Fourth Quarter 2020 Report

English Translation

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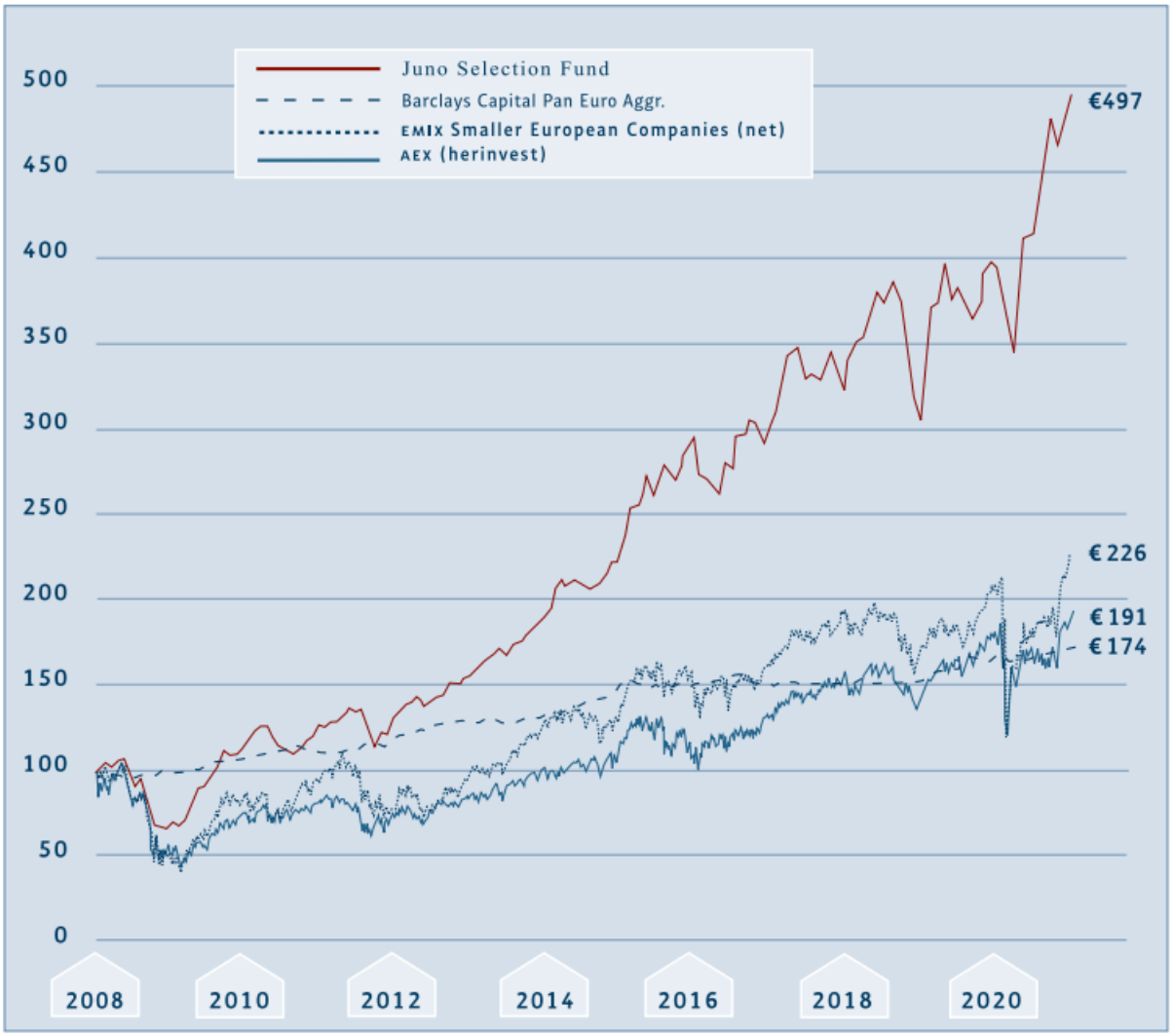
Juno Selection Fund Performance

We ended the fourth quarter on December 31, with a net asset value of € 497.22 per participation in the Fund. This concludes this extraordinary Corona year with a sound annual performance of +20,6%.

