

Celeste Australian Small Companies Fund

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	-1.1	-3.1	+2.8	+8.2	+6.0	+6.7
Performance (relative to Index)	+0.9	+2.6	-3.3	+0.3	+1.4	+2.7
S&P/ASX Small Ords Acc Index	-2.0	-5.7	+6.1	+7.9	+4.6	+4.0
S&P/ASX Small Incls Acc Index	-2.3	-7.4	+5.2	+7.2	+8.5	+4.9
S&P/ASX Small Res Acc Index	-0.1	+1.8	+9.8	+10.6	-5.1	+1.4

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Portfolio Commentary

The Fund fell 1.1%¹ in June, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index falling by 2.0%. Since inception (May 1998) the Fund's return is 12.3% pa¹, net of all fees, against the Index's 5.4% pa.

We continue to focus solely on stocks again in this monthly, rather than provide market commentary. We hope the stock insights and the Celeste process at work may be of more value to investors.

In June, **Integrated Research (IRI)** rose 13.2%. The market continues to see the IRI business model leveraged to financial electronic transactions and communications as a stable source of revenue and profit. While initial Covid-19 lockdowns did slow in store financial transactions, a fair portion migrated online. By far the biggest beneficiary of the work from home increase has been the step change in video/conference calls and the need for software to monitor the quality and reliability. IRI will report record revenue and profit in what has been a difficult FY20. Even post the movement in the share price, the cash flow stream HSN will produce over the next 5 years remains underrated by the market. **Hansen Technologies (HSN)**, another IT stock in the Fund, had a divergent experience in June, down -9.9% on the back of no real new news. That said, the stock had rallied 15% in May on the back of the issuance of FY20 earnings guidance that was at the upper end of pre Covid-19 levels of \$298m-\$300m in revenue and \$75m-\$76m of EBITDA. As can be the case with small cap stocks, movement of substantial shareholders on the register both up and down can lead to stock movements seemingly out of kilter with the underlying value of the cash flow stream of the business. June movements seem to have been driven by these exogenous factors and we expect the share price recovers over the short term.

Pacific Smiles (PSQ) rose 9.4% over June after issuing guidance for FY20 and a detailed review of the business post Covid-19 lockdown restart. Last month, we highlighted that all 93 centres were poised to reopen. The June announcement highlighted the strong demand once the network became operational. Same centre patient fee growth was +7% as patients returned, keen to use their private health insurance limits ahead of their expiry on 30 June. FY20 EBITDA guidance of between \$22.3m to \$22.8m was better than expectations. An FY20 result of \$22.8m would be flat compared to FY19 and, accounting for a significant Covid-19 closure impact, is a solid result. Market EBITDA expectations for FY21 of \$24.5m are likely to be upgraded based on better performance and the ongoing new centre roll out program.

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+2.3	-7.2	+5.4
USA – S&P 500	+1.8	+5.4	+8.6
USA – NASDAQ Composite	+6.0	+25.6	+17.9
Europe – FTSE (UK)	+1.5	-16.9	-5.5
Europe – DAX (Germany)	+6.2	-0.7	0.0
Asia – Nikkei (Japan)	+1.9	+4.8	+3.6
Asia – Shanghai Composite (China)	+4.6	+0.2	-2.2

Source: IRESS

Automotive retailers, **Autosports Group (ASG)** and **AP Eagers (APE)**, outperformed during the month, up 23.2% and 4.8% respectively. Both stocks were driven by a number of anecdotal data points that suggested a strong recovery in car sales compared to May. New car sales for June were 110k, while down 6% compared to June 2019, were up 84% from May levels of 60k. We expect a number of smaller automotive dealerships to close due to the impact of Covid-19, which will see both APE and ASG increase their market share going forward. **ARB Corporation (ARB)** rose 5.3% in June as Covid-19 lockdown constraints lessened, and likely 'holiday at home' spend looks set to benefit ARB in the medium term.

