Juno

SELECTION FUND

First Quarter 2023 Report

English Translation

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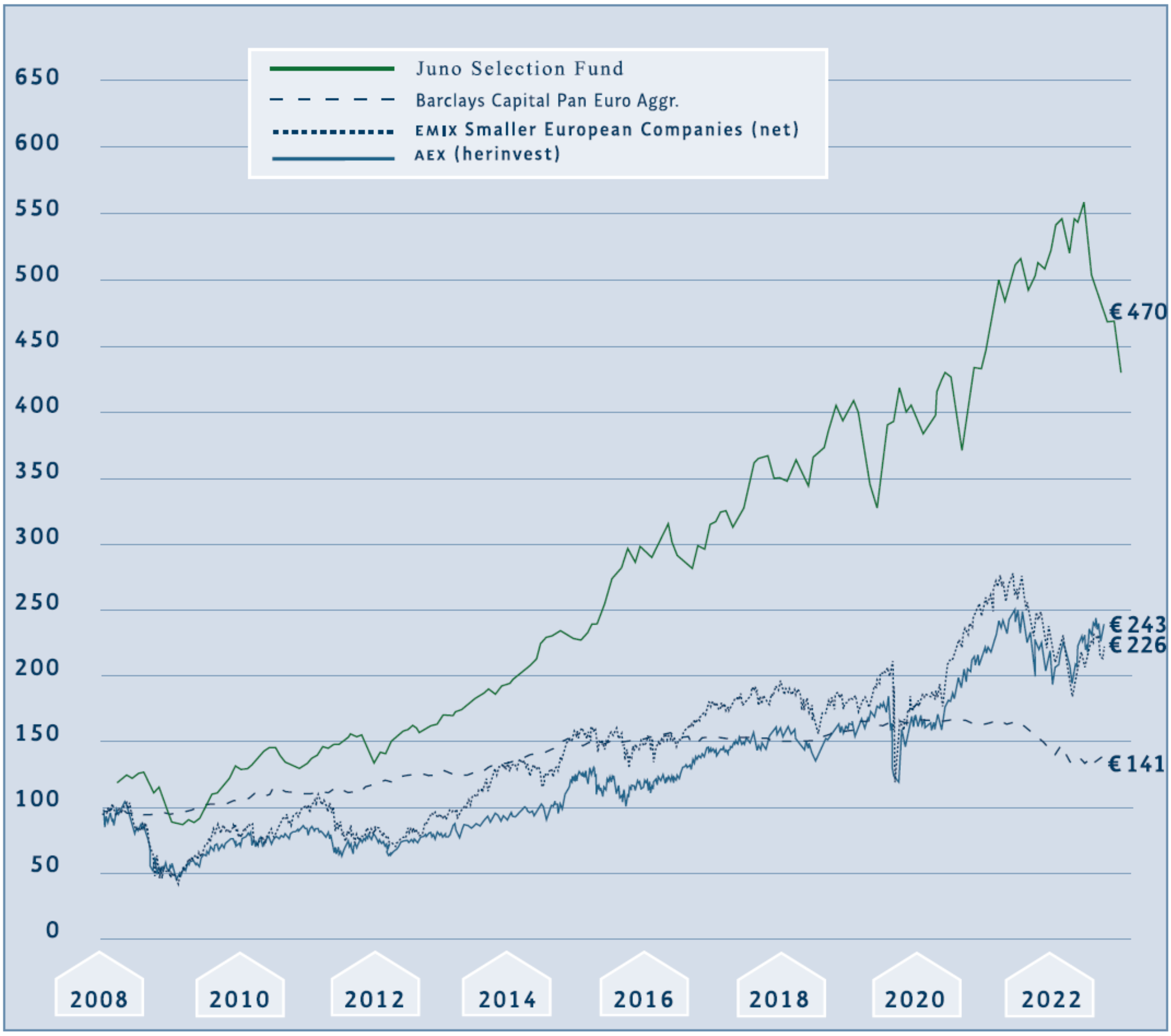
Juno Selection Fund Performance

We ended the first quarter on March 31, with a net asset value of **€469.75** per participation. This brings the return for the first three months of 2023 to +7.3%.

The index of European small and medium-sized companies, the EMIX Smaller European Companies Index, increased by +5.8% over the quarter. The Dutch AEX index (with dividend reinvested) showed a positive +10.1% performance over these past three months.



