

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	+4.6	+46.1	+11.0	+14.9	+8.1	+8.4
Performance (relative to Index)	+1.5	+12.9	+2.4	+3.7	+2.1	+4.0
S&P/ASX Small Ords Acc Index	+3.1	+33.2	+8.6	+11.2	+6.0	+4.4
S&P/ASX Small Inds Acc Index	+3.9	+33.0	+9.4	+10.8	+10.0	+5.6
S&P/ASX Small Res Acc Index	-0.4	+34.0	+6.0	+13.0	-3.9	+0.8

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Portfolio Commentary

The Fund rose by 4.6%¹ in June, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index increasing by 3.1%. Since inception (May 1998) the Fund's return is 13.6% pa¹, net of all fees, against the Index's 6.4% pa.

Iress (IRE) rose 20.8% over June driven by speculation of a proposed takeover bid from an unknown buyer. While IRE announced it had not been formally approached, it reaffirmed full-year profit guidance and announced a series of new initiatives from a strategic review, overseen by incoming Chairman Roger Sharp. Most significant was the potential divestment of its UK mortgage sales & originations business. Given IRE's unique position in the financial data space, renewed focus on accelerating earnings and driving improving ROIC we remain positively disposed to the stock.

Hansen Technologies (HSN) rose 17.0% in June after a takeover offer from BGH Capital ("BGH") to acquire all ordinary shares for \$6.50 per share. Andrew Hansen (HSN CEO) has agreed to work together exclusively with BGH to roll over his 17% stake as part of a co-operation agreement and he intends to vote in favour of any scheme of arrangement. The Board has determined that progressing the Proposal is in the interests of all shareholders and has formed an Independent Board Committee who will engage an independent expert to make an assessment of the offer.

City Chic (CCX) rose 17.1% in June. Reopening economies have translated to a strong sales in the dress category; CCX's higher value products. The March trading update noted sales on the Avenue US website (CCX's US conservative business) were exceeding pre-acquisition levels. Australia and New Zealand sales strength appears to have continued into 2h21. Evans (CCX's UK acquisition) has been fully integrated ahead of schedule and under budget. CCX has not disclosed any progress on M&A, however we suspect anticipated M&A has contributed to market optimism.

Smartgroup Corporation (SIQ) rose 10.8% over June after it announced it had successfully renewed its contract with its largest customer, the Australian Department of Defence, which SIQ has serviced since 1999. SIQ announced it has renewed or extended the bulk of top 20 contracts that fall due in 2021.

Integrated Research (IRI) had a disappointing month after announcing a weaker than expected trading update late in June. While 2h21 is expected to show a significant improvement in sequential sales growth over 1h21, revenue guidance was below market expectations. The pandemic has slowed customers' ability to sign contracts and when they have, these have tended to be shorter term in nature. Commitment remains difficult with counterparties focused on their own tighter budget conditions and indecision around their own future operating environments. We continue to see strong new product development in unified communications and ongoing upgraded releases of the Prognosis payment software as a medium term positive. While the short term has been difficult, we think the medium term outlook for the stock remains positive given the high IP nature of the products, new product releases and mission critical nature of the software.

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+2.6	+30.2	+10.3
USA – S&P 500	+2.2	+38.6	+16.5
USA – NASDAQ Composite	+5.5	+44.2	+24.5
Europe – FTSE (UK)	+0.2	+14.1	-2.7
Europe – DAX (Germany)	+0.7	+26.2	+8.1
Asia – Nikkei (Japan)	-0.2	+29.2	+8.9
Asia – Shanghai Composite (China)	-0.7	+20.3	+8.0

Source: IRESS

Market Commentary

The winds of change blew in June as the FOMC brought forward rate-hike predictions and inched closer towards taper discussions. The strengthening global recovery, combined with the inflationary pressures building due to supply bottlenecks saw the Fed revise its inflation and economic growth projections for 2021. Median real GDP rose to 7% versus previous projections of 6.2% and the median estimate for headline PCE inflation was revised up by 1.0% to 3.3%. As a result of these changes, the updated Fed funds dot plot showed a majority (13 of 18 members) expecting at least one rate hike before the end of 2023, compared to previous guidance which anticipated the first-rate hike in 2024.

In response to the Fed's hawkish turn, we saw sharp moves across the asset class spectrum. Commodities moved in a mixed fashion, with Gold and Copper falling 7.2% and 7.6%. Iron ore and WTI shrugged off the move in the USD, rising 12.9% and 10.8% respectively. Of note was the steepening yield curve, which saw the US 10-year yield trace lower, closing the month at 1.47% compared to the March highs of 1.75%. As yields traced lower, US equity markets saw a strong resurgence in long-duration growth stocks, with Tech, REITS and Infrastructure names leading considerably.

The return to normalcy continued to be a topic of discussion as the global vaccination rollout gathered pace. Countries such as Israel, the U.K. and the U.S where COVID-19 vaccination rates have been highest showed both severe cases and deaths declining rapidly. Domestically, however, Australia continued to be a distinct laggard. As a consequence, the final weeks of the month saw a nationwide outbreak of the highly contagious delta variant, forcing states and territories to reimpose domestic border restrictions. Despite lockdown angst, the Small Ordinaries Accumulation index continued to climb higher, closing at 3.1% for the month, with Energy as the best performing sector (7.6%), followed by Health Care (7.0%) and IT (5.2%).

As we approach the FY21 reporting season, 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	4.3
2 STEADFAST GROUP	4.0
3 IRESS	3.9
4 BREVILLE GROUP	3.8
5 ECLIPX GROUP	3.7

Fund at a Glance

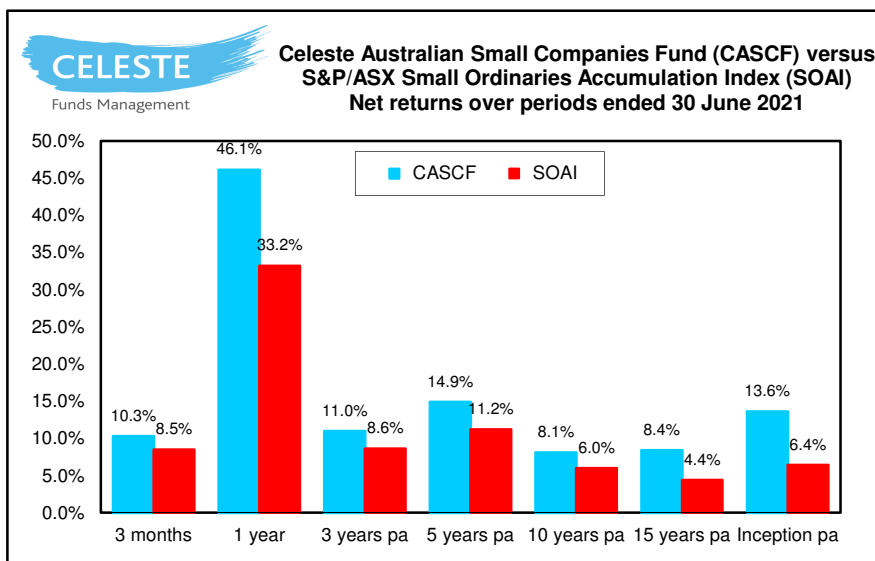
Fund Information

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 30.06.2021 [ex-distribution]	\$4.5869
Unit price (application) as at 30.06.2021 [ex-distribution]	\$4.6145
Fund Size as at 30.06.2021 [ex-distribution]	\$85m
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 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
June 21	14.02	4.3

** CPU / unit price at beginning of period

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