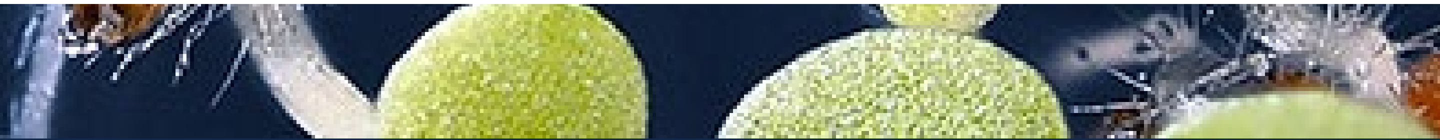
The Food Revolution

Research Paper

February 2025



Key Investment Themes for 2025

2024 was a pivotal period for the food and beverage industry, marked by efforts to adapt to shifting consumer preferences and market dynamics. Looking back, we correctly identified **the start of an innovation cycle**, as branded food and beverage companies, grappling with stagnant growth, sought to regain consumer interest. While we anticipated that these innovation efforts would drive higher volume growth by year-end, this outcome has yet to materialize – likely due to the rising popularity of private-label products, a topic discussed in detail under Theme #1 below. Beyond product innovation, **consumers are prioritizing value**, as food inflation continues to weigh on family budgets.

In agriculture, we chose to remain cautious, **steering clear of the cyclical downturn**. Farmer sentiment remains subdued, crop prices are under pressure, and these challenges are likely to persist.

As we turn our focus to 2025, four pivotal investment themes have emerged and are set to redefine the agri-food industry, influencing key areas ranging from production and innovation to consumer preferences and general market dynamics:

1 The rise of private labels, fueled by consumer demand for affordable alternatives

2 The U.S. nearshoring trend, reshaping supply chains and boosting domestic production

3 A structural rebound in M&A activity, supported by improving economic conditions and corporate balance sheets

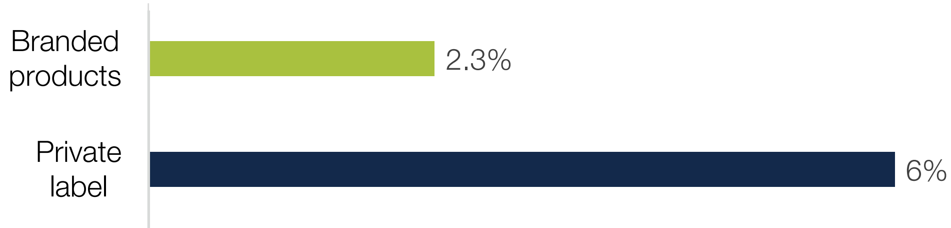
4 An intensified focus on food safety especially in the U.S., driven by potential regulatory changes

1 The rise of private labels, fueled by consumer demand for affordable alternatives

Interest in private label products, commonly known as store brands, is increasing significantly in the current macroeconomic environment. Although food inflation has eased, prices remain roughly **30% higher than pre-pandemic levels** and are continuing to place strain on household budgets. Additionally, post-pandemic trends have shifted consumer spending toward **eating at home** rather than dining out, further boosting demand for cost-effective options. Changing consumer perceptions, coupled with innovative product offerings, have positioned private labels as credible alternatives to branded products. These factors—affordability, evolving shopping habits, and improved product quality—are converging to create a strong catalyst for the accelerated adoption of private-label products.

According to a recent Morgan Stanley report, private label sales are expected to achieve an average annual growth rate of **6% from 2023 to 2030**, outpacing the **2.3% growth forecast for branded products**. This rapid expansion raises the question: who stands to gain or lose in this evolving landscape? Retailers with strong private label portfolios are positioned as the clear winners, benefiting from higher margins and consumer loyalty. On the other hand, branded products may face increasing competition as their historical reliance on brand superiority is challenged. They must adapt by rethinking their value propositions and invest in innovation to stay competitive.

