raw materials.

POSITIONS SOLD

Kubota	<ul style="list-style-type: none"> Machinery company with strong revenue exposure (c.70%) to the agriculture sector. Weakening demand in the profitable US business because of thin inventories due to supply shortages. We favor other agricultural machinery companies such as Deere, AGCO and CNH Industrial over Kubota.
Corbion	<ul style="list-style-type: none"> Food ingredients company with expertise in fermentation and a joint venture in PLA (polylactic acid) used as a plastic alternative. Significant cost inflation, which is taking time to be passed on to the customer. Inflation also increases the cost of building new plants, which we expect to be postponed.
Salmar	<ul style="list-style-type: none"> Salmon producing company with one of the lowest costs of production. Given ongoing acquisitions, we expect Salmar to issue a large private placement in the near future, which would negatively impact the stock price. Therefore, we switch our exposure to salmon farming from Salmar to Mowi.
Maple Leaf Foods	<ul style="list-style-type: none"> Sustainable protein producer, with two operating segments: 1) Meat protein, 2) Plant protein. The company has started downsizing its Plant protein segment after reassessing its growth expectations. We therefore see the company as less relevant to our theme.
Smurfit Kappa	<ul style="list-style-type: none"> Paper-based packaging producer benefits from long-term trends away from plastic and rise in e-commerce. However, over the short to medium term, the company is impacted by macroeconomic uncertainty and its impact on containerboard and box demand. We therefore decrease our exposure to (paper) packaging by selling Smurfit Kappa and keep our current position in Graphic Packaging.
SIG Group	<ul style="list-style-type: none"> Aseptic packaging producer that helps in waste reduction, as it makes food and beverage products shelf stable, and benefits from the trends away from plastic. Short to medium term headwinds due to China lockdowns and raw material cost inflation, which is more difficult to pass through. APAC region represents c.35% of revenues.
Valmont Industries	<ul style="list-style-type: none"> Active in two key segments: agriculture and infrastructure and across eight markets including irrigation and AgTech. Positive long-term outlook (next decade) for irrigation spending due to underinvestment over the last decade. However, in the short to medium term, we see potential for margins' compression, notably due to steel and aluminum cost inflation, and potential lower demand due to recession fears.
Brambles	<ul style="list-style-type: none"> Sustainable logistics company that provides reusable pallets and containers and is an enabler of the sharing economy. Impacted by a large client's decision (Costco, 10% of revenue) to move to plastic pallets and by retailers resisting to price increases from manufacturers.

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