The index of European medium-sized and smaller companies, measured by the EMIX index, gained +7.3% this year. The Dutch AEX index (with dividend reinvested) also increased in 2020, by +5.4%.



Main developments in the portfolio

Predictable earnings growth is the cornerstone of our investment style. It gives us the opportunity to help determine the future value of a company and thus gives us an indication of the price we are willing to pay for it today. The pandemic forced us to conclude that several companies in the portfolio had suddenly lost their predictability. As a result, we had to part with a relatively large number of companies that had been in the portfolio for many years.

The positions sold in 2020 included a number of companies that we believe will need a longer time before the demand for their products or services returns on a structural basis. But there are also companies whose recovery could happen much quicker. Now that the first vaccines are being administered, it seems only a matter of time before bottled-up supply and demand will find each other again. We see this especially at the German company **CTS-Eventim** ("CTS"), the European market leader in organizing concerts, festivals and the sale of tickets to these events. In 2019, group turnover still stood at 1.4 billion euros.

CTS has two activities that complement each other well. Under the banner of "Live Entertainment" ("LE"), it contracts well-known artists and plans their international tours, some 200,000 events per year. Locations such as clubs, stadiums and theaters are booked, hotels reserved for the artists and their entourages, sound, light and stage builders are given assignments to set up and dismantle everything in time for the tours. This division has a relatively low margin (6%) and requires a great deal of capital because costs precede profits.

However, Juno's real interest in CTS lies with their second activity. CTS stands for Computer Ticket Sales, which in essence describes the attractiveness of the business model for us: CTS annually sells approximately 250 million tickets worldwide, around 60 million of which via its own online (mobile) web shops. The remaining sales go through theaters, cinemas and sports clubs using CTS' software, and a substantial portion of tickets are still sold through call centers and retailers, such as the traditional news stand. Together this amounts to a turnover (2019) of 480 million euros and impressive earnings before tax of 220 million euros (45% EBITDA margin). As more and more of the sales move to online, the profit margins increase by leaps and bounds. Tickets sold through a retailer generate about 1 euro per ticket for CTS, but a ticket sold through its own websites generates 6 euros.

The company regularly makes acquisitions and has always paid for them from its own resources, sometimes supplemented with a loan that could be quickly repaid from the large annual free cash flows. It started the year 2020 with debt of only 69 million and a bank balance of 803 million euros. Retailers still had to pay CTS 139 million for tickets sold in 2019, so in fact there was 942 million in the bank. However, a large portion of CTS ' cash was received for the sale of tickets for which CTS still has to pay the artist, and therefore constitutes a liability of 429 million. In addition, CTS also received money in advance for concerts that the LE division planned to organize in 2021: 337 million euro. Most of those concerts have been rescheduled, but some were also canceled and the tickets refunded to fans. If we pretend everything has been repaid and settled, CTS will be left with EUR 176 million in "real" cash.

CTS thus started the corona crisis with a sizeable financial buffer and also had a 200 million euro unused credit facility. It will come as no surprise that this loan was taken out immediately and that no dividend was paid out. The company's turnover largely dried up when concerts were banned. Insurers reimbursed LE for costs incurred for 43 million euro and fans accepted vouchers (19 million euros). Costs were largely scaled back. Salaries (3,000 employees) were cut and government aid was sought where possible.

The monthly cash outflow is currently estimated at some 12 million euro. By far the largest part (approx. 85%) represents salary costs, as there have been no forced redundancies. The cash buffers held up well at 200 million euro after 9 months, which implies that without further adjustments in the cost structure, the company can continue for another 16 months under the current circumstances. By then the concert halls will be packed with fans looking for some distraction, and every available stage will be in use by artists looking to replenish their bank accounts after this forced period of prohibition. We accept that 2021 will not yet be business as usual, but when we look at CTS' dominant position and the longer-term developments in the entertainment market, we feel it might be the right time to own it again.

Exactly one year ago we last wrote to you about **Paradox Interactive**, the Swedish developer and publisher of computer games. Despite a somewhat calmer 2019 due to the lack of significant new title releases and gam expansions (known as DLC's), the company was able to report a handsome 14% revenue growth, helped by Microsoft offering part of Paradox's games library on their Xbox Live subscription service.

