

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	-1.1	+40.3	+11.7	+12.5	+8.1	+8.3
Performance (relative to Index)	-1.8	+8.0	+2.5	+2.9	+2.2	+3.8
S&P/ASX Small Ords Acc Index	+0.7	+32.3	+9.2	+9.6	+5.9	+4.5
S&P/ASX Small Inds Acc Index	-0.9	+31.9	+9.3	+8.9	+10.1	+5.6
S&P/ASX Small Res Acc Index	+7.4	+33.8	+9.5	+12.5	-3.8	+1.2

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Portfolio Commentary

The Fund fell by 1.1%¹ in July, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index increasing by 0.7%. Since inception (May 1998) the Fund's return is 13.5% pa¹, net of all fees, against the Index's 6.5% pa.

Diversified mining services group, and recent portfolio addition, **NRW Holdings** (NWH) rose 16.4% in July. In the month, NWH announced that it had been awarded 2 contracts by RIO commencing in FY22 and increasing the order book by ~\$90m. The RIO contract follows on from the June 2021 awarding of a 5 year agreement (commencing March 2022) with Karara Mining, worth ~\$700m over the contracts life. During July, NWH also updated the market as to the sale of \$81m in plant and equipment to Idemitsu Group, owner of the Boggabri Coal Mine. The asset sale will dilute NWH earnings by less than 2%, and will move pro-forma 30 June 2021 net debt to \$34m, compared to \$115m pre-transaction. We remain positively disposed to NWH given the diminished risk profile of its current order book, and its positive earnings trajectory over the next 24-36 months.

Lifestyle Communities (LIC) rose 8.9% during the month off the back of a positive FY21 profit update. In FY21 LIC settled 255 new homes (up from 253 in FY20) and received deferred management fees from 105 resales (80 in FY20) in what had been a tough sales environment due to Victorian lockdowns and travel restrictions. Additionally, the LIC property portfolio also enjoyed a \$108.6m valuation uplift. LIC continues to execute on its strategy of providing affordable living for over 50s and as a result, continues generating long-term, sustainable cash flows for shareholders.

Iress (IRE) rose 8.8% in July. During the month IRE received, and rejected, an unsolicited offer from private equity group, EQT, valuing the company's shares at between A\$15.30 to A\$15.50, some A\$3b. IRE also held an Investor Strategy Day in July, with management noting that they believed earnings in the company could double, between FY21 and FY25. IRE also announced it would undertake a \$100m on market buyback. We view the recent initiatives from IRE as positive, applaud the greater sensitivity to its capital base, and look forward to management delivering on the FY25 objectives.

Data #3 (DTL) fell 16.8% during July. A FY21 earnings update noted that profit growth had been crimped by global supply chain constraints. DTL noted that the microchip shortage currently being faced around the world, created a larger than usual order backlog as at 30th June 2021. This profit anticipated to be booked in FY22. Despite this headwind, DTL still managed to post solid pre-tax profit growth of 8%, or 17% accounting for the contribution from sales in backorder awaiting delivery. Our investment case for DTL remains unchanged as a mission critical technology enabler. We are attracted to DTL's exposure to high-growth markets, 'blue-chip' customers, and its long standing commercial relationships with tier 1# global tech vendors.

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+1.1	+30.4	+10.2
USA – S&P 500	+2.3	+34.4	+16.0
USA – NASDAQ Composite	+1.2	+36.6	+24.1
Europe – FTSE (UK)	-0.1	+19.2	-3.2
Europe – DAX (Germany)	+0.1	+26.2	+6.7
Asia – Nikkei (Japan)	-5.2	+25.7	+6.6
Asia – Shanghai Composite (China)	-5.4	+2.6	+5.7

Source: IRESS

Market Commentary

The Reserve Bank of Australia (RBA) retained existing policy setting at the July Monetary Policy Meeting. The RBA noted that the economic recovery in Australia had been stronger than expected, balance sheets were generally in good shape, and that the local experience had been one where the economy bounced back quickly once Covid19 outbreaks were contained and restrictions were eased. RBA Governor Lowe stated, "...the situation today is quite different from that in March last year; we are no longer looking over a cliff but transitioning from recovery to expansion...".

