

### Celeste Australian Small Companies Fund

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

|  | 1 mth %     | 1 yr %      | 3 yrs %<br>p.a. | 5 yrs %<br>p.a. | 10 yrs %<br>p.a. | 15 yrs %<br>p.a. |
|--|-------------|-------------|-----------------|-----------------|------------------|------------------|
| Celeste Aust. Small Co. Fund           | +12.6       | -3.0        | +3.7            | +7.5            | +5.9             | +6.9             |
| <b>Performance (relative to Index)</b> | <b>+2.0</b> | <b>-0.1</b> | <b>-3.8</b>     | <b>+0.9</b>     | <b>+1.5</b>      | <b>+2.4</b>      |
| S&P/ASX Small Ords Acc Index           | +10.6       | -2.9        | +7.5            | +6.6            | +4.4             | +4.5             |
| S&P/ASX Small Incls Acc Index          | +9.6        | -4.8        | +6.9            | +6.2            | +8.2             | +5.4             |
| S&P/ASX Small Res Acc Index            | +14.3       | +4.8        | +9.8            | +8.0            | -5.2             | +1.9             |

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#### Portfolio Commentary

The Fund rose 12.6%<sup>1</sup> in May, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index increasing by 10.6%. Since inception (May 1998) the Fund's return is 12.4% pa<sup>1</sup>, net of all fees, against the Index's 5.5% pa.

In May, Celeste has taken the decision to focus solely on stocks in our monthly, rather than provide market commentary. Given the Covid19 pandemic, we felt it appropriate to skew the monthly to stock insights, hopefully allowing investors a better understanding of the Celeste portfolio, its positioning & our investment process at work.

Celeste participated in a **Breville Group** (BRG) equity raising in May, where \$104m was raised at \$17.00 (last trade 29/5 \$22.36). In a trading update, BRG noted that constant currency sales growth of 24.9% was achieved in its electrical appliance business in H2 FY20, despite government mandated closures for retailers globally. BRG noted that gross margin performance in H2, remained consistent with H1. BRG rose 27.3% in May.

**Steadfast** (SDF) provided a trading update for financial year to date to April. For the first 10 months of the year, group EBITA was 21.8% ahead of the same period in FY19. As anticipated SDF did witness a small reduction in premium volumes through its Broker Network, but this was offset by the continued increase in premium rates and cost savings.

On the back of a better than feared 1H20 result, **Eclix** (ECX) performed strongly in May, up 66.9%. The result showed a solid performance from the core Fleet and Novated Leasing divisions, with industry data points in May highlighting material week on week improvements in operating conditions. ECX's Balance Sheet leverage was also better than expected and is likely to be further reduced with the imminent sale of Right 2 Drive, the company's largest remaining non-core asset.

Retail exposures in the portfolio provided operational updates in May. In the year to May 17<sup>th</sup>, **Baby Bunting** (BBN) achieved sales growth of 13.2%, like on like revenue growth of 8.1%, with online now 17.3% of total sales. In H2 BBN saw a lift in sales on H1, despite the challenges of Covid19. BBN rose 19.4% in May. Plus size fashion retailer, **City Chic** (CCX) reported online sales growth of 57% in Aust./NZ, whilst its retail stores were closed due to Covid19. CCX traded profitably, globally, during March-May Covid19 restrictions. In the USA, CCX's ecommerce business, the Avenue, traded well and continued to exceed management expectations. CCX rose 24.0% in May.

**Pacific Smiles** (PSQ) rose 2.5% in May after announcing that all 93 dental centres operated by the company would re-open post the Australian Dental Association lowering operating restrictions. PSQ is now able to conduct a full range of dental treatments provided that certain Covid19 precautions are maintained. This re-opening will provide the opportunity to build revenue and profit back towards the pre closure run rates as patient confidence improves and chair occupancy lifts.

#### Global Index Performance (Accumulation)

|                                    | 1 month % | 1 year % | 3 years % pa |
|------------------------------------|-----------|----------|--------------|
| Australia – S&P/ASX All Ordinaries | +5.0      | -6.2     | +4.7         |
| USA – S&P 500                      | +4.5      | +10.6    | +8.1         |
| USA – NASDAQ Composite             | +6.8      | +27.3    | +15.3        |
| Europe – FTSE (UK)                 | +3.0      | -15.2    | -6.9         |
| Europe – DAX (Germany)             | +6.7      | -1.2     | -2.8         |
| Asia – Nikkei (Japan)              | +8.3      | +6.2     | +3.6         |
| Asia – Shanghai Composite (China)  | -0.3      | -1.6     | -2.9         |

Source: IRESS

**Lifestyle Communities** (LIC) rose 26.0% in the month as markets continued to seek companies who can deliver growing long duration cash flow streams. In May, LIC acquired a further development site at Clyde North in Melbourne. The 10 hectare site is expected to settle in mid-2021 and allows LIC to minimise the cash committed to property purchases until it is ready to be developed. An agreement allowing LIC access prior to settlement should ensure all major earthworks are completed so that on settlement major construction can begin immediately.

