



Second Quarter 2023 Report
English Translation

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Juno Continuation Fund Performance

The Juno Continuation Fund ended the second quarter of 2023 on June 30 with a net asset value per participation of **€87.66**, a +0.4% increase. The index for mid-sized European companies, the MSCI Europe Mid Cap Index, decreased by -0.7% over the past three months while the Dutch AEX-index (reinvested dividends) showed a +3.4% increase over the second quarter.

Main developments in the portfolio

During the quarter it became clear that central banks intend to raise interest rates further due to continued inflation. This is in line with the expectations we previously expressed and which are also more broadly supported. Equity valuations seem to have pre-sorted for this during the sharp decline in 2022.

The valuations of some companies in the portfolio turned out to have fallen so much that a takeover bid was made; both the British company **Dechra** and the Danish company **SimCorp** received bids from private equity buyer EQT and Deutsche Börse respectively.

Dechra had not been part of the portfolio for very long. Following a press release in April about a possible offer, the share price rose sharply and reached a level where an even higher offer seemed very unlikely to us. We sold most of the position and the final offer was fractionally lower than our selling price.

During the quarter, partly as a result of a follow-up visit in May, we acquired a position in **Belimo**, from Switzerland. This company is the market leader in so-called actuators and control valves, components of devices that are essential for the operation and control of air and water systems in buildings. Partly as a result of the increasing focus on sustainability, air quality and energy consumption, we expect continued growth for Belimo. The valuation kept us from buying for a long time, but Belimo's share price fell sharply over the past 18 months, allowing us to acquire a position at an attractive price.

Despite the excellent and even improved long-term prospects for **Bachem**, the position in the company was reduced as a result of the very strong share price increase in a short period of time.

The Italian company **Amplifon** is the world's largest seller of hearing aids and is active in 25 countries with more than 9,300 points of sale. In the past year, annual sales amounted to €2.1 billion and the company had an operating earnings margin of 13.5%. Through various retail chains, including Beter Horen in the Netherlands, the company has a global market share of 12%. This makes Amplifon many times larger than the next 'independent' retailer and also significantly larger than the retail chains owned by the major manufacturers of hearing aids and which mainly offer their own range.

The company was founded in 1950 by the British Algernon Charles Holland, who was a member of the British special forces during WW2 and also had a role in the organized Italian resistance. After the war, he decided to stay in Milan with his Italian wife and noted that many former military personnel had suffered permanent hearing damage as a result of the war. He decided to do something about it and founded Amplifon to provide veterans with hearing impairment with professional help. The founder's daughter, Susan Holland, has been chairman of the Supervisory Board since 2011 and the family owns 42% of the capital interest as well as a majority of the votes.

Amplifon built up a network of shops and licensed audiologists in Italy and international expansion began in the early 1990s with the first expansion into Spain and Portugal. Expansion to the north of Europe followed shortly afterwards, as well as the first entry into the American market through the acquisition of local market leader Miracle-Ear in 1999. In the past year, 18% of sales were generated in America, 15% in Asia-Pacific - especially Australia - and the remainder almost entirely in Europe. The US is the largest market for hearing aids worldwide and there is therefore ample potential for Amplifon to continue to grow there. This will be done through a combination of organic growth and buying out the many still active Miracle-Ear franchisees. There are also plenty of opportunities to expand outside of America; in addition to opening new stores, Amplifon also makes acquisitions of existing stores and retail chains in a largely fragmented market; the latest major acquisitions took place in Spain (2018) and Australia (2021).

Amplifon benefits from the increasing aging of society and the desire of many elderly people to remain (socially) active at a later age. In addition, the market is growing due to product innovations including connectivity (for example with smartphone and television) and rechargeable devices (instead of the use of replaceable batteries) and due to higher penetration in new and existing markets. The large reduction in size of modern hearing aids makes them many times more subtle than in the past, so that the

stigma surrounding wearing them is slowly disappearing and penetration is increasing. In addition to these elements that lead to market growth, there is a stable replacement demand among existing users.

Amplifon does not produce the aids itself; there are only a handful of hearing aid manufacturers worldwide and Amplifon is always free to choose which manufacturer they work with. Because of the large volumes it purchases, the company can command favorable conditions, which can be shared with the consumer. As a result, further market share is gained, which in turn leads to even larger volumes. Due to its size, Amplifon can also invest more in marketing, digitization and the general shopping experience. Going from the first diagnosis of hearing loss to actually purchasing a hearing aid is a long process. Explanation, testing options and service are important when making a decision. The technological complexity and individual fitting are further reasons why the sale of hearing aids has so far hardly gained traction in the online sales channel.