Main developments in the portfolio

At the end of 2009, we bought our first shares in the German company **Cewe**, the European market leader in photo-finishing products such as photographic wall decorations and photo books. Despite the healthy earnings growth since then of around 16% per annum, it remains one of our smaller companies with a market capitalization of EUR 700 million, almost equal to their current level of turnover (EUR 741 million).

During the COVID pandemic, many people used the extra time at home to bring together old (travel) photos in Cewe's photo books. As a result, the number of photo products printed by Cewe increased sharply for two years, and with it, their earnings and free cash flow. However, during this COVID period weddings and long-distance travel were postponed. As a result, after the pandemic, fewer photos were available to make new photo books. Nevertheless, 2022 turned out to be a good year, with earnings of EUR 51 million almost surpassing the top level of 2020 (EUR 53 million). Going forward, we expect the historic growth trend to resume, leaving the COVID peak and COVID trough behind us.

Operationally, things went well last year, but in terms of Cewe's 'Governance', the rules of supervision and management, it was a decidedly bad year. The founder of Cewe, Heinz Neumüller, passed away in 1998 and had determined that his descendants, Alexander and Caroline, should be able to maintain control over the company through a foundation (named 'Kuratorium'). The Board of the Kuratorium monitors the ins and outs of the organization and advises the Executive Board and the Supervisory Board. In particular, this Kuratorium is responsible for appointing and dismissing the members of the board of directors, including the CEO.

In October 2016, the then CEO, Rolf Hollander, exchanged his CEO position on the board of directors for the chairmanship of the Kuratorium. Christian Friege was appointed the new CEO. Initially, Hollander assisted Friege, but over the years it became apparent that the two increasingly had fundamental differences of opinion. Hollander interfered too much in the day-to-day affairs, Friege refused to listen to advice, so it was said. In 2022, tempers boiled over and Hollander was able to rule with a small majority of the votes in the Kuratorium, that the contract with Friege would not be renewed in 2023. A decision that did not make sense to us at all, as we were satisfied with Cewe's strategic steps that had been deployed by Friege over the years. This unfortunate decision by the Kuratorium was clearly based on a personal feud.

In personal conversations with Friege and other board members, as well as an exchange of letters with the Kuratorium, we tried to gain clarity at an early stage about what was going on behind the scenes. In our opinion, Hollander did not always communicate fairly and openly. Descendant Alexander Neumüller also got involved in this battle, because he also wanted to retain Friege at Cewe. It was evident that his father's intentions to maintain control with him and his sister had not worked well as the majority of the Kuratorium board members acted against their interests and wishes. The lingering affair was fortunately resolved at the end of December: both Friege and Hollander resigned.

In the meantime, a new CEO had already been found, Yvonne Rostock. She started working at Cewe in March 2023. With her experience at Henkel, L'Oréal and beauty company Coty, she brings relevant marketing and commercial experience. We met Yvonne Rostock in person at the end of March. However, her first thirty days at Cewe did not provide enough basis to assess her long-term vision. It does seem clear, however, that Cewe seems to want to use its considerable cash reserves, combined with the available fiscal space in France, for an acquisition there. After the successful purchase of Cheerz (mobile-to-print expert) in 2018, the company wants to further expand its photofinishing offering in France.

Cewe’s substantial free cash flow has been used to increase the dividend annually for fourteen years already. That makes Cewe one of the handful of companies that continuously increase their dividend. Stratec Biomedical, another company in Juno's portfolio, is also among the top 5 of that select group. With the proposed dividend of € 2.45, Cewe's dividend yield is in excess of 2.5%, while the majority of the free cash flow will be reinvested into the company.

In March we met with CEO Marc Biron of our Belgian portfolio company **Melexis**. The company designs specialist chips for cars, such as magnetic position sensors used in the drivetrain, electrical voltage sensors for electric cars and chips for smart lighting. Melexis does not have its own semiconductor factories (fabs) where the chips are made. This capital-intensive activity has been fully outsourced to sister company X-Fab. The two companies share the same major shareholder.

The CEO was late to our meeting, due to a conversation that took longer than expected with a concerned customer about the amount of essential chips they had received. The market’s demand is still much higher than the supply that Melexis can deliver. For six months now, they have been working with a special internal team that must allocate an optimal number of chips to its customers, so that they can all keep their production running. The chip shortages that have arisen in the automotive industry since 2021 clearly have not been solved.

