CELESTE

Funds Management

Monthly update: 31 October 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	+0.5	-1.3	+4.6	+8.4	+5.5	+7.1
Performance (relative to Index)	**0.0**	**+1.1**	**0.0**	**-0.2**	**+2.3**	**+3.3**
S&P/ASX Small Ords Acc Index	+0.5	-2.4	+4.6	+8.6	+3.2	+3.8
S&P/ASX Small Inds Acc Index	+0.6	-3.6	+4.9	+7.5	+7.8	+4.8
S&P/ASX Small Res Acc Index	-0.2	+2.6	+3.5	+13.8	-7.5	+0.9

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.

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+2.1	-6.5	+4.8
USA – S&P 500	-2.8	+7.7	+8.3
USA – NASDAQ Composite	-2.3	+31.6	+17.5
Europe – FTSE (UK)	-4.9	-23.1	-9.4
Europe – DAX (Germany)	-9.4	-10.2	-4.4
Asia – Nikkei (Japan)	-0.9	+0.2	+1.4
Asia – Shanghai Composite (China)	+0.2	+10.1	-1.7

Source: IRESS

Portfolio Commentary

The Fund rose 0.5%[1] in October, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index also increasing by 0.5%. Since inception (May 1998) the Fund's return is 12.7% pa[1], net of all fees, against the Index's 5.6% pa.

On the back of a strong first quarter, where EBITA was up 21% on pcp, **Steadfast** (SDF), raised FY21 EPS growth guidance to 10-15% from 5-10%. Despite the broader economy being impacted by the Covid-19 pandemic, SDF's operations have proven resilient: Insurance broking volumes are holding firm while premium rates have continued to increase; Underwriting Agencies have delivered strong organic growth; and expense savings have been delivered across the group.

Bapcor (BAP) reported a strong start to the new financial year, with group revenue up 27% for 1Q21 vs pcp. All areas of the Bapcor group performed well during the period, with the standout being the Retail operations, Autobarn, reporting same store sales growth of 36%. Bapcor's core division, Burson Trade, also witnessed strong growth with same store sales up 7.7% nationally and up 17% excluding Victoria. Although we expect these growth rates to moderate over the medium term, the underlying resilience of the Bapcor business model continues to produce stronger cash flows than the market has anticipated.

WPP AUNZ (WPP) performed strongly in October, with the share price up 20%. During the month, the company provided a trading update for the September quarter. Despite net sales continuing to be impacted by weak economic activity, ongoing cost cutting resulted in EBIT of $24.6m for the quarter, which was $3.3m or 15.4% ahead of the September quarter in 2019. In our opinion much of the cost cutting measures taken by WPP in 2020 are sustainable and will lead to improved levels of profitability as the broader economy recovers from the impact of the Covid-19 pandemic.

Over the month we initiated a small position in **Clover Corporation** (CLV), an IP heavy business that manufacturers DHA (essential fatty acids) added to baby formula and other food related products. The October selloff in CLV was driven by Covid-19 destocking lowering 1h21 earnings expectations. We expect strong volume, revenue and profit growth over the medium term driven by increased demand for DHA from legislation changes in the EU & China, increased UHT production in the US and higher profit margins driven by a new manufacturing facility.

Portfolio Top 5 Holdings

Stock	% of Fund
1 CODAN	4.3
2 ARB CORPORATION	4.1
3 STEADFAST GROUP	3.9
4 BREVILLE GROUP	3.8
5 EAGERS AUTOMOTIVE	3.7

Market Commentary

Equity markets in October were extremely volatile with the Small Ords up more than 5% early in the month post a positive Federal Budget and lower Covid-19 cases in Victoria. By month end most of the early gains had been given up as the US and Europe began to discuss reinstating lockdowns in response to a staggering increase in the number of Covid-19 infections. The Small Ords underperformed the ASX100 by 175bp in October, which was driven by strong performance in both IT and financial stocks.

