JUNO

Selection Fund

First Quarter 2021 Report

English Translation

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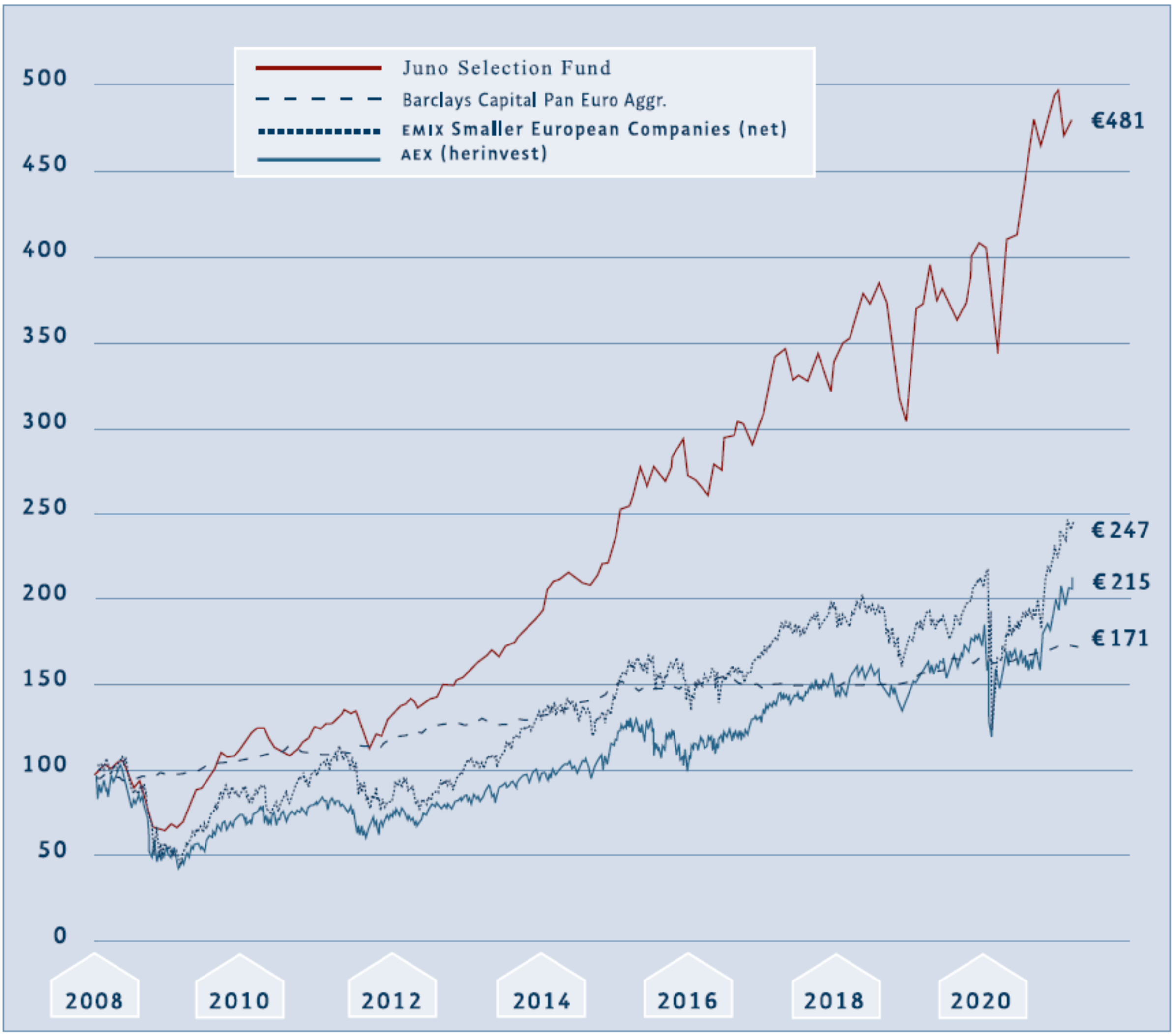
Juno Selection Fund Performance

We ended the first quarter on March 31, with a net asset value of € 480.60 per participation. After the first three months of this year, the fund has returned -3.3%.