Previously, Melexis was limited in terms of sales due to a lack of its own chip testing equipment. With the opening of the brand new site in Bulgaria, an investment of EUR 75 million, that bottleneck has been resolved. Now, however, the restriction has shifted to chip production, outsourced to sister company X-Fab. X-Fab needs a longer period of time to set up its recently expanded production and thus bring it up to par with the strongly increased demand. In the near future, Melexis' growth will therefore be limited to the speed at which X-Fab can scale up its capacity.

But there was also very good news. The number of so-called 'design wins', in which chips from Melexis are chosen for the design of a certain new car model, appears to have been at an unprecedented level in the past two years. There is an average time span of two years between a design win and the introduction of a new car model. Therefore, continued strong sales growth for Melexis seems likely in the coming years. Only a dramatic collapse in global car production could throw a spanner in the works. For the time being, Melexis still benefits from a slight increase in volume in the car market in 2023, but also from the fact that the number of chips per car continues to increase. The latter is a result of advanced functions in premium cars that use Melexis' chips for extensive electrification, which are now quickly being adopted in the lower car segments.

BMW or Audi, for example, purchase integrated systems from parties such as Bosch or Sensata Technologies. Melexis traditionally supplies chips to these suppliers to the car manufacturers. We know from the not too distant past, that this is unfavorable for Melexis for two reasons. Firstly because they are further away from the end customer. News of a production stop or a peak demand at the end customer often reaches Melexis late, as we saw in 2019 when their inventory corrections hit Melexis hard. It proved to be difficult for Melexis to quickly adapt their own production to the drop in demand from the end customers. In addition, Melexis is less aware of what new things the end customer is working on, which technical developments they will incorporate into new models and what Melexis sensors will be required for this.

It is therefore remarkable that Tesla and Chinese BYD have chosen to buy chips directly from Melexis and to take care of the system integration themselves. They see the car of the future as a large computer in which everything is centrally integrated and controlled. The functionality and integration of all smart systems becomes a differentiable competence for car manufacturers. The German car manufacturers now also see this and Marc Biron mentioned several striking examples of recent direct approaches. We see this as a very positive development for the future.

2022 was a record year for Melexis. Turnover grew by 28% to EUR 836 million and net earnings increased disproportionately by 50% to EUR 197 million. For 2023, the company expects between 11% and 16% revenue growth and a corresponding earnings development.

Outlook

The effects of the interest rate rises are now becoming increasingly visible. The failure of the American bank SVB and Credit Suisse made it painfully clear that taking too much risk with borrowed money entails serious risks, especially in times of rising interest rates. Although lower energy prices mean that the extremely high inflation seems to be abating, core inflation remains too high. The ECB will therefore continue to raise interest rates for the foreseeable future. This has been announced frequently and should no longer come as an unpleasant surprise for the markets.

Now that money is no longer free, we see companies rethinking their working capital. Companies that invested headlong last year in replenishing their inventory, just when prices peaked, now have well-stocked warehouses, but filled with expensive components. Now suddenly phasing out is the motto which is reflected across the entire supply chain. The effect is that the world economies have to take into account a temporary drop in manufacturing.

The 2022 earnings growth of the Juno portfolio companies was very good in most cases, as were the recent expectations communicated for 2023. We do not yet see this excellent performance, achieved despite strong inflation, logistical challenges and staff shortages, reflected in the share price developments. So far, rising interest rates were to blame. The valuation of the portfolio has fallen very sharply in 2022, in anticipation of possible further interest rate rises. These additional interest rate hikes seem plausible to us, because central banks do not want to take the risk of sustained inflation by ceasing rate increases. With the current valuation of the portfolio, we now seem to be in line with a higher interest rate level. This lower valuation therefore gives us confidence that share prices will develop more in line with the healthy earnings growth which we expect from our companies in 2023 once again.

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	EMIX Smaller Europe Index (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%
2023	**+7%**	**+6%**	**+10%**	**+2%**
Since inception *	**+370%**	**+126%**	**+143%**	**+40%**
CAGR	**10.7%**	**5.5%**	**6.0%**	**2.2%**

*) Inception of the fund: January 11, 2008

Top 5 Positions

Name	Country
Paradox Interactive	Sweden
Melexis	Belgium
Bachem	Switzerland
Soitec	France
Technogym	Italy

Disclaimer:

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