Lifestyle Communities (LIC) rose only 1.1% in June but this consolidated the 26.0% increase the stock enjoyed in May. Lifestyle announced that it has acquired a further 9 hectare site in Clyde, Victoria. This site is 5.5km away from the 10 hectare site acquired in May. The delayed settlement slated for mid-2023 allows for LIC to time the construction of their communities to optimise sales and ensure efficient construction. This process of lining up sites with minimal capital deployed is creating significant efficiency in product delivery and maintaining a good line of site on growth in the rent roll of homes under management. It is this rent roll that drives future cash flow and the ultimate valuation of LIC. We expect strong ongoing home delivery until at least 2030.

Monash IVF (MVF) declined 6.2% in June despite announcing relatively positive reopening news post the Covid-19 shutdown. Over the restart period of 18th May until 30th June, the company has seen a 25% higher IVF cycle growth versus the same period last year. While the numbers are very strong they represent the release of pent up demand which was driven by a complete stop in elective surgery over April and the first two weeks in May. Ultrasound scan volumes remain strong, as is the trajectory of the cycle recovery in the Malaysian operations. The overseas operations will lag MVF's domestic recovery by around a month given the easing of movement constraints only occurred in mid-June. Net debt is less than \$10m and with the business now generating run rate profit and positive cash flow, debt is likely to decline further. MVF's 2h20 NPAT guidance was \$4.6m (-55% on 2h19) for \$14m NPAT for FY20 (-33% on FY19).

Portfolio Top 5 Holdings

Stock	% of Fund
1 LIFESTYLE COMMUNITIES	4.6
2 STEADFAST GROUP	4.5
3 OMNI BRIDGEWAY	4.5
4 AP EAGERS	4.5
5 IRESS	3.8

Fund at a Glance

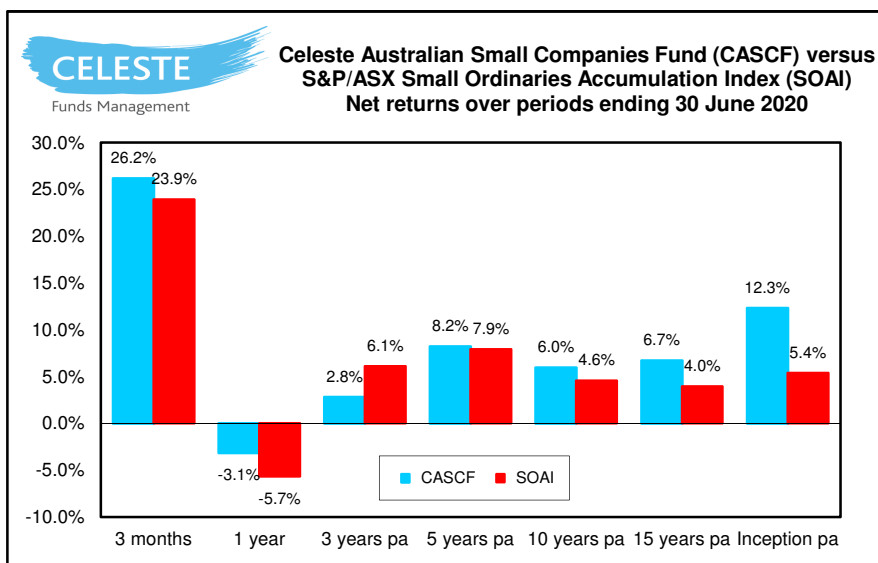
Fund Information

Primary Investments	Shares in listed Australian smaller companies
Investment objective	Exceed Small Ordinaries Accumulation Index over rolling 5 year periods
Unit price (redemption) as at 30.06.2020 [ex-distribution]	\$3.2346
Unit price (application) as at 30.06.2020 [ex-distribution]	\$3.2541
Fund Size as at 30.06.2020 [ex-distribution]	\$60m
Minimum investment	\$25,000
Minimum additional investment	\$1,000
Minimum balance	\$15,000
Redemption will generally be available in	7 days
Distributions	30 June and 31 December
Entry fee*	0%
Exit fee*	0%
Buy/Sell differential*	0.30%
Management fee*	1.10% p.a
Performance fee**	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 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
June 20	9.51	2.8

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** CPU / unit price at beginning of period

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