Figure 1: Average annual sales growth from 2023 to 2030



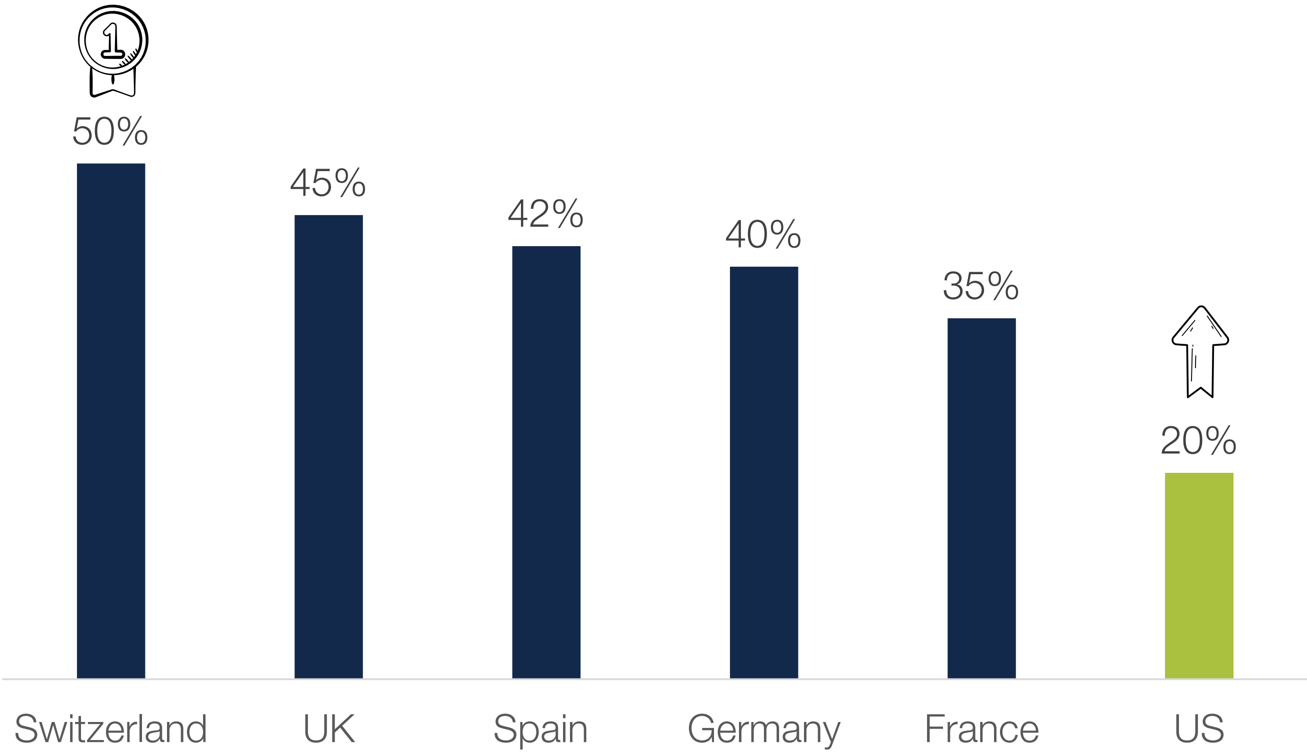
Source: Morgan Stanley, Picard Angst Research

Figure 2: Examples of private label and branded products from Swiss retailer Migros

Source: Migros, Picard Angst Research

Western Europe is the leader in private label adoption, driven by strong consumer trust in store brands and the dominance of discount retailers. Notably, **Switzerland boasts the highest penetration globally at 50%**, fueled by leading players such as Coop and Migros. The **UK follows closely behind at around 45%**, while **Germany stands at 40%**, led by discounters such as Aldi and Lidl. Case in point, 80% of Aldi's portfolio consists of private label products, underscoring its central role in this trend. North America lags Europe with around **20% private label penetration**, though it is gaining momentum. This creates a sizable opportunity for growth, driven by a catch-up effect as retailers innovate and expand their private label offerings.

Figure 3: Private label penetration per key country



Source: Private Label Manufacturers Association, The Wall Street Journal, Picard Angst Research

How is the «Food Revolution» Fund exposed to this theme?

Firstly, the «Food Revolution» Fund is not invested in large, branded food corporations such as Nestlé, Danone, or Unilever. To meet changing consumer expectations, **these established food brands must innovate**. **The primary beneficiaries of this trend are specialty ingredients companies**, which serve as outsourced research and development departments for food and beverage manufacturers. These ingredients companies are typically exposed to both private label and branded products, putting them in a position to benefit in two ways, i.e. from the growing penetration of private labels and the increased innovation efforts from national brands striving to remain competitive in this evolving landscape.

