Second Quarter 2022 Report

English Translation

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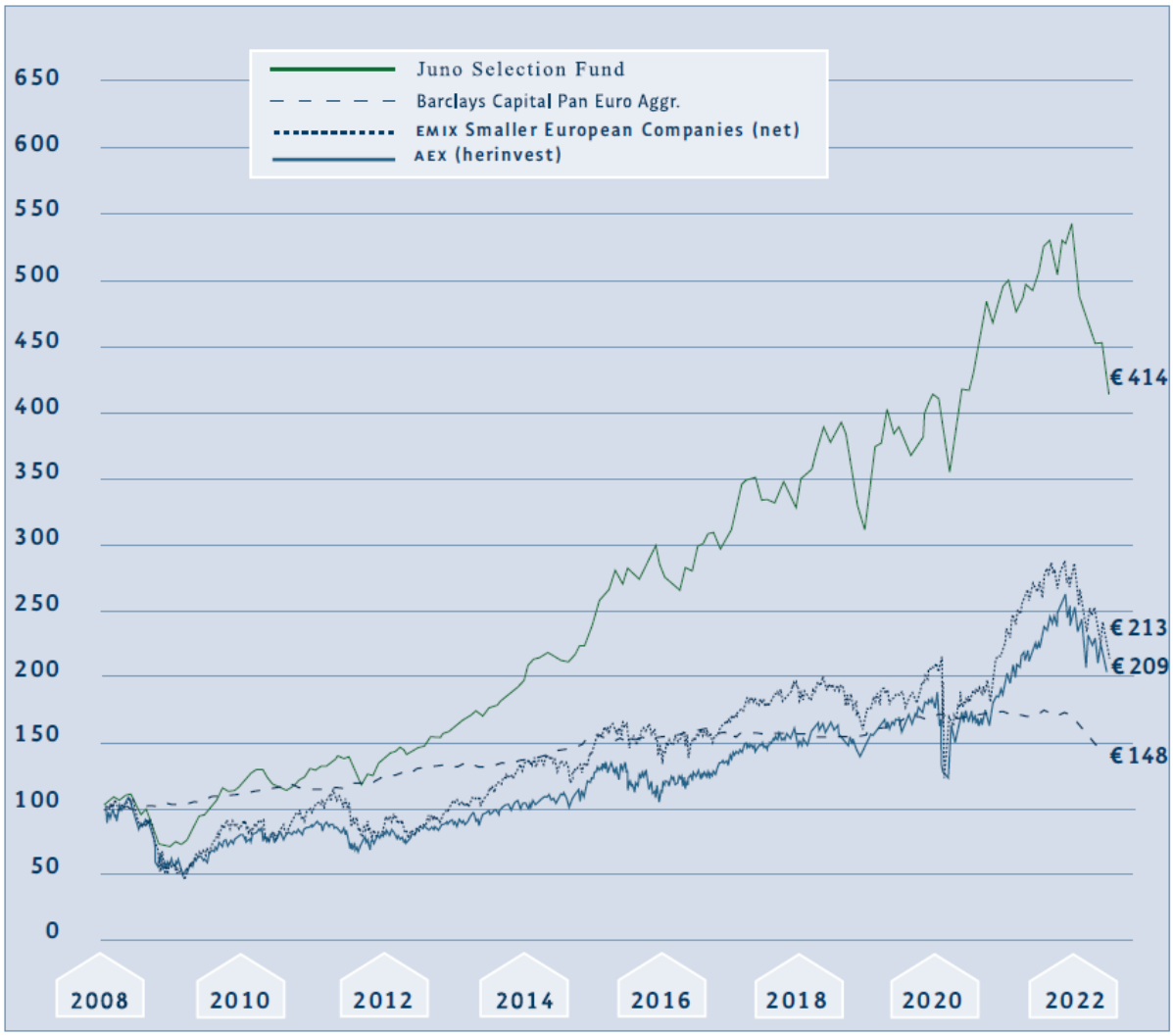
Juno Selection Fund Performance

We ended the second quarter on June 30, with a net asset value of **€413.87** per participation. After a sharp decline in the first quarter, the fund's performance did not recover in the second quarter and fell by a further -9.8%. This brings the overall return for the first half of 2022 to -23.9%. The index of European small and medium-sized companies, the EMIX Smaller European Companies Index, also continued the decline that started in the first quarter, falling a further -14.5% over the past three months. The EMIX shows a decline of -23.5% over the first half year. The Dutch AEX index (with dividend reinvested) recorded a fall of -7.9% this quarter, and -16.2% when measured over six months.



