Juno

SELECTION FUND

Second Quarter 2023 Report

English Translation

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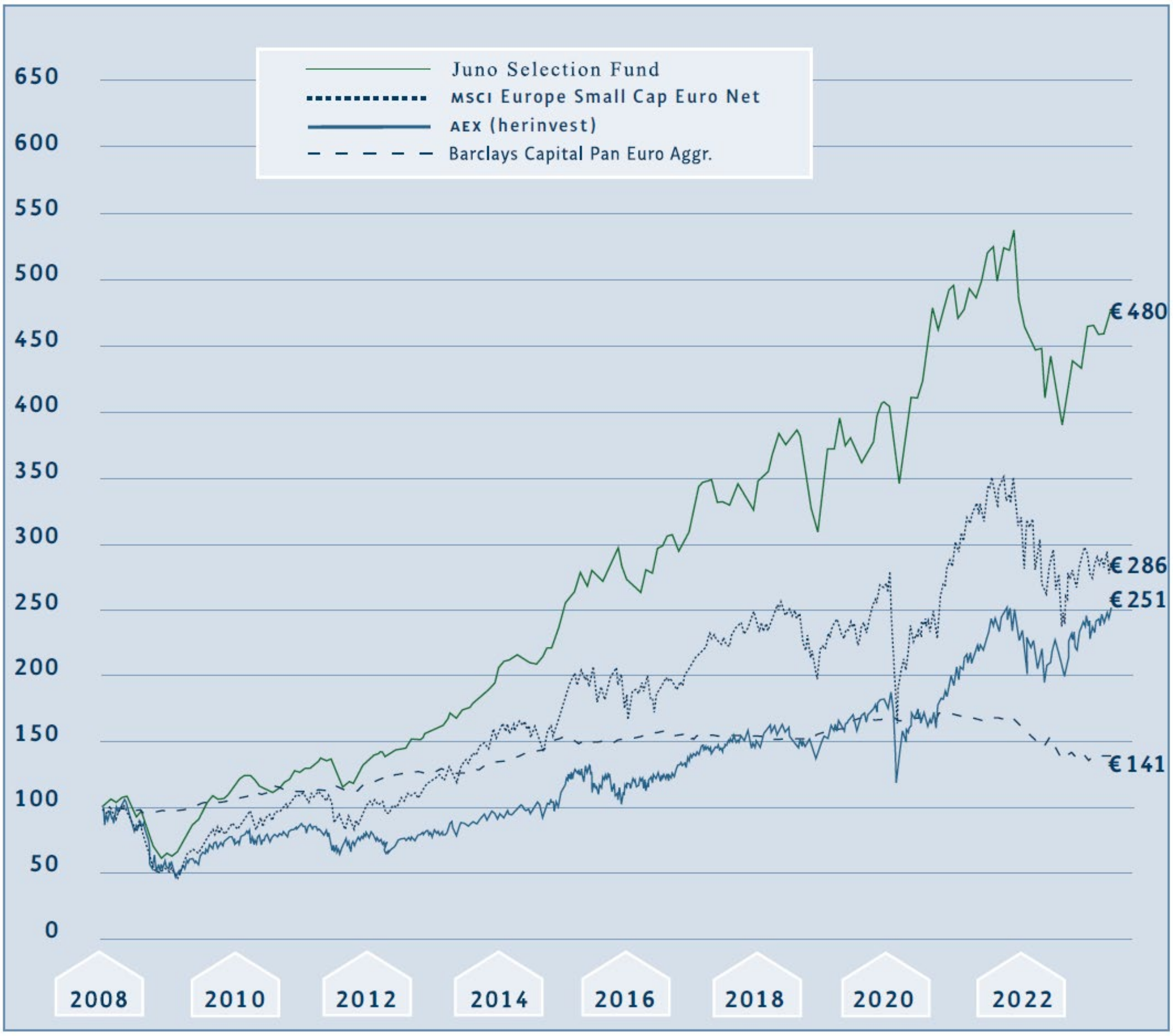
Juno Selection Fund Performance

We ended the second quarter on June 30, with a net asset value of **€479.55** per participation. This represents a positive result of +2.1% for the quarter. After the first six months of the year, the fund is showing a +9.6% performance.

