

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	+1.6	+67.1	+8.8	+13.4	+6.3	+7.4
Performance (relative to Index)	+0.8	+15.0	+0.5	+2.7	+2.2	+3.7
S&P/ASX Small Ords Acc Index	+0.8	+52.1	+8.3	+10.7	+4.1	+3.7
S&P/ASX Small Incls Acc Index	+1.7	+49.7	+9.2	+9.6	+8.7	+5.0
S&P/ASX Small Res Acc Index	-3.0	+62.0	+5.0	+15.7	-6.7	+0.0

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Portfolio Commentary

The Fund rose 1.6%¹ in March, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index increasing by 0.8%. Since inception (May 1998) the Fund's return is 13.3% pa¹, net of all fees, against the Index's 6.1% pa.

Clover Corporation (CLV) rose 45.9% over March post reporting 1h21 results. While the 1h21 results were down on the previous period, the commentary surrounding the forward outlook was more positive. Inventory levels across the infant formula market appear to have normalised and forward demand for DHA (Omega-3) now looks likely to grow post Covid19 lockdowns and company closures coming back online. The infant formula licence changes in China on minimum DHA levels remains supportive of ongoing revenue growth at Clover over the next several years.

Hansen Technologies (HSN) rose 32.4% over the month. Existing growth momentum at HSN was boosted by a five year agreement signed with Telefónica Germany in early March, with associated revenues of approximately \$25m. HSN upgraded FY21 guidance on the back of this agreement, anticipating revenues in the range of \$306m - \$316m and an underlying EBITDA margin of 37% - 39%, an uplift of \$21m and 4% respectively on guidance provided at the 1h21 result. This is testament to Hansen's ability to deliver on the Sigma acquisition and compete in the global market, with further contract wins anticipated to follow.

United Malt (UMG) rose 11.5% over March driven by market sentiment around the Covid19 recovery. In both the UK and the US ongoing vaccination programs are re-opening both economies and this should see increased beer demand at pubs, clubs, restaurants and stadiums. Craft beer continues to grow as a percentage of the total beer market and the anticipated decimation of the industry post Covid19 has not occurred. Strong demand from the whiskey distilleries in Scotland should be supportive of volume growth from the greenfield CapEx program in the UK.

Deterra Royalties (DRR) fell 13.9% in March. DRR made no announcements of note, but its share price was buffeted by a weaker iron ore price. Iron ore prices peaked at \$175 US/t. early in March, before falling to \$167 US/t. at month-end. At current production levels of 56.2 m/t pa, a US \$ move of \$10 in the iron ore price, will move the profitability of DRR around \$10m pa. Whilst DRR sentiment will ebb and flow with iron ore pricing, we remain attracted to the expansion of royalty generating, BHP owned and operated, South Flank Mining Area C (MAC). We anticipate that DRR will re-rate in the medium term, as the MAC production profile grows, its cash flow tenure is better understood, and franked dividend payments grow.

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+1.8	+41.1	+10.1
USA – S&P 500	+4.2	+53.7	+14.6
USA – NASDAQ Composite	+0.4	+72.0	+23.3
Europe – FTSE (UK)	+3.6	+18.4	-1.6
Europe – DAX (Germany)	+8.9	+51.1	+7.5
Asia – Nikkei (Japan)	+0.7	+54.2	+10.8
Asia – Shanghai Composite (China)	-1.9	+25.1	+2.8

Source: IRESS

Market Commentary

The Small Ordinaries Index had a volatile March, rallying 7% from its intra-month low on March 5th to its high on March 16th, only to sell off towards month-end, with the Small Ordinaries Accumulation Index closing up only 0.8% for the month.

Domestically, economic data released in March continued to demonstrate the better than expected recovery in the Australian economy: the unemployment rate declined to 5.8% with 70k new jobs created for the month of February; retail sales for February were up 5.2% year on year; and house prices continued to surge, with national dwelling prices rising 2.8% in March, and 8.2% over the past six months.

Covid19 headlines remained quite mixed. Domestically, there was a minor outbreak of locally acquired cases, resulting in Brisbane being locked down for three days. Additionally the rate of vaccination remains exceedingly slow, well behind initial government projections. While the vaccine rollout continues globally, March saw snap lockdowns in Europe and also saw some European countries pause the rollout of the AstraZeneca vaccine citing safety concerns.

US Treasury yields, primarily the 10-year, remained the focus of investors, with the yield on the 10-year finishing the month at 1.74%, up 33.5bps from the end of February. The FOMC March statement noted that monetary policy was likely to remain accommodative, and that rates were likely to remain near zero to 2023. The FOMC maintained the target range for the Federal Funds rate at 0 – 0.25%, suggesting that this will remain the case till maximum employment is achieved and the inflation rate exceeds 2% for some time. Additionally, the Fed put through larger than expected upgrades to GDP and core PCE (personal consumption expenditure) forecasts, which were above 2% for 2021, 2022, and 2023.

Despite the increased cost of debt associated with the move in US Treasury yields, access to credit remains robust, with over US\$150b of new junk bond purchases in the US during the March quarter. We believe this remains a positive for broader equity markets, as it is likely to drive further capital management (share buy-backs) and fuel M&A activity. Given the volatility in markets, driven by the ascent of the yields, Celeste remains focussed on identifying stock-specific opportunities and remains disciplined with respect to valuation.

Portfolio Top 5 Holdings

Stock	% of Fund
1 ARB CORPORATION	3.7
2 STEADFAST GROUP	3.7
3 CODAN	3.6
4 AUTOSPORTS GROUP	3.6
5 CITY CHIC COLLECTIVE	3.4

Fund at a Glance

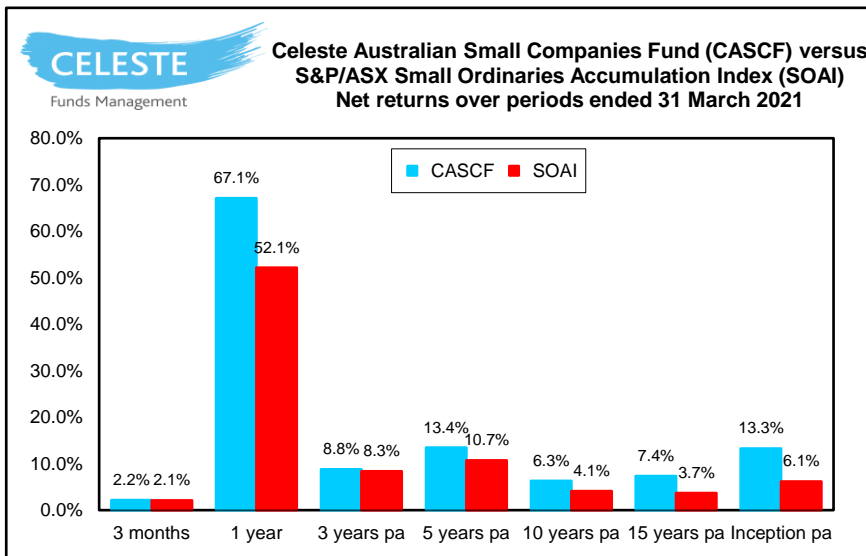
Fund Information

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 31.03.2021	\$4.2836
Unit price (application) as at 31.03.2021	\$4.3094
Fund Size as at 31.03.2021	\$80m
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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