

### Celeste Australian Small Companies Fund

Monthly update 30 April 2020

#### Performance Statistics (Total Returns net of fees)

	1 mth %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	10 yrs % p.a.	15 yrs % p.a.
Celeste Aust. Small Co. Fund	+13.3	-12.1	-0.7	+5.2	+3.8	+6.1
<b>Performance (relative to Index)</b>	<b>-1.0</b>	<b>+1.2</b>	<b>-3.9</b>	<b>+0.3</b>	<b>+1.3</b>	<b>+2.1</b>
S&P/ASX Small Ords Acc Index	+14.3	-13.3	+3.2	+4.9	+2.5	+4.0
S&P/ASX Small Inds Acc Index	+12.8	-14.3	+2.7	+4.8	+6.3	+5.0
S&P/ASX Small Res Acc Index	+20.2	-9.1	+5.6	+5.4	-7.3	+1.2

Past performance is not indicative of future returns. Total returns shown for the Celeste Australian Small Companies Fund has been calculated using exit prices after taking into account all of the Fund's ongoing fees and assuming reinvestment of distributions. No allowance has been made for entry fees or taxation.

The Fund rose 13.3%<sup>1</sup> in April, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index increasing by 14.3%. Since inception (May 1998) the Fund's return is 11.9% pa<sup>1</sup>, net of all fees, against the Index's 5.0% pa.

#### Portfolio Commentary

**Pacific Smiles (PSQ)** rose 40.7% after it announced that, post the easing of restrictions, it would restart operations at 70 of its 93 dental centres. While average patient volumes are expected to be substantially below the pre Covid-19 levels, the company anticipates breakeven earnings. PSQ highlighted they have the ability to open the remaining 23 centres and resume higher levels of activity as further restrictions unwind and demand increases.

In April, **Monash IVF (MVF)** raised \$80m to bolster its balance sheet for a conservative covid restart and fund the investment into a new NSW IVF clinic. **Invocare (IVC)** raised \$200m to accelerate the capital upgrade program on their funeral assets and fund impending acquisitions of smaller family run regional funeral operators that are likely to emerge from the covid crisis. **Infomedia (IFM)** raised \$70m to fund growth in auto related data and data analytics opportunities that have presented themselves in the covid induced economic slowdown. We participated in all of these raising as they were supportive of medium term growth.

**Codan Limited (CDA)** rose 20.9% in April. A CDA market update noted that production constraints, and freight challenges, had led to 20% sales decline in April compared H1. CDA cash position has grown to \$70m, from \$51m at December 31st, despite the payment of \$13.5m in dividends in February.

**AP Eagers (APE)** rose 69.6% in April. While expectations remain that car sales volumes will be depressed for the short term, the company made two key announcements. These highlighted that management were navigating the impact of Covid-19 prudently to ensure APE has a greater dealership market share post crisis. First, the Refrigerated Logistics sale was no longer subject to any outstanding conditions and is expected to conclude by June 30<sup>th</sup>; and second, APE had secured \$122m in new working capital facilities from OEM finance partners, increasing liquidity to \$392m.

#### Portfolio Top 5 Holdings

Stock	% of Fund
1 OMNI BRIDGEWAY	5.2
2 STEADFAST GROUP	4.7
3 CITY CHIC COLLECTIVE	4.3
4 IRESS	4.1
5 LIFESTYLE COMMUNITIES	4.0

#### Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+9.5	-9.2	+2.1
USA – S&P 500	+12.7	-1.1	+6.9
USA – NASDAQ Composite	+15.4	+9.8	+13.7
Europe – FTSE (UK)	+4.0	-20.4	-6.4
Europe – DAX (Germany)	+9.3	-12.0	-4.4
Asia – Nikkei (Japan)	+6.7	-9.3	+1.7
Asia – Shanghai Composite (China)	+4.0	-7.1	-3.2

Source: IRESS

#### Monthly Commentary

The dramatic Covid-19 induced market decline in the later weeks of the March quarter was partially offset by a significant market recovery in April, driven in part by changing expectations around the speed and shape of the anticipated recovery. The ASX Small Ords rose a breathtaking 14.3% in April significantly outperforming the ASX100 up only 8.4%. Interestingly, disaggregating the Small Ords performance highlighted the significant outperformance of the small resources index, up +20.2% against the +12.8% from the small industrial index.

Globally markets were strong reflecting a more positive attitude around the severity of the pandemic but also with an eye to reduced isolation restrictions restarting the economic machine. The S&P 500 rose 12.7% with tech heavy Nasdaq even better at +15.4%. The EuroStoxx index was up 5.4%, a relative global laggard, as was FTSE +4.0%, the Hang Seng +4.4% and the Shanghai Composite +4.0%. All global economic data looks dire with year on year numbers meaningless. Increasingly, sequential change will be the keenly watched indicator of an economic pulse. Initial US unemployment claims in the last 6 weeks have hit a staggering 30.3m of a total labour force of 162.9m.