**Omni Bridgeway** (OBL), up 22.1% for the month, noted in an investor presentation that over the course of March - May this year, they have received approximately 350 funding applications for a variety of legal cases. This represents over 50% growth compared to the same 3 months in 2019. With a number of case wins in FY20 announced, OBL is well positioned to deliver sustainable and repeatable cash flow to investors over the medium term.

**Hansen** (HSN) rose 15.0% in May after updating the market on FY20 earnings guidance. While 70% of the HSN revenue base is recurring, 30% remains variable, subject to specific customisation work and new contract implementation activity. With activity slowing a little, HSN have worked hard to reduce costs. New guidance of \$298m-\$300m in revenue was at the lower end of expectations but EBITDA of \$75m-\$76m was at the upper end. With ongoing contract wins, a tight hold on costs and significant balance sheet liquidity, we continue to remain positively disposed to HSN.

**InvoCare** (IVC) rose 10.7% in May. IVC successfully completed the \$50m retail portion of its equity raising, ultimately accepting \$74m due to oversubscriptions. IVC also had their AGM in which they detailed the ongoing investment in capital to grow future market share and earnings. IVC detailed a timeline for the implementation of sustainability management and reporting as well as Covid19 risk mitigation and earnings strategies given ongoing restrictions.

In the mining services space, **Monadelphous** (MND) noted project deferrals & supply chain issues would lead to margin compression in H2, and to a revenue line that would be static, year on year. MND rose 4.6% in May. **Lycopodium** (LYL) updated net profit guidance in FY20 to \$11.5m, from \$14.1m, as project delays weighed on H2 performance. LYL rose 10.7% in May. **MACA** (MLD) updated the ASX on June 1<sup>st</sup> and noted sales in FY20 were now likely to be > \$800m, and EBITDA would be between \$110m-\$114m, from a previous expectation of \$104m - \$110m. MLD rose 19.7% in May.

#### Portfolio Top 5 Holdings

| Stock                   | % of Fund |
|-------------------------|-----------|
| 1 OMNI BRIDGEWAY        | 4.6       |
| 2 LIFESTYLE COMMUNITIES | 4.4       |
| 3 STEADFAST GROUP       | 4.4       |
| 4 AP EAGERS             | 4.2       |
| 5 CODAN                 | 3.8       |



## Funds Management

Monthly update: 31 May 2020

### Fund at a Glance

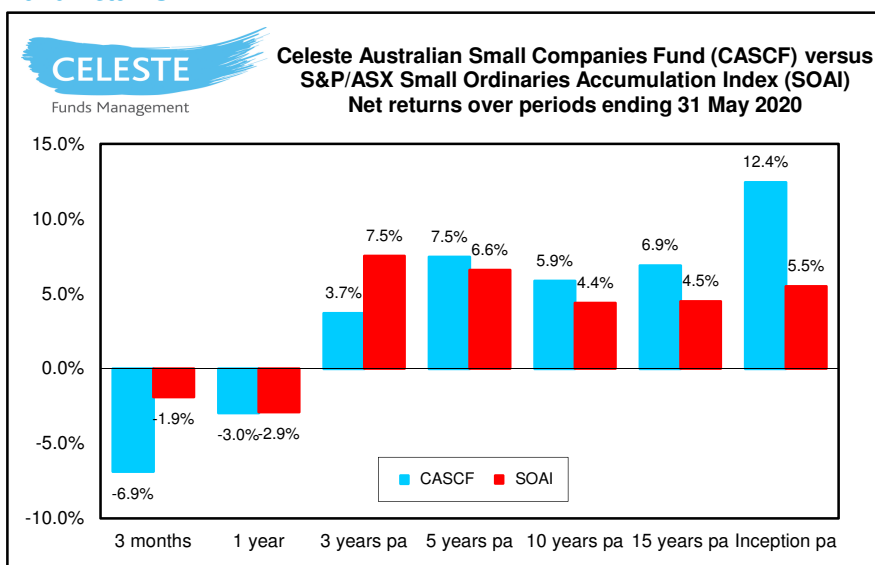
#### Fund Information

|  |  |
|--|--|
| <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 31.05.2020</b>  | \$3.3200   |
| <b>Unit price (application) as at 31.05.2020</b> | \$3.3400   |
| <b>Fund Size as at 31.05.2020</b>                | \$62m  |
| <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



#### 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              |

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

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