CELESTE
Funds Management

Monthly update: 30 September 2020

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	-1.8	-1.8	+4.7	+9.7	+5.8	+7.1
Performance (relative to Index)	**+1.0**	**+1.5**	**-1.8**	**-0.3**	**+2.3**	**+3.6**
S&P/ASX Small Ords Acc Index	-2.8	-3.3	+6.5	+10.0	+3.5	+3.5
S&P/ASX Small Inds Acc Index	-2.3	-4.7	+6.7	+8.6	+7.9	+4.7
S&P/ASX Small Res Acc Index	-4.8	+2.4	+5.8	+17.4	-7.0	+0.2

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Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	-3.4	-8.8	+5.5
USA – S&P 500	-3.9	+13.0	+10.1
USA – NASDAQ Composite	-5.2	+39.6	+19.8
Europe – FTSE (UK)	-1.6	-20.8	-7.3
Europe – DAX (Germany)	-1.4	+2.7	-0.2
Asia – Nikkei (Japan)	+0.2	+6.6	+4.4
Asia – Shanghai Composite (China)	-5.2	+10.8	-1.3

Source: IRESS

Portfolio Commentary

The Fund fell 1.8%[1] in September, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index decreasing by 2.8%. Since inception (May 1998) the Fund's return is 12.7% pa[1], net of all fees, against the Index's 5.6% pa.

Eagers Automotive (APE) acquired 8 properties during Sept. for $105m, which it had previously leased from Charter Hall Group. APE will benefit as $7m in annual lease costs will be replaced with $3.5m in interest costs. In addition, APE has greater flexibility to adjust its dealership network in the medium term, inevitably leading to a more attractive cost base and operating structure.

Monadelphous Group (MND) fell 9.0% in Sept. MND announced in the month that it had added some $120m in contracts, in its engineering and maintenance divisions. The contracts announced in Sept. are in addition to some $1.2b of new contracts and contracts extensions awarded to MND since the start of FY21. Work awarded thus far in FY21, of some $1.3b, leaves MND well-placed, and compares with $1.7b of total revenues in FY20.

Dentistry service provider, **Pacific Smiles Group** (PSQ) updated the market as to same centre patient fee growth across its network. In the year to August 31st, same centre patient fee growth was up an impressive 8.7%, or if one were to exclude Victoria due to its Covid19 lockdown, growth is up 19.2% year to date. We remain positively disposed to PSQ due to: the sectoral consolidation opportunity available; its return traits; and its growth trajectory.

In our August 2020 Monthly Update we wrote about recent portfolio addition, **Citadel Group** (CGL). CGL rose 26.5% in Sept. to $5.58, after receiving a takeover offer from Pacific Equity Partners (PEP) at $5.70 per share. The bid price is a 51% premium to the 3 month volume weighted average price for CGL of $3.76, and a 43% premium to the closing price of $3.98, the day prior to the offer. Whilst we remain attracted to the global sales potential for CGL's health sector software, and its growing recurrent revenue base, we feel the offer price is reasonable, reflecting an FY20 multiple of 14.7X EV/EBITDA. Whilst our preference with equity positions in the Celeste portfolio is for retention into the medium/long term, our sensitivity to valuation is all-important. The outworking of the PEP offer for CGL is that we sold our position late in Sept., given our assessment that the majority of our targeted returns for CGL had been delivered, despite our brief equity ownership period.

Portfolio Top 5 Holdings

Stock	% of Fund
1 CODAN	4.1
2 ARB CORPORATION	3.9
3 OMNI BRIDGEWAY	3.8
4 EAGERS AUTOMOTIVE	3.7
5 BREVILLE GROUP	3.7

Market Commentary

Equity markets in Sept. were listless and sold off as an array of factors weighed on investors' minds. Globally, increasing Covid19 cases is fanning "2nd wave" concerns, with growing infection rates leading to lockdown measures being reintroduced across the globe. As at the end of Sept. it is estimated that ~1m people had died with Covid19 in 2020, with some 32m having caught and survived the virus. In the US, investor focus on the Presidential Election is increasing, as uncertainty as to the likely outcome grew post an unedifying 1st Presidential debate. In Australia, investors adopted a 'wait & see' approach with further fiscal stimulus hoped for in the Federal Budget to be handed down on October 6th.