Three of the major four Australian banks announced 1h20 results and collectively raised \$3.5bn in covid related collective provisions. ANZ stated that 14% of its outstanding home loan balances had requested a loan deferral. Despite this provision lift, ANZ & NAB cite in a worst case scenario they may require a further \$5.8bn to cover potential losses. With a dire 11.7% unemployment expectation and an overweight lending position in small and medium businesses, NAB raised \$3bn of fresh capital to buffer future losses. With unique insights into customer and business revenues, transactions and liabilities we see this swift move by the banking system to build ahead of loan losses as a portend to the impending economic crunch.

Nineteen companies in the Small Ordinaries took the opportunity to raise \$4.5bn of fresh equity. The raising rationales ranged from emergency funding, to shoring up liquidity, to funding future growth objectives. The changed ASX listing rule allowing a placement up to 25% of existing shares was lowered late in the month to 15% with 25% only for emergency raises. The ASX was concerned that some companies had used the initial relaxing to 25% to push the equity raising envelope.

We expect volatility to remain elevated in equity markets as expectations move between a V, U or bathtub shaped recovery scenario. We currently think that the economic recovery will be slower and more modest than current equity market pricing suggests. We remain investment process consistent, positioned in high quality stocks likely to perform well as operating conditions stabilise and improve.

# CELESTE

## Funds Management

### Fund at a Glance

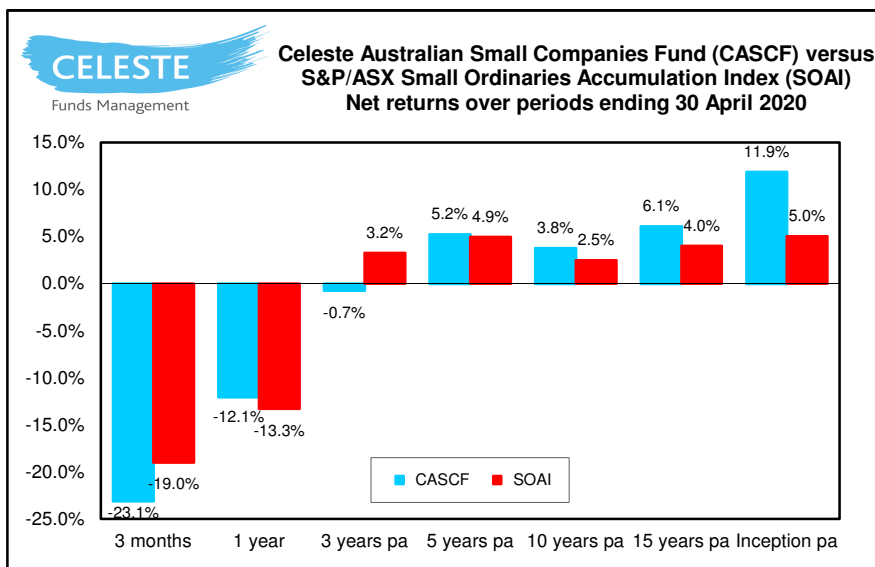
#### Fund Information

<b>Primary Investments</b>	Shares in listed Australian smaller companies
<b>Investment objective</b>	Exceed Small Ordinaries Accumulation Index over rolling 5 year periods
<b>Unit price (redemption) as at 30.04.2020</b>	\$2.9483
<b>Unit price (application) as at 30.04.2020</b>	\$2.9660
<b>Fund Size as at 30.04.2020</b>	\$55m
<b>Minimum investment</b>	\$25,000
<b>Minimum additional investment</b>	\$1,000
<b>Minimum balance</b>	\$15,000
<b>Redemption will generally be available in</b>	7 days
<b>Distributions</b>	30 June and 31 December
<b>Entry fee*</b>	0%
<b>Exit fee*</b>	0%
<b>Buy/Sell differential*</b>	0.30%
<b>Management fee*</b>	1.10% p.a
<b>Performance fee**</b>	20% of return above benchmark

\* These fees and charges apply for the duration of the Product Disclosure Statement (PDS) and are inclusive of the Goods and Services Tax.

\*\* A fee charged on performance of the investments of the Fund above the nominated benchmark performance. The benchmark is the S&P/ASX Small Ordinaries Accumulation Index.

#### Fund Returns



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#### Distribution History

Total distribution year ended	Cents Per Unit	Annual Yield %**
June 10	18.70	8.9
June 11	11.89	4.6
June 12	4.07	1.4
June 13	15.81	5.5
June 14	14.56	5.4
June 15	12.67	4.5
June 16	9.95	4.0
June 17	6.87	2.6
June 18	7.01	2.2
June 19	10.46	2.9

\*\* CPU / unit price at beginning of period

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