The index of European small and medium-sized companies, the EMIX Smaller European Companies Index, rose + 9.4% over the past three months. The Dutch AEX index (with dividend reinvested) also increased in value, by + 12.3%.



Main developments in the portfolio

Since inception of the Juno Selection Fund, 163 months ago, we have consistently found that, in relative terms, our investment style works least well in times of euphoria in the equity markets. We tend to achieve our best relative returns when markets are negative or move sideways. The fact that the EMIX Smaller European Companies Index rose by 35% since the announcement of the arrival of COVID vaccines in November, was therefore a ominous sign. In their newfound buying spree, investors were not all that interested in the shares of the companies that we hold in our portfolio, and whose prices had risen so strongly in the past year already (+ 21%). These, predominantly retail investors, preferred to buy shares of companies active in often loss-making sectors such as aviation and travel, banks, oil and real estate; each sector seriously affected by COVID. At the moment, it appears that the fear of missing out on a significant price rally in such companies is far greater than common sense.

With share price appreciation of the average company in the Juno Selection Fund virtually standing still these past five months (+ 3%), whilst being trumped by a strong rise in the value of shares of companies that do not meet our investment criteria, the question arises whether we should adjust our investment style. However, for these more cyclical companies, which in a financial sense, move up and down the rise and fall of the economy, we cannot make sensible predictions about how they might be doing financially in five years from now. In fact, today already, the market seems to be far ahead of the economic game. Most companies in these unpredictable sectors have yet to climb out of a deep financial trough, where we estimate some of them will not survive that journey, and yet their high share prices already reflect a cloudless economic future.

Instead, we prefer to invest our efforts and fund assets in carefully selecting predictable winners, rather than trying to choose companies that are slightly better than the average company listed on the stock exchange. Prices of the predictable companies that we select will increase over time along with their earnings growth. As a result, we can determine reasonably well today what we are willing to pay for that future growth of this group of companies.

After more than 13 years, this intuitive logic has rendered our clients an average compound return of 12.6% per annum, in spite of the financial crisis of 2008 and the pandemic of 2020. It is no coincidence that this return is almost equal to the average annual earnings growth (12.7%) of our portfolio companies over that same time. Trailing an index is no fun, but it is not new and has happened several times in recent years. Yet the longer term has consistently shown that our investment style is rewarding and we see no reason to change that.

When we first invested in the German company **Cewe** at the end of 2009, we already had a pretty clear picture of the company's economic future. That year, for the first time, it sold more digital than analog photos and that trend did not seem to abate. The real driving force behind the company's success was the rising sales of its photo books. However, at group level, the operating margin was less than 5%, mainly due to the low margins on individual (digital) photo development and Cewe's store network, where in addition to photo books, digital cameras were sold at very low margins. With the continued growth of the more profitable photo finishing products, we also expected a marked increase in the group's operating margin and free cash flows over time.

Every year Cewe reinvested a significant part of its free cash flows in the company and won prize after prize for producing the best photo books in Europe, becoming the market leader. But not everything was a resounding success. To reduce its reliance on digital photos alone, Cewe acquired the online printing company Saxoprint in 2012. The market for professional printing was also rapidly digitizing, but the switch from the traditional in-house and offset printers, to ordering printed material online, turned out to be slower than previously expected. Saxoprint is now the price- and cost leader in Europe, but margins are wafer-thin and competition is fierce. We still believe the chance that the division will be sold is very plausible, but corona has had a significant delaying effect on this selling process.

The pandemic initially seemed to have a negative effect on Cewe's results: Saxoprint would receive fewer print orders from companies and with no new photos from vacations all over the world, consumers would order fewer photo products. After a few months, however, it turned out that consumers still had plenty of old photos on their computers and used the lockdown to carry out 'overdue maintenance'. The highly profitable photo finishing products sold so well, the operating group margin jumped to a new record of 11%, a big difference from the 5% achieved in 2009. Looking back, 2020 was an excellent year for Cewe, with a disproportionate increase in net earnings to 52 million euro. Since 2009, annual earnings per share have increased by 19.5%, with return on capital also remaining above 15%, reaching an impressive 20.6% in 2020. The outlook for 2021 is traditionally on the cautious side, but positive again. For the longer term, we expect earnings growth to continue and we also believe a higher price earnings ratio is likely.

