Juno

CONTINUATION FUND

Third Quarter 2022 Report

English Translation

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Juno Continuation Fund Performance

The Juno Continuation Fund ended the quarter with a net asset value per participation of €79.54, a decline of -10.1%. The fund lagged behind the MSCI Europe Mid Cap Index, which fell -7.3% over the past three months. Year to date, the fund showed a -31.5% return while the MSCI Europe Mid Cap Index lost -27.2% over the same time period.

Main developments in the portfolio

Inflation has been one of the main themes in recent months: among consumers, companies, governments, central banks and investors. Consumers see their purchasing power decrease, which has consequences for their spending pattern. Many companies are seeing a decline in demand, while facing higher costs at the same time, which inevitably puts pressure on their earnings. Meanwhile, central banks are clear about their priority: to reduce high inflation by means of substantial interest rate hikes, despite the fact that the likely consequence is a recession. Higher interest rates lead to higher financing costs for many companies, putting even more pressure on their earnings. Higher interest rates also lead to a lower valuation of bonds and equities; for many investors, the reality of lower corporate earnings is added to that. All this results in sharply falling share prices.

We continue to believe that also in this context, the best protection is offered by companies that are still able to grow their revenue and earnings and that have little or no debt. In our opinion, factors such as inflation, interest rates and currencies are notoriously unpredictable and therefore we do not let those guide our portfolio decisions. In the short term, these factors certainly influence the valuation and price of our companies, but in the longer term it is in fact the fundamental developments that determine the share price. Revenue and earnings developments at the companies in the portfolio have been in line with expectations in recent months and quarters and we expect solid growth in 2022 and beyond. The fact that in the short term there is no relationship between price development and fundamentals is an aggravating but well-known phenomenon, which also leads to interesting buying opportunities.

As a result of the significant price drops this quarter, we further reduced our cash position and selectively expanded existing positions. This happened in particular at Rational, Soitec, Amplifon and Scout24. These companies have each shown a revenue growth that exceeds expectations this year, while their share prices have fallen sharply. The position in Temenos, on the other hand, was sold as we became less confident in the longer-term outlook: it seems that competitors are offering a more effective software solution, especially in the cloud-based environment. The position in BioMérieux was sold as we do not see how the company can make up for the loss of covid-related sales. As a result of the very sharp fall in the share price, a new position in the family-owned company Bachem was initiated during the quarter.

The Swiss company **Bachem** was first included in the portfolio of the Juno Continuation Fund last July, now one of three shared positions between the two Juno funds. The company is a specialist producer of the active ingredient in a growing number of medicines with a dominant position in an oligopolistic market. The company generated approximately CHF 500 million in revenue in 2021 and aims to double this in five years, with an operating earnings margin of over 24%.

Bachem has in-depth knowledge of the complex production process of peptides (so-called 'small' proteins) and more recently also oligonucleotides, where amino acids are sequentially linked (up to 100 circuits) to make a large number of different combinations that serve as active ingredients in pharmaceutical products. The company does not produce own medicines, but develops them together with their customers, so that growth depends on the R&D activities of pharmaceutical companies. Bachem benefits from the introduction of new drugs and realizes economies of scale once these medicines take off commercially.

On the other hand, Bachem also benefits if a so-called generic variant of a medicine is introduced after the protective patent has expired. Increasingly, synthetic production is chosen to replace an originally recombinantly (biologically) produced medicine. The ongoing development of synthetic production, with which increasingly complex and longer combinations of amino acids can be made, is partly driving this development. This also makes it increasingly difficult for newcomers to gain a foothold. A small production error in a long chain can cause a batch worth many millions to be lost. Those kinds of expensive and time-consuming mistakes make reputation an important selection criterion for partners. We are still at the beginning of the adoption of peptides and their synthetic production, which are playing an increasingly important role in oncology, diabetes, obesity, heart disease and neurological disorders. At present, the main conditions for which peptides are used are diabetes and metabolic diseases.

At a recent analysts' meeting in Zurich, Bachem reaffirmed its intention to double sales and to this end the company is investing heavily in additional production capacity near the head office in Bubendorf. A simultaneous announcement of a major contract worth CHF 150 million in 2024 provides confidence and visibility on the target of achieving 15% revenue growth per year.

Both earnings and share prices have increased rapidly in recent years, with the latter taking a big lead over our forecasts. As a result, 'sister fund' Juno Selection (Bachem shareholder since 2018) was forced to significantly reduce its holding in Bachem during 2021. A strong price correction this year offered both funds an opportunity to (re)build their positions with a more favorable risk profile and price-to-earnings ratio. At the end of September, Bachem makes up approximately 7% of the Juno Continuation Fund.