Secondly, we target companies actively engaged in the private label sector, such as the Canadian co-manufacturer **SunOpta**, which collaborates with leading retailers to develop and produce store brand products. The company focuses on categories such as plant-based beverages, nutritional drinks, and healthy snacks, aligning with our overarching Food Revolution theme.

Finally, as retailers stand to benefit from increased private label adoption, we have added two U.S.-based grocery retailers specializing in natural, organic, and healthy food options to our pipeline and continue to actively seek additional investment opportunities.

2 The U.S. nearshoring trend, reshaping supply chains and boosting domestic production

The U.S. agri-food supply chain is increasingly shifting toward nearshoring – the process of relocating production closer to home. This trend is driven by several factors, including an increase in geopolitical uncertainties, a growing desire to reduce dependency on distant regions, and the **potential financial implications of trade policies**, particularly the **tariff threats** from President-Trump. Simultaneously, Trump's proposed **immigration policies**, which aim to tighten border controls, could have profound consequences for the U.S. agri-food sector, which **relies heavily on immigrant workers** to sustain operations.

Together, these dynamics underscore the urgent need for greater investment in automation.

Advances in automation and robotics are making U.S.-based production facilities more competitive, even in the face of higher labor costs. By adopting automation in farming, processing, and packaging, U.S. agri-food companies can maintain cost efficiency while bringing more production back to domestic shores. Furthermore, nearshoring will increase the demand for cold storage, warehousing, and food distribution infrastructure within the U.S., presenting additional opportunities for growth and innovation in those sectors.

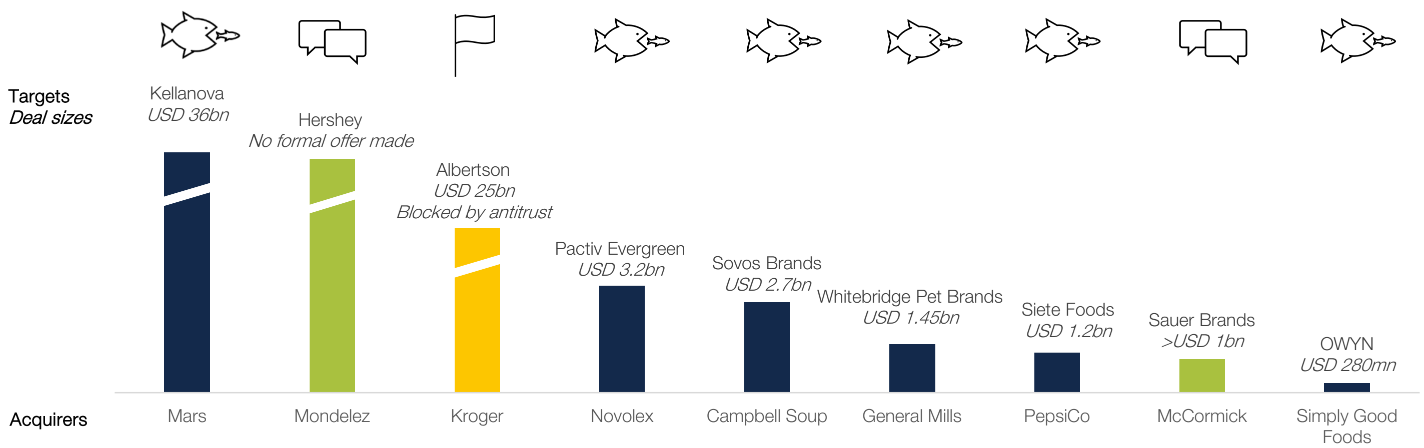
How is the «Food Revolution» Fund exposed to this theme?

The «Food Revolution» Fund invests in companies specializing in automation and supply chain efficiency – key drivers of a reshaped agri-food supply chain. For example, **Lindsay Corporation**'s advanced irrigation technologies help farmers increase yields and optimize the use of resources. **JBT Corporation** provides cutting-edge food processing systems, including robotic automation and integrated packaging technologies, enabling manufacturers to maintain high levels of productivity despite rising domestic labor costs. Similarly, **Zebra Technologies** offers solutions that streamline operations and enhance efficiency in warehouses and distribution centers.