In late July, the IMF forecast that the global economy would grow by 6% in 2021, assisted by the US \$1.9 trillion Biden administration stimulus package, and accelerating global vaccine rollouts. Global growth in 2022 was forecast at 4.9%. The IMF noted that its forecast for advanced economies had been revised up, whilst developing economies, and emerging Asia had been marked down for 2021.

The U.S. economy grew at an annualised rate of 6.5% in the June quarter, compared to an already robust 6.3% in the March quarter. The Labour Department reported the creation of 850,000 jobs in June, the highest figure seen in the last 10 months. In June average hourly earnings grew 3.6%, whilst consumer prices jumped 5.4% from a year ago, the highest rate of monthly growth seen in 13 years, and the fourth straight month of sizable consumer price increases. The US unemployment rate for June was 5.9%, compared to a pre pandemic 3.5% low.

In Q2 China's GDP growth was 7.9%, year on year, with retail sales in June up 12%, and industrial production up 8.3%. In China, cargo and container volumes saw robust expansion in the first half of 2021, with China's ports handling 7.64 billion tons of cargo, up 13.2% year on year. Container throughput at Chinese ports rose 15% year on year, with 140m containers handled. The Caixin Purchasing Managers Index for July came in at 50.3%, from 51.3% in June, indicating an economy that is still growing, but at a lower rate than that seen in recent months

We anticipate that the FY21 reporting season will be light on the provision of guidance, and heavy on the emphasis on uncertainty as Covid19 lockdowns bite locally and across Asia. Celeste remains process centric, opportunistic, and will look to adjust our portfolio, should valuations become compelling or stretched. In these challenging times we wish our readers the best of safety, patience and health.

Portfolio Top 5 Holdings

Stock	% of Fund
1 IRESS	4.0
2 ARB CORPORATION	4.0
3 STEADFAST GROUP	3.9
4 BREVILLE GROUP	3.9
5 ECLIPX GROUP	3.6

Fund at a Glance

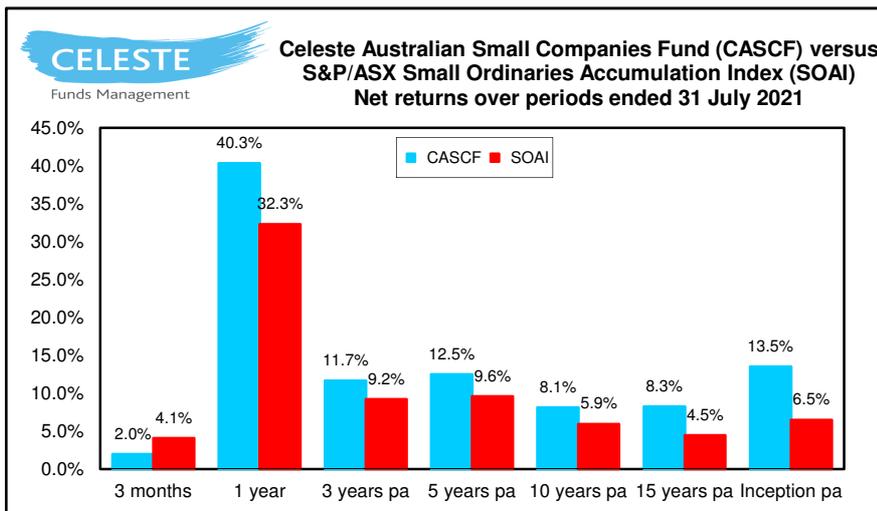
Fund Information

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 31.07.2021	\$4.5380
Unit price (application) as at 31.07.2021	\$4.5653
Fund Size as at 31.07.2021	\$86m
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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