As the EMIX Smaller European Companies Index is no longer available since May 2023, the MSCI Small Cap Index (net) was chosen as the new benchmark. All historical data in this report haven been restated using information from this new index. Over the past half year, this European index increased by +5.7%. The Dutch AEX index (with dividend reinvested) had a positive +13.9% performance.



Main developments in the portfolio

On April 27, we received notice that Deutsche Börse wishes to acquire **SimCorp**. The software company has been going through an important technical transition period over the past two years with a new CEO at the helm. This had a negative effect on the share price development, which offered Deutsche Börse an attractive entry point to make an offer. Except for a few months in 2008, SimCorp has always been part of the Juno Selection Fund portfolio. During those fifteen years, the average annual earnings growth was 11% and the share price nearly increased tenfold. Unfortunately, we will now be forced to part with this beautiful Danish company.

Abcam, the global market leader in the sale of antibodies to researchers, started in 2018 to replace its internally developed IT systems that increasingly had difficulty working together and began to hamper the company's growth. In order to fund these investments from its own cash flow, the company proposed scrapping the dividend, which we supported as we would be rewarded in the long term with a return on capital in excess of 20% and more sustainable earnings growth.

Since then, we have had frequent contact with management annually about this important IT project, among other things. However, delays and cost overruns were reported on several occasions. As a result, we were extra careful with the portfolio weight in the Juno Selection Fund. This January we were again negatively surprised by problems with the implementation of the latest software modules. The conversation we had with management about this subject did not give us confidence that they had the situation completely under control, nor that they communicated openly about it. We therefore decided to reduce the position in the fund. This, despite the fact that the company has now almost reached the end of its investment program and is now expecting excessive earnings growth and strong cash flow. After the sour, the sweet now awaited, but our patience and confidence were slowly running out.

Abcam founder and major shareholder Jonathan Milner (6.3%) decided to intervene in May 2023. The budget overruns and lead time of the IT project were the last straw for him. He presented a list of issues he wanted to address. To this end, he wanted to return to take up a position within the Board, in order to better monitor and steer management, where necessary. Abcam was not much pleased and preferred to keep him at a distance. This unfriendly reception forced Milner to call an extraordinary shareholders' meeting with the main agenda items being the Board resignation of the CFO, the resignation of the Chairman of the Board and the appointment of himself as Executive Chairman of the Board.

An important consequence of Milner's actions is that the company is now looking into whether it can continue to grow under the wings of another company. This way, part of management will be able to keep their jobs and Milner will still have achieved his goal. After all, since the first reports about his involvement, the share price has already risen by more than 50%. A reason for us to halve our position in the company for now.

It is perhaps not entirely coincidental that both SimCorp and Abcam are currently being taken over and possibly being taken over respectively. Both companies have very solid market positions, a unique global product with high margins, no debt and very attractive economies of scale in their business models. However, both companies are in a transition phase in which relatively large investments are made in the future growth of the company, which in particular affects cash flow and short-term earnings growth. In such a phase, the share price development lags behind the potential these companies possess, which offers opportunities to external parties to delist these companies at an attractive moment in time. We regret this, because we now see two companies with great growth potential disappear from our portfolio.

Last month we traveled to Cesena in Italy, to visit the **Technogym** Village, the headquarters and showcase of our portfolio company. The manufacturer of premium fitness equipment has had a turbulent COVID period. Its most important customers, fitness clubs and hotels, were forced to close their doors for a long time. Technogym managed to ease the pain somewhat by increasingly focusing on the consumer home market. Now that normality has returned, people are once again looking to the future with confidence. The company organized an Investor Wellness Day, where their latest innovations were showcased and founder and CEO Nerio Alessandri shared his vision for the future.