Sartorius has been in our portfolio since 2014. What immediately appealed to us at the time is the focused strategy that CEO Joachim Kreuzburg pursues. Particularly at the company's largest branch, Bioprocess Solutions, he has patiently built up the product portfolio. This process was organic on the one hand, the company has for years invested more than 10% of sales in building sufficient production capacity worldwide. On the other hand, Kreuzburg added missing technology through targeted acquisitions.

Sartorius' clients are the major pharmaceutical companies that market generic drugs or new drugs based on biological materials. These types of drugs can be recognized by their name, which often ends in "MAB" (Monoclonal Antibody). The basic production steps for such medicine are divided into an upstream and a downstream part. In the upstream part, Sartorius has always been very strong with their specific membrane technology. The membranes are used in the filters, which are very important in this step. In the downstream part, where biological material is purified and the final drug remains, the so-called chromatography technique is essential.

In the field of chromatography, competitor GE Biopharma always had a clear advantage with the best technology, resulting in the largest market share. After GE's sale of this business to Danaher two years ago, opportunities have emerged for Sartorius to leverage on these market shifts. Competition authorities forced Danaher to sell part of the acquired company. Last year, Sartorius was the lucky buyer. At 750 million euro, it was by far Sartorius' largest acquisition over the last ten years.

In addition to parts from GE Biopharma, Sartorius also acquired three other companies with technology in the field of chromatography last year, which means that Sartorius will soon finally be able to supply all parts for the production of biological medicines to its customers. These successes were also reflected in the company's figures. Sales increased since 2014 from 898 million euro to 2.3 billion euro in 2020. Earnings rose even faster, from 73 million euro to 299 million euro.

The average historical earnings growth of 15% per year, got extra tailwind from the pandemic last year, as vaccines can be produced using Sartorius' technology. The market share that Sartorius has picked up with this extra demand is much larger than we estimated a year ago. Industry experts praise Sartorius for skillfully taking on the task, helping with advice and practical ideas, in setting up new production lines for pharmaceutical companies. This strategy is clearly bearing fruit, also during this pandemic.

Vaccinations for COVID are expected to develop in a similar manner as the current flu shot. People over a certain age, or those in a risk group, will receive one vaccination per year. If so, a significant portion of Sartorius' additional revenue and earnings growth will not be a one-off. Where earnings in 2020 grew by 43%, for 2021 we expect earnings growth of 35% due to the structural increase in market demand for their products.

Outlook

After more than twelve months of the pandemic, the economic reality for many business sectors is very bad. The way back to "business as usual" is still long and fraught with dangers, also from a financial point of view: consumers spending their accumulated saving too quickly would fuel inflation and thus quickly push up interest rates. Meanwhile, the stock market does not seem to be concerned at all, fired up by purchases from investors with a lack of alternatives to the low (or nonexistent) returns achieved on their savings accounts.

We do not work with a market vision and do not assume a base scenario with detailed macroeconomic assumptions when compiling your portfolio. Our approach remains the long-term buy-and-hold strategy, of a small group of steadily growing companies in your portfolio. Companies that provide services and products that continue to find their way to customers regardless of the economic situation. The fact that these European companies are often active worldwide further contributes to their stable development and growth.

At the moment, we expect the 2021 earnings growth for the portfolio as a whole to end up again between 10 and 15%. We are also confident of the outlook for the years thereafter. Naturally, we cannot predict how that earnings growth will translate into further price appreciation in the short term, but this is certainly not linear as we have already experienced this year. However, the preference that investors currently have for more speculative investments, at the expense of quality companies may persist for some time. As long as our companies continue to grow and their valuations remain attractive, we remain confident about the future.

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%
Q1 2021	-3%	+9%	+12%	-2%
2021	**-3%**	**+9%**	**+12%**	**-2%**
Since inception *	**+381%**	**+148%**	**+115%**	**+69%**
CAGR	**12.6%**	**7.1%**	**6.0%**	**4,1%**

*) Inception of the fund: January 11, 2008

Top 5 Positions

Name	**Country**
Paradox Interactive	Sweden
SimCorp	Denmark
Soitec	France
Stratec Biomedical	Germany
Bachem	Switzerland

Disclaimer:

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