The Commonwealth Budget delivered significant stimulus (tax cuts, JobMaker, Infrastructure spending & business asset write-offs) with the 20/21 budget balance now a record deficit of $214bn. At 11% of GDP it remains the largest deficit since WWII. If one were to aggregate the additional state based stimulus this would total $343bn or some 17% of GDP. This compares to a global average stimulus of around 5% of GDP. While the RBA left policy settings unchanged in October, they cut on the 3rd November to provide additional monetary policy support for economic growth. AGM season gave little forward guidance given ongoing uncertainty around lockdowns and the roll off of government support.

The US election reached a crescendo despite the President testing positive for Covid-19 and causing disruption to the closing stages of the campaign. Polling would seem to suggest that it is likely a Biden White House will also deliver a Democratic clean sweep of the House of Representatives and the Senate. It will not however deliver the appointment of the 9th Justice to the US Supreme Court with a candidate confirmed on 26th October 2020, 8 days prior to the election. Market concern remains focused on large scale civil unrest post the result on 3rd November. In response to higher levels of uncertainty the US 10 year bond yield rose sharply in October by 17bp to 85bp.

Globally Covid-19 cases skyrocketed with Europe entering a second wave. France, Germany, Italy, Spain and the UK re-entered nationwide partial or full mobility restrictions in an attempt to limit hospitalisations. The US entered a 3rd wave and continues to see no real coordinated response around lockdowns or cohesive mitigation strategies. The speed of infections continues to dampen markets which had been more focused on the medium term delivery of a vaccine and a reversion back to a more normal environment.

With the future path to economic recovery dependent on both Covid19 containment and the discovery of a vaccine, we expect equity markets to display 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, when valuations are appropriately compelling.

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Fund at a Glance

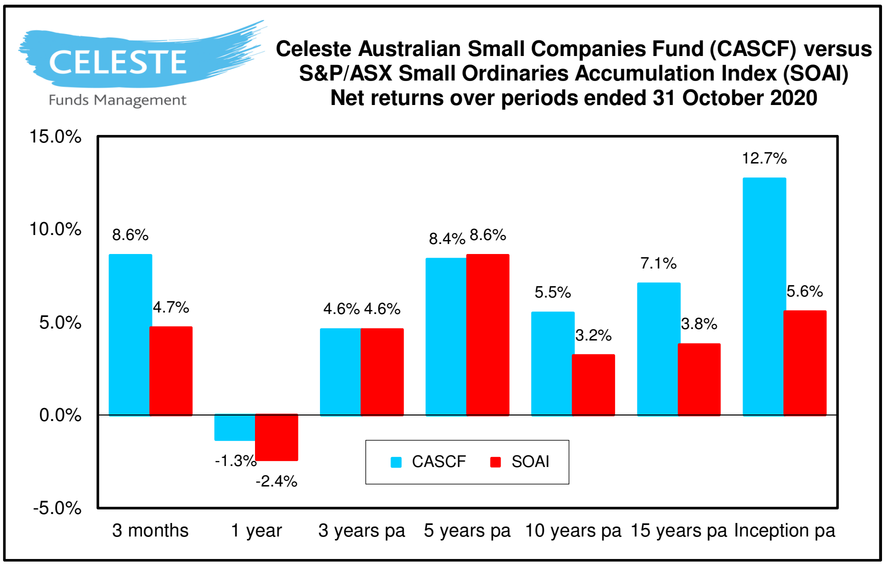
Fund Information

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 31.10.2020	$3.6206
Unit price (application) as at 31.10.2020	$3.6424
Fund Size as at 31.10.2020	$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*

Celeste Funds Management Limited

Level 14, 15 Castlereagh Street, Sydney NSW 2000. GPO Box 4266, Sydney NSW 2001

T 02 9216 1800 **F** 02 9216 1899 **E** contact@celestefunds.com.au

www.celestefunds.com.au

ABN 78 098 628 605