Main developments in the portfolio

The first half of the year shows a strong decoupling between good operational progress at our companies and the fall in their share prices. Many who look at the falling share prices will think that the revenues and profitability of our selection of companies has disappointed. But nothing could be further from the truth. Several portfolio companies have even recently raised their outlook for the year.

We try our best to ensure that our companies can continue to pass on the current high cost inflation in their services and products and that there is no meaningful decline in demand. This gives us the confidence to extrapolate the historical earnings growth of 10-15% per annum for this select group of (family-owned) businesses. With earnings continuing to rise and prices falling, we are getting much better opportunities to buy future earning streams at more attractive prices. These lower prices are certainly unpleasant news, but are not a correct reflection of the good underlying progress at our companies.

Stratec Biomedical develops and builds fully automated analysis systems for in-vitro diagnostics. Not under its own brand name, but under the names of its customers, such as Siemens, Roche, Becton Dickinson, Hologic and Diasorin. In the past two years, Stratec has had an above-average amount of work, especially for the latter two customers. These two manufacture, among other things, the widely used COVID-19 PCR tests that run on their machines built by Stratec. Stratec's other customers had little or no benefit from testing for COVID-19 and their demand declined somewhat these past two years. Together, this resulted in a strong turnover growth of 16% per annum over the past two years to 278 million euros in 2021.

Now that circumstances are thankfully normalizing, Stratec sees the demand for the non-covid test machines returning. An side-effect of the pandemic, has been a structural increase in the number of installed machines and testing for viruses and bacteria in an automated lab. The machines are there, there is a healthcare-compensation system in place, and testing with a machine is cheaper and better than when carried out manually by a laboratory technician.

In 2016 Stratec acquired a former daughter of Sony that makes polymer cartridges (“microfluidics”). The largest player in the diagnostic industry, Roche, also became convinced a few years ago of the potential of using a microfluidic for diagnostic testing. Roche first launched a machine at the beginning of this year, built by Stratec, using this technology. The big advantage for Stratec is that for the first time it also supplies a consumable and not just the machine. Now, Stratec will also benefit from test volume.

In the coming years Stratec will launch more machines using a microfluidic. A consequence of this development will be that turnover will become more stable, and generate higher margins.

Founder and major shareholder Hermann Leistner has now reached the age of 78. He has three children who do not appear to have much affinity with the company. For us, a stable family shareholder who supports the long-term strategy is an important advantage because the better alignment of interests between management and shareholders. We are therefore following the succession of Hermann's equity interest with above-average interest.

Stratec has had an extra boost in turnover from the pandemic over the past two years. Now that that part of the turnover is declining, the question is to what extent the non-covid activities will compensate for this loss of turnover. Thanks to multiple product launches over the past two years and the introduction of Roche's new machines, we expect a flat sales development for this year, but a return to healthy sales and earnings growth next year.

After visiting the headquarters and main production site of the Norwegian bio-refinery company **Borregaard** earlier this year, we became co-shareholders in the company. The company was founded in 1889 by the Englishman Edward Partington and the Austrian Carl Kellner. Kellner had improved the technique of making cellulose ('pulp') with sulfite from wood. Together with financier Partington, he had chosen Sarpsborg in Norway as the location for their factory. Located at the end of the Glomma River, on a railway line, the main ingredient, Norwegian spruce, could be supplied cheaply and the river's hydropower served as a cheap local power supply.

100 Years later, the current CEO, Per Sørlie, joined a company where the majority of the production still consisted of pulp for the cardboard and paper industry. This is a bulk market that is not very special and the only distinguishing feature is the lowest price. Per wanted to get out of this highly competitive market as soon as possible and his goal was to refine more specialized products from Norwegian spruce. His vision is that all products that are now refined from oil should be replaceable by products refined from wood. To this end, significant investments went towards R&D and improved production processes.

After cracking a tree with the help of calcium, the tree breaks down into: pulp/cellulose (50%), sugar (25%) and lignin (25%). Borregaard currently manages to use 94% of the wood, using only the top of the tree. The wider parts of the trunk are mainly used in the Scandinavian construction and furniture industry. Borregaard therefore uses the part of

the tree for which there is no good alternative use, and also the enormous ready Norwegian supply of these type of trees, grow quicker than they are harvested.