3 A structural rebound in M&A activity, supported by improving economic conditions and corporate balance sheets

According to ION Analytics, global M&A activity hit a decade low in 2023. However, 2024 has seen a revival, with M&A volume rising to USD 3.4 trillion – an 8% increase compared to the previous year. Notable deals include Mars' USD 36 billion acquisition of Kellanova, Campbell Soup's USD 2.7 billion purchase of Sovos Brands, and PepsiCo's planned USD 1.2 billion acquisition of Siete Foods. **We anticipate further acceleration in M&A activity in 2025, driven by lower interest rates, stronger balance sheets, companies' pursuit of growth, and the removal of U.S. election-related uncertainty.**

Figure 4: Selected M&A deals/talks that occurred in 2024



Source: Picard Angst Research

Focusing on the Food Digitalization sub-theme of our investment strategy, many companies have reached a turning point. After previously being focused solely on driving topline growth at all costs, these companies are now balancing revenue expansion with a stronger emphasis on profitability and free cash flow generation. This shift, coupled with a **new sense of market rationality**—causing these players **to divest underperforming businesses or monetize strong ones**—has strengthened their balance sheets, enabling them to refocus on M&A opportunities.

As discussed above, the growth of branded food products has stalled, and Nestlé exemplifies this trend. The sudden departure of CEO Mark Schneider was partly attributed to the company's disappointing organic topline growth over several quarters. In this context, it is plausible that **branded food companies may increasingly turn to inorganic growth strategies** to regain their momentum.

How is the «Food Revolution» Fund exposed to this theme?

The «Food Revolution» Fund is positioned to benefit from the rebound in M&A activity in two ways. Firstly, we are invested in tech-driven food delivery players, for which several M&A scenarios have recently been outlined. Notably, we initiated a position in UK-based **Deliveroo**, which, given its smaller size, is more likely to be an acquiree than an acquirer.

Secondly, our portfolio includes several companies that could be attractive targets for large, branded food companies seeking to "buy growth". The convenient nutrition category stands out, with U.S.-based **Bellring** and **Simply Good Foods** fitting this profile particularly well. Another example is the Canadian vitamins and supplements player **Jamieson Wellness**, which also aligns with this trend.

4 An intensified focus on food safety especially in the U.S., driven by potential regulatory changes

The organization *Make America Healthy Again* advocates for a greater focus on improving public health in the U.S. One of its key priorities is the **elimination of harmful chemicals and toxins from the nation's food, water, and air**. Achieving this goal begins with the implementation of comprehensive testing and monitoring systems. It will also require significant investments in new technologies to address challenges such as microplastics (PFAS) found in water.

Additionally, the nomination of Mr. Robert F. Kennedy Junior as Secretary of the Department of Health and Human Services has triggered some uncertainty as to how food ingredients will be regulated. There is growing support for a **crackdown on artificial dyes made from petroleum**, which are often present in brightly colored beverages, snacks, cereals, and candies commonly consumed by children. These efforts could present interesting reformulation opportunities for specialty ingredient suppliers.

How is the «Food Revolution» Fund exposed to this theme?

Specialty ingredient companies such as **Givaudan, IFF, and Symrise** play a pivotal role in making food products safer. For years, they have focused on reducing or eliminating unhealthy components such as salt, sugar, and fat. Givaudan, for example, reports that two-thirds of its portfolio supports healthier food and beverage offerings. As RFK Jr. advocates for the reduction of „chemicals in food," this shift is poised to benefit ingredients suppliers. Replacing inexpensive artificial ingredients with natural alternatives could offer value-accretion opportunities for these companies.

Additionally, the Swiss company **SGS** contributes to food and water safety through its extensive testing, inspection, and certification services. Another noteworthy player in this space is **NX Filtration**, a Dutch leader in advanced membrane technology. NX Filtration enhances water safety with innovative and sustainable purification solutions that address critical challenges in providing clean water for consumption and industrial use.

As we move into 2025, the «Food Revolution» Fund **remains strategically positioned to capitalize on transformative trends reshaping the global food and beverage industry**. From the growing adoption of private labels to the nearshoring of supply chains, a structural rebound in M&A activity, and an intensified focus on food safety, these themes align with our commitment to identifying sustainable, long-term growth opportunities.

By investing in innovative ingredient suppliers, tech-driven automation providers, and companies addressing critical challenges in food and water safety, the fund aims to generate value while supporting healthier, more resilient food systems. With these **foundational shifts underway**, we believe our portfolio is well-suited to navigate the evolving landscape and **deliver strong returns for our investors in the years to come**.

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