For 2020, we foresaw a more favorable publishing schedule and, with it, stronger revenue growth. The Covid-19 pandemic also had a major impact on Paradox, but mainly in a positive sense: the two lockdown periods in many Western countries have pushed consumer demand for computer games to unprecedented levels. For example, distribution platform Steam, where Paradox generates more than 70% of its turnover, saw its number of simultaneously logged-in users increase by 47% in 2020, rising from 17 to 25 million. Yet there is also a negative impact of the pandemic. The creative process of computer game design has proven to be more difficult with home-based staff, causing delays for some planned new titles.

The highlight in 2020 was the launch of the third iteration of Crusader Kings, first released in 2004. The revamped game, in which players must lead a medieval family dynasty, was very well received by critics and achieved a score of 91 on review aggregation website Metacritic. In one month, the game was (digitally) sold more than 1 million times. This type of strategy game is Paradox's specialty and the high sales figures provide a fantastic basis for years of highly profitable sales through game expansions. Yet there were also setbacks: a smaller title, Empire of Sin, was poorly received and Vampire: Bloodlines 2 was delayed to late 2021. Despite this, the company was able to report strong 50% sales growth over the first nine months, with earnings that increased by no less than 77%.

These strong results also seem to have positively surprised CFO Alexander Bricca, as a result of which he is now stuck with a large cash balance of more than 60 million euros. The challenge for him and his colleagues is to successfully reinvest this capital in the company. We like the fact that Paradox has mainly focused on organic growth in the past year. It has set up two new proprietary studios in Barcelona and Malmö and had the ambition to grow the workforce further by 200 new employees.

Looking ahead to 2021, Paradox will experience positive effects with growing player numbers due to continued lockdowns. After that, the numbers will probably decline, but the trend of increasing numbers of gamers will continue in the coming years and the loyal customer base for the successful Paradox franchise will also grow further as a consequence. The number of monthly active Paradox players increased from 3 to 5 million in three years.

Paradox has decided to announce future new titles and expansions closer to their launch date. This leaves us, as well as the many fans of Paradox games in the dark for the time being as to

what exactly will be released in 2021. Investments in recent years indicate a well-filled pipeline and we therefore look to the future of the company with great confidence.

Outlook

The approval of several COVID-19 vaccines in november, has led to euphoria in the financial markets worldwide. Investors seem optimistic about the imminent economic recovery but still face low, if not negative, interest rates, which are stimulating demand for equities. With weak economic figures apparently not hurting equity markets much, mainly as a result of unprecedented government aid worldwide, we are mainly focused on how these interest rates will develop. Governments borrow at record low rates, but have to repay this debt at some future point in time. So they would welcome rising inflation rates, which will increase their nominal tax revenues and allow the mountains of debt to be paid off faster.

However, in order to get inflation back on the menu, it is essential that the economy gears up. This will set the large amounts of money that were pumped into the economies in motion, which can cause inflation. Despite the deflationary effects of increased technology and lower dependence on humans in production processes, it will push up prices. The consequential inflation in turn makes interest rates rise. Where falling interest rates favored the stock markets, it unfortunately also works the other way around.

Our strategy is not to make forays into sectors or companies that are likely to temporarily benefit from a general economic recovery. Our attention continues to be fully focused on predictable developments at individual companies. This combination of quality and earnings growth has delivered solid results for many years in a row, without us being tempted or distracted by the market as a whole. We look forward to continuing our work for you in the coming years.

On behalf of Juno Investment Partners,

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

Disclaimer:

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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%
Q1 2020	-16%	-28%	-20%	-1%
Q2 2020	+20%	+18%	+17%	+2%
Q3 2020	+17%	+6%	-2%	+1%
Q4 2020	+2%	+19%	+14%	+2%
2020	**+21%**	**+7%**	**+3%**	**+4%**
Since inception *	**+397%**	**+126%**	**+91%**	**+73%**
CAGR	**+13.2%**	**+6.5%**	**+5.1%**	**+4.3%**

*) Inception of the fund: January 11, 2008

Top 5 Positions

Name	Country
Paradox Interactive	Sweden
SimCorp	Denmark
Soitec	France
Stratec Biomedical	Germany
Varta	Germany