Locally the Government moved to change 'responsible lending obligations' to reduce the cost and time it takes consumers to access credit. The Government notes that what started a decade ago as a principles based framework to regulate the provision of consumer credit has now evolved into a regime that is overly prescriptive, complex, and unnecessarily onerous. The Government intends allowing lenders to rely on the information provided by borrowers, replacing the current practice of 'lender beware' with a 'borrower responsibility' principle.

The US Federal Reserve noted in September that it anticipates keeping its benchmark interest rate pegged at near zero at least through 2023, as it moves to foster economic growth and bring down the unemployment rate. In addition, the Fed also noted that because inflation has fallen mostly below its 2% target in recent years, the Fed now, "will aim to achieve moderately above 2% for some time".

The World Bank updated growth expectations for East Asia and the Pacific in Sept. Importantly from an Australian perspective the World Bank upgraded its forecast growth for China's economy in 2020, from 1% to 2%. With the global economy the World Bank anticipates a 5.2% decline in 2020, as the swift and massive shock of Covid19 leads to a severe contraction. For 2020 the World Bank forecasts economic activity among advanced economies will shrink by 7%, whilst emerging markets will contract by 2.5%.

In Sept. the Japan Machine Tool Builders Association (JMTBA) updated data for machine tool orders received to the end of July. Interestingly the year on year data still shows orders from North America are off 43.2%, orders from Europe are off 47%, whilst from Asia orders are now up 6.9% from the same period in 2019.

With the future path to economic recovery somewhat dependent on Covid19 containment, we expect equity market performance will be choppy with elevated levels of volatility in the short term. We acknowledge that the level of current fiscal and monetary stimulus creates an economic backdrop that is unprecedented, and highly accommodative. We maintain a cautious disposition given broader equity market valuations, and will look to add to the portfolio in a process consistent manner, if valuation is appropriately compelling.

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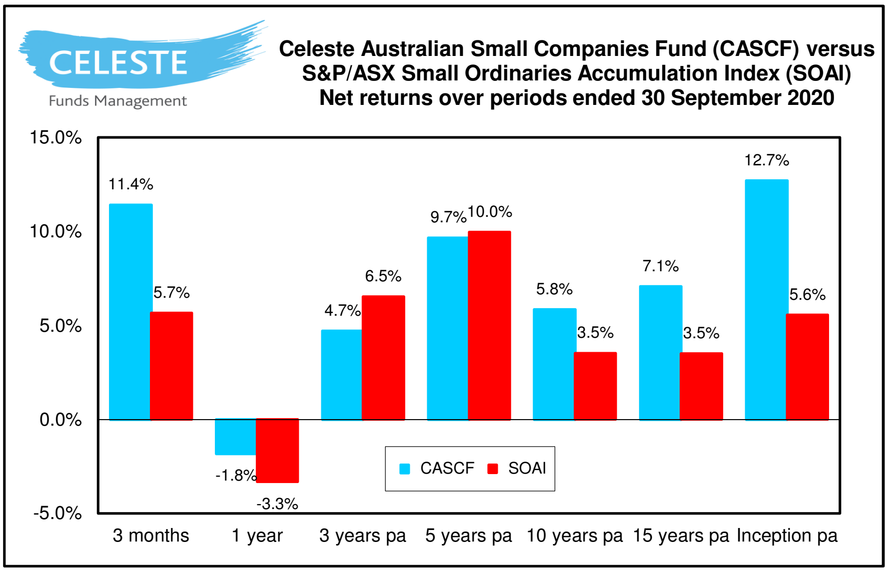
Fund at a Glance

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 30.09.2020	$3.6039
Unit price (application) as at 30.09.2020	$3.6256
Fund Size as at 30.09.2020	$68m
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



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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

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

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