Since its foundation in 1983, Technogym has a long list of innovative introductions to its name. Recently, Technogym introduced a new generation of strength equipment called Biostrength. This no longer works with individual weights, but with an electric motor for resistance. Resistance adapts automatically during the exercise, so that the muscles are optimally trained with a smaller risk of injuries. The fitness club can thus serve its customers with fewer staff. Those customers need the Technogym app on their mobile phone to operate the equipment. As a result, the device recognizes the user and the training can resume again and again with the correct settings and adjustments. A lot has been invested in expanding the functionalities in the app. It monitors all sporting activities of the user, also outside of the fitness club. Technogym has expressed the ambition to grow from the current 50 million, to 100 million app users within three years. Using the app will further significantly strengthen brand loyalty to Technogym equipment.

Historically, the company's focus has primarily been on fitness clubs and luxury hotels. However, encouraged by the results of its sales efforts aimed directly at private individuals, the company has defined new sales channels. During the Investor Wellness Day, it presented the results of several scientific studies showing clear health benefits of regular exercise to underline the importance of this new market. The main finding was that if people continue to exercise regularly after the age of 35, the physical decline caused by age is much slower. This message is completely in line with Alessandri's vision. He sees Technogym's fitness equipment as medicine in the fight for a healthier population and lower healthcare costs. This means that new sales channels such as governments, health insurers and corporates are now successfully tapped into. This 'health' message resonates well in a post-COVID world. In addition, as a good employer, companies want to encourage physical exercise among their employees, for example by opening a Technogym company fitness where people can exercise for an hour during the day, or with discounts on fitness club memberships.

However, Technogym's more traditional end customer is not only driven by pure health considerations. Thanks to aesthetic ideals fueled by social media, strength training has become very popular with the younger audience. Supermarkets now sell shakes and protein bars, supplements and stimulant powders. Fitness chains are reporting record numbers of members and are pursuing ambitious expansion plans despite higher interest rates. Technogym sees this reflected in a higher demand for its equipment, especially in the field of strength training.

Technogym does not like to talk about the competition, which the company prefers to call "other companies". The main players are the American company Life Fitness and the Taiwanese company Matrix. Technogym is the only company in the market that positions itself in the premium segment. Life Fitness is a conglomeration of several different fitness brands that have been acquired over time. Since 2019, the company has been in the hands of private equity, which is actively restructuring the business. The competitive edge of Taiwanese company Matrix is mostly that it is relatively cheap and can be found at budget fitness clubs. The price difference between Technogym and the competition can be as much as 40% on some equipment. Customers are often willing to spend this money for the innovation and design of the equipment that makes their clubs and hotels more attractive to consumers.

Continued strong demand means that Technogym's management expects to grow sales by an average of 10% per year over the next three years, especially outside Europe where the market share is still smaller. The profit margin should also be able to quickly rise above its pre-COVID peak. These positive developments, combined with an attractive valuation, mean that Technogym represents a large position 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 Selection Fund's portfolio management team,

Frans Jurgens **Lennart Smits** **Ernest van Tuyll** **Bobby Bader**

Juno Selection Fund: Historical Returns

	Juno Selection Fund	MSCI Europe Small Cap (net)	AEX Index (reinvested)	Barcap PanEuro Index
2008 **	-33%	-49%	-47%	+1%
2009	+70%	+63%	+42%	+8%
2010	+12%	+17%	+9%	+4%
2011	+3%	-23%	-9%	+6%
2012	+19%	+27%	+13%	+11%
2013	+22%	+33%	+20%	+1%
2014	+19%	+5%	+8%	+11%
2015	+33%	+21%	+7%	+3%
2016	+2%	+2%	+13%	+2%
2017	+6%	+17%	+16%	0%
2018	-5%	-15%	-8%	0%
2019	+34%	+29%	+28%	+7%
2020	+21%	+7%	+5%	+4%
2021	+9%	+23%	+30%	-2%
2022	-19%	-23%	-12%	-19%
Q1 2023	+7%	+6%	+10%	+2%
Q2 2023	+2%	-0%	+3%	-0%
2023	**+10%**	**+6%**	**+14%**	**+2%**
Since inception *	**+380%**	**+186%**	**+151%**	**+40%**
CAGR	**10.7%**	**7.0%**	**6.1%**	**2.2%**

*) Inception of the fund: January 11, 2008

Top 5 Positions

Name	Country
Paradox Interactive	Sweden
Melexis	Belgium
Technogym	Italy
Soitec	France
Stratec	Germany

Disclaimer:

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