In 2018, the introduction of hearing aids under its own Amplifon brand began. Where 5 years ago not a single hearing aid was sold under the Amplifon brand, this is now the best-selling brand in its own stores. This increases Amplifon's brand awareness and strengthens its negotiating position vis-à-vis the hearing aid manufacturers, who also make Amplifon hearing aids on their behalf. The brand power of the retail chain is much more important than that of the manufacturers and Amplifon also owns the customer relationship through the personal contact with the audiologist. The digital connection with the customer, for example via the Amplifon app, strengthens this relationship and also provides usable information about product use.

Amplifon was already part of the portfolio at the start of the Juno Continuation Fund in 2020, but it was decided to part with the position at the outbreak of the corona pandemic. The forced closure of the stores brought too much short-term uncertainty. A position was taken again in early 2022, when it became clear that the company had returned to its familiar pre-pandemic growth trajectory. The strong figures over the past quarters confirm that this market continued to grow even in a relatively difficult economic environment and that Amplifon continues to gain market share and can offset inflationary effects through price increases.

We visited the company at its headquarters in Milan last May and spoke with the CFO, among others. What we were told was completely in line with what we have seen in

recent years; the company does not see any disruptive market developments and does not intend to deviate from the strategic path. The US remains an important focal point for the coming years; the company started to zoom in on this market two years ago with very good results so far and they would like to build on that. Given the low market share in the US, this could remain an important growth engine for years to come. As in the past, further growth can be financed from cash flows. Amplifon is currently a top 5 holding in the fund.

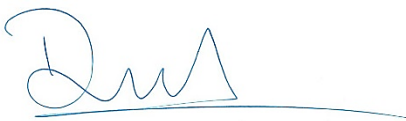
Outlook

The so-called core inflation (excluding food and energy price increases) remains high. This means that the European Central Bank, with their mandate to monitor price stability, will continue to raise interest rates. The key question is whether this can be done without pushing the economy into a recession. After all, higher interest rates cause higher costs, and therefore less purchasing power for businesses and consumers. Think of rising mortgage costs, higher costs of capital invested in inventories and buildings or refinancing corporate loans with a higher coupon.

Currently, the yield on (government) bonds shows a remarkable pattern. Bondholders are normally better rewarded if they lend money for a longer period of time: the money is tied up for longer and risks increase over time. In recent decades, short-term (1 year, 3.58%) government bonds very rarely yielded more than long (10 years, 2.38%) government bonds. This inverted yield curve situation is uncommon and has almost always been a precursor to a recession.

The stable and proven companies in the Juno portfolio are resilient: they are almost all debt-free and deliver products and services that remain in demand, even in a bad economy. In 2023, under the guise of 'inventory optimisation', we see a temporary decline in final demand here and there, often in industries where there was a peak in demand earlier in the COVID period. Some companies are therefore struggling to beat the record figures of 2022. Nevertheless, the entire group of our portfolio companies is well on track to grow aggregate earnings by 10-15% again this year. The fact that valuations are currently attractive and seem to be taking into account a further rise in interest rates is an important fact.

On behalf of the Juno Continuation Fund's portfolio management team,



Rob Deneke



Duncan Siewe



Lotte Timmermans

Juno Continuation Fund: Historical Returns

	Juno Continuation Fund	MSCI Europe MidCap Index	AEX Index (reinvested)	Barcap PanEuro Index
2020*	+10%	+5%	+8%	+1%
2021	+5%	+22%	+30%	-2%
2022	-29%	-19%	-12%	-19%
Q1 2023	+5%	+8%	+10%	+2%
Q2 2023	+0%	-1%	+3%	-0%
2023	+6%	+7%	+14%	+2%
Since Inception*	-12%	+10%	+41%	-18%
CAGR	-3.8%	+2.9%	+10.6%	-5.7

*) Since inception of the fund: February 1, 2020

Top 5 Positions

Name	Country
Bachem	Switzerland
Soitec	France
Rational	Germany
Amplifon	Italy
Teleperformance	France

Disclaimer:

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