The British company **Dechra** is a developer, producer and distributor of veterinary medicines with a focus on pets (approximately 75% of revenue). The remaining revenue is generated from medicines for livestock (11%) and horses (7%) as well as a small portfolio of specialist nutrition. The company was created in 1997 when a group of executives bought out of the parent company, a pharmacy company that has no focus on Dechra's niche. Current CEO Ian Page was a key person in the management buyout and became general manager in 2001. Over the past year, the company achieved revenues of GBP 680 million and an operating earnings margin of over 25%.

In the early years of the new company, the organization was mainly focused on the distribution of medicines. Using the data generated by these activities, Dechra was able to identify therapeutic subcategories in which they wanted to develop their own products. Initially this was mainly in the field of endocrinology (hormone diseases) and later other niches were added such as dermatology, anesthesia, analgesia (pain relief) and antibiotics. A large majority of the products in the product portfolio are prescription only and are often not only dispensed, but also administered by the veterinarian.

Dechra has a broad portfolio of more than 5,500 products sold in nearly 70 countries. Veterinarians may purchase Dechra's products through specialist distributors, but in many cases have direct contact with Dechra resellers for information about existing products as well as new product introductions.

In contrast to human pharmaceuticals, the veterinary medicines market has few blockbuster drugs (revenue contribution of more than 100 million euros) with an excessively large earnings contribution. Dechra also doesn't have a single blockbuster in its portfolio. That makes this market less attractive for large pharmaceutical companies and there are also less earnings to be made from the introduction of generic medicines once patents expire. Dechra's portfolio consists of both “novel” (protected) and generic products, with the aim of further growing the first category through its own development and through targeted acquisitions. The main product in Dechra's portfolio, Vetoryl (against Cushing's disease) has a sales contribution of approximately 8%. The other 'large' products contribute 2 to 3%, but the majority is therefore many times smaller.

Dechra's growth stems from the growth of their library and from expansion into new countries. It is also growing due to the increasing population of pets in already penetrated countries. In addition, Dechra is expanding its portfolio with new products through its own R&D activities (more than 40 medicines in development) and through partnerships and acquisitions, such as the recent acquisition of US-based Piedmont Animal Health with a pipeline of products in various stages of development. It also recently completed the acquisition of Med-Pharmex, which has development and manufacturing capabilities and can benefit from the existing Dechra sales team.

Since Dechra came to our attention, late 2020, we have been able to speak digitally with the management team several times. A visit to an important production facility in Bladel, the Netherlands, was the decisive factor, whereby we used the recent price drop to build up a position. At present, the weighting in the portfolio is approximately 3%.

Outlook

To shield the world economies from too great a downturn caused by the financial crisis and the pandemic, the interest rate instrument was frequently put to good use by central banks. It turned out to be a powerful medicine, which helped cushion an excessive economic downturn. However, with interest rates at or below zero, it was always clear that they also had to return to normal at some point.

The hope for small incremental steps in raising interest rates was quickly crushed, as supply chains, in a post-pandemic world, proved to be not ready for the sharp resumption of consumer demand. Moreover, following the Ukraine war, energy prices exploded. As a result, inflation sky-rocketed with unprecedented force, leaving central banks with no alternative but to use large doses of the increasing-interest-rate medicine to slow the economy and quell inflation. Investors are now very concerned as these significant step changes in the level of interest rates cause turmoil and unpredictability. This uncertainty translates into fear of further falling share prices of both bonds and equities alike. Where there are many sellers, but limited buyers, prices fall.

However, fear is a bad adviser, which causes shares of companies to be sold, that are in fact very capable of dealing with these uncertainties. Companies that recently raised their earnings expectations are not being rewarded through improved share prices. Companies with no debt, selling products and services that continue to grow, regardless of the economy, are like growth bonds: there is little risk of their economic engine, which produces 10-15% more earnings annually, stalling. Our frequent company visits and contacts with their management confirm this time and again. Today’s decoupling of share prices and improving earnings at 'our' companies, gives us great confidence in future returns.

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

Rob Deneke

Duncan Siewe

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%
Q1 2022	-15%	-10%	-9%	-6%
Q2 2022	-10%	-13%	-8%	-7%
Q3 2022	-10%	-7%	-2%	-6%
2022	**-32%**	**-27%**	**-18%**	**-18%**
Since Inception*	**-21%**	**-7%**	**+15%**	**-19%**
CAGR	**-8.0%**	**-2.8%**	**+5.3%**	**-7.7%**

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

Top 5 Positions

Name	Country
Teleperformance	France
ICON	Ireland
Rational	Germany
Scout24	Germany
Soitec	France