Of the three products that come from the wood, the sugars are arguably the least interesting. They are mainly processed into bio-ethanol and serve as an energy source for their own factories. In addition, it also has a number of applications in, for example, special high-grade disinfectants and for use in paint and coatings.

The cellulose/pulp product groups, and especially lignin, have much greater added value. After careful processing, Borregaard's high-quality cellulose has a few unique properties. As an additive, it can increase the elasticity of products, for example in the textile industry, in coatings and in cosmetics. But a slightly different processing of the cellulose gives strength to building materials. However, perhaps the most interesting thing about the Borregaard story is the lignin.

Borregaard's lignin is extracted with sulphite from Norwegian spruce, which makes it internationally unique and of a very high quality and can therefore be processed very well in various high-quality end products. Lignin can be divided into two product groups; biopolymers and bio-vanillin. The biopolymers replace products from the oil industry that are used in construction, in batteries and, for example, in crop protection. Vanillin (the main component of vanilla) is a widely used flavor enhancer in the food industry. Nearly all (90%) of vanillin used worldwide comes from refined oil. The food industry is desperately looking for a natural replacement. At the moment only 0.3% of the tree can be refined into vanillin, but thanks to technological improvements Borregaard will soon be able to double this to 0.6%. Borregaard has no competition for lignin-based products: lignin produced by competitors is unusable for specialized applications due to different production processes and a different type of wood. This gives Borregaard a very strong position to determine the market price of bio-vanillin itself.

Because Borregaard successfully focuses on refining high-quality end products from Norwegian spruce, which consists of pulp (50%), sugar (25%) and lignin (25%), the distribution at turnover level is completely different: 30% (pulp), 10% (sugar) and 60% (lignin). In order to meet the increased demand for sustainable raw materials, the company has made additional investments in its production capacity over the past five years. In doing so, it has paid special attention to making its production processes as circular as possible. For example, hardly any nitrogen and carbon dioxide are now emitted and almost all chemicals used to crack the wood are recovered.

Sales have increased by approximately 5% per annum over the past five years. Because their products have increasingly higher added value, with higher margins, underlying

earnings increased by an average of 10% per annum. Borregaard achieved a turnover of 570 million euros in 2021 with net earnings of 66 million euros. Now that the capacity expansions have largely been completed and more and more products with a higher margin will be sold, partly due to the structurally higher demand for sustainable raw materials that do not come from oil, we expect an acceleration in underlying earnings growth for the next five years.

Outlook

Financial markets are reacting very negatively to high inflation and fears of an economic recession. The war in Ukraine has reinforced the inflationary trend already in place. High inflation has far-reaching consequences for consumers (loss of purchasing power) and companies (rising costs). Interest rates are also increasing sharply, leading to higher financing costs.

It is unclear how inflation will develop further. While there are some clear long-term trends such as deglobalization and sustainability, and supply chains seem to be relaxing somewhat, the ultimate impact on inflation and interest rates is hard to predict. The severity and duration of a possible recession are also notoriously difficult to estimate.

We prefer to focus our attention on things that are more predictable, namely the developments of 'our' companies. After all, we invest in companies that develop as independently as possible from general economic conditions. Companies that offer a product or service for which there is a stable, growing demand and for which cost increases can be passed on to the customer. Although these companies are listed on a stock exchange, our starting point is never “the stock exchange” but always the company. We are convinced that a company's fundamental development over time has a much more significant impact on value than fluctuations in investor sentiment would suggest.

Recent company visits confirm the continued positive developments at the selected companies. Today, these quality companies are priced much more attractively than they were six or twelve months ago. We have therefore used a large part of our cash position to buy or expand positions and expect a satisfactory result in the coming years.

On behalf of Juno Investment Partners,

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

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%
Q1 2022	-16%	-11%	-9%	-6%
Q2 2022	-10%	-15%	-8%	-7%
2022	**-24%**	**-24%**	**-16%**	**-13%**
Since inception *	**+314%**	**+113%**	**+109%**	**+47%**
CAGR	**10.3%**	**5.4%**	**5.2%**	**2.7%**

*) Inception of the fund: January 11, 2008

Top 5 Positions

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

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