

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	+5.7	+13.3	+8.4	+12.1	+6.6	+7.8
Performance (relative to Index)	+2.9	+4.1	+1.8	+1.6	+2.8	+3.4
S&P/ASX Small Ords Acc Index	+2.8	+9.2	+6.6	+10.5	+3.8	+4.4
S&P/ASX Small Incls Acc Index	+1.2	+5.9	+7.2	+8.7	+8.6	+5.3
S&P/ASX Small Res Acc Index	+8.7	+23.1	+4.3	+20.1	-6.9	+1.7

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Portfolio Commentary

The Fund rose 5.7%¹ in December, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index increasing by 2.8%. Since inception (May 1998) the Fund's return is 13.3% pa¹, net of all fees, against the Index's 6.1% pa.

City Chic Collective (CCX) rose 45.7% in December, after acquiring the e-commerce assets of UK based, plus sized women's fashion retailer, Evans. The Evans business was part of the UK retail conglomerate, Arcadia Group (Evans, Burtons, TopShop, Miss Selfridge, Dorothy Perkins) that went into administration on November 30th 2020. The Evans retail offering is well known in the UK, founded in 1930, and with a total focus on plus size women's apparel and footwear. Evans provides CCX with an excellent entry point into the UK, a plus size women's fashion market believed to be worth some A\$9b pa. In the 12 months to August 2020, Evans had 19m web site visits from its loyal customer base, and generated A\$46m in sales. CCX is paying A\$41m for the Evans assets, leaving CCX with over \$70m in net cash for further acquisition opportunities. Our preliminary assessment of the Evans business is that it has suffered in recent times from the financial health of Arcadia Group, leading to a miserly stock position, and a poor offering in a number of segments (sleepwear, lingerie, athleisure, etc.). We believe Evans will be earnings accretive for CCX from day 1, and that its potential to grow revenues under CCX management is material. We are attracted to CCX, its plus size women's fashion focus, its management team and its scalable global e-commerce offering.

Codan (CDA) performed well in the month, rising 5.4%. In December, CDA provided updated net profit guidance for 1h21, of some \$40m, compared to their October AGM statement, that earnings in the first half would exceed the \$30m earned in 1h20. CDA have noted their Minelab metal detection products have benefited from exceptional demand, across their recreational and artisanal markets. It appears CDA is benefiting from selling a wider range of metal detectors, into a broadening global market, in tandem with better inventory availability to meet demand. The CDA Communication Division enters 2h21 with a \$30m order book, and we anticipate that CDA will end 1h21 with net cash on hand of over \$100m. We remain positively disposed to CDA into the medium term, as the company scales its best of breed intellectual property into a growing global market.

Portfolio Top 5 Holdings

Stock	% of Fund
1 MONADELPHOUS GROUP	3.9
2 CITY CHIC COLLECTIVE	3.8
3 STEADFAST GROUP	3.8
4 LIFESTYLE COMMUNITIES	3.7
5 WPP AUNZ	3.5

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+1.8	+3.6	+7.4
USA – S&P 500	+3.7	+16.3	+12.0
USA – NASDAQ Composite	+5.7	+43.6	+23.1
Europe – FTSE (UK)	+3.1	-14.3	-5.6
Europe – DAX (Germany)	+3.2	+3.5	+2.0
Asia – Nikkei (Japan)	+3.8	+16.0	+6.4
Asia – Shanghai Composite (China)	+2.4	+13.9	+1.6

Source: IRESS

Upon receiving a revised offer from major shareholder and parent entity WPP PLC, **WPP AUNZ** (WPP) shares rose 25.2% over the month. The revised offer of A\$0.70 per share was a material uplift from the initial offer at A\$0.55 and closer to our assessment of intrinsic value. While we believe additional value can be derived from the franking balance, in light of ATO approval, we are supportive of the revised transaction.

Towards the end of December, debt collection services provider **Credit Corp (CCP)** announced the acquisition of a debt ledger book from competitor, Collection House. The acquisition price was approximately \$160m and was funded via cash. As a result of the acquisition, CCP raised the midpoint of FY21 guidance by 15%.

Integrated Research (IRI) had two earnings downgrades in December, driving a decline of 18.4% over the month. The timing of contract revenue for IRI has a large impact on the reported revenue line and as such, Covid-induced delays meant reported revenues will be down around 35% producing a breakeven 1h21 earnings result. While the decline seems large, the reality is that it has been driven by two delayed contract signings. Despite this, we believe that contracted clients remain active, cash flow generation will be significantly stronger than reported earnings and the company remains on track on several new product releases in 2h21. We see the announcement as a timing issue and a market over reaction and used the share price weakness to increase the weight in the portfolio. We expect that the company will assess how it reports revenues in the future and may change the recognition to align more with the software as a service business model that continues as traditional on premise software moves to a hybrid and cloud model.

Market Commentary

The Small Ords rallied +2.8% in December which saw it end the calendar year +9.2%. The Small Ords outperformed the ASX100 in December by +1.7%, over the year by +8.4%, and since the market low on 23 March, by +26.2%. Small Resources (+8.7%) outperformed Small Industrials (+1.2%) in December, driven by a rally in iron ore, lithium and gold miners.

The AUD continued to rally in December, up 4.8% to \$0.7735. Ongoing strong iron ore prices and Covid economic safety continue to see the currency grind higher, placing stocks with offshore revenue and earnings under increased translation risk. News flow was again dominated by Covid cases spiralling out of control across Europe and the US but sentiment wanted to buy the vaccine deployment story and a light at the end of the tunnel.

Fund at a Glance

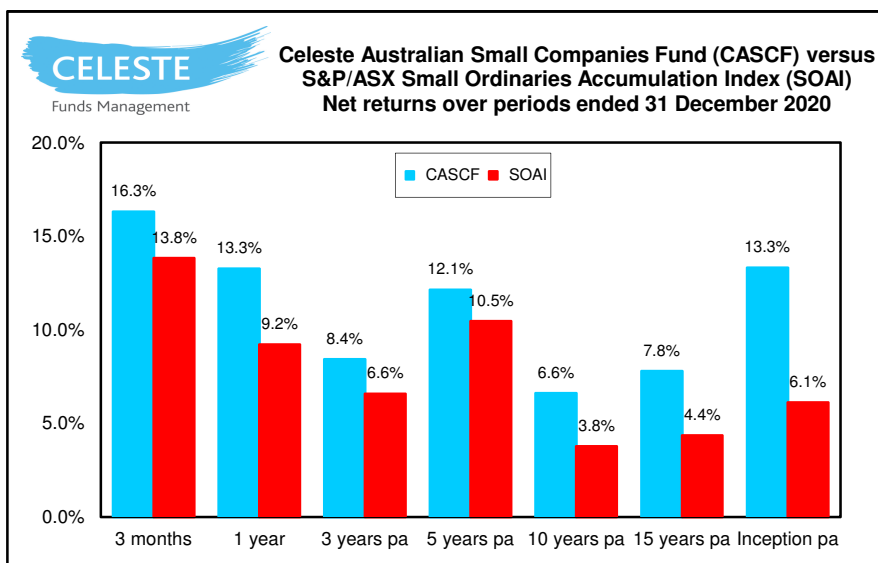
Fund Information

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 31.12.2020	\$4.1917
Unit price (application) as at 31.12.2020	\$4.2169
Fund Size as at 31.12.2020	\$79m
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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