CELESTE
Funds Management

Monthly update: **31 October 2021**

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	+33.1	+16.4	+11.4	+8.7	+7.4
Performance (relative to Index)	**-0.4**	**+2.1**	**+2.9**	**-0.1**	**+1.7**	**+3.5**
S&P/ASX Small Ords Acc Index	+0.9	+31.0	+13.5	+11.5	+7.0	+3.9
S&P/ASX Small Inds Acc Index	-0.6	+27.5	+13.5	+10.9	+10.9	+5.1
S&P/ASX Small Res Acc Index	+6.5	+45.1	+14.0	+13.7	-2.7	+0.4

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.

Portfolio Commentary

The Fund rose by 0.5%[1] in October, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index increasing by 0.9%. Since inception (May 1998) the Fund's return is 13.5% pa[1], net of all fees, against the Index's 6.5% pa.

HT&E (HT1) rose 17.7% in October. During the month, the company announced it has reached an agreement with the Australian Tax Office (ATO) in relation to a $195m tax claim from 2018. The matter settled for $71m, a significant upside surprise for the market. As most of this balance has been already paid via a deposit to the ATO, the residual impost has only had a modest impact on HT1's balance sheet. This settlement allows HT1 ongoing capital flexibility, leaving it well-placed for core business investment and sector consolidation.

During the month, **Nick Scali** (NCK) rallied 29.6% after announcing a positive AGM update and the acquisition of the Plush Sofas retail chain. The acquisition price of $103m represents 4x FY21 EV/EBITDA and will be funded through existing cash and debt. Plush will expand NCK's store footprint to 108 showrooms with the potential for 190 – 200 in total. We believe there are significant synergies from Plush available under NCK's control, predominately from their expertise in logistics and purchasing. In terms of the AGM update, although written sales orders were negatively impacted by lockdowns, margins have been held in line with the previous year despite supply disruptions. The FY22 current order bank remains in line with the previous year's record level.

Data#3 (DTL) rose 18.4% in the month off the back of positive AGM commentary. Supply chain uncertainty and global chip shortages have been the driving force behind the volatility in DTL's last 6 months of trading. AGM comments noted their backlog had stabilised and they provided 1H22 guidance that was an upgrade to consensus expectations. Management also noted that in addition to ongoing growth in cloud software services, their cyber security business has become one of the fastest-growing parts of DTL, generating over $100m in annual revenue.

During October, **Codan** (CDA) fell 21.3% following AGM commentary that disappointed the market. Management noted their existing businesses (excluding recent acquisitions) was trading in-line with the record profitability experienced in 1H21. Although this was a very strong result for the business, it was below market expectations of accelerating growth. CDA traded lower as both earnings estimates were trimmed and the trading multiple derated. We believe Codan's long-term growth prospects remain positive, with the Minelab metal detection business expanding geographically into South America and Asia, and new product releases underpinning sales and earnings over the medium term.

Infomedia (IFM) fell 21.4% in October post the surprise resignation of its CEO, Jonathan Rubinsztein. This followed the departure of former CFO, Richard Leon only two months earlier. While the departures appear to be unrelated, they coincide with underperformance of the key US operation and leave a management void in the business. IFM continues to need strong sales execution in the auto space post the covid slowdown while concurrently integrating several data-based acquisitions. The appointment of a new CEO will take some time and we think there is risk until this occurs. The company has committed to a stretch target of $200m revenue by FY25 and this requires both sales execution and acquisitions. We think the risk from the acquisition side has only increased and as a result we have exited the position.

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+0.1	+29.0	+12.9
USA – S&P 500	+6.9	+40.8	+19.3
USA – NASDAQ Composite	+7.3	+42.0	+28.5
Europe – FTSE (UK)	+2.1	+29.8	+0.5
Europe – DAX (Germany)	+2.8	+35.8	+11.1
Asia – Nikkei (Japan)	-1.9	+25.7	+9.6
Asia – Shanghai Composite (China)	-0.6	+10.0	+10.9

Source: IRESS

Market Commentary

Despite increasing volatility in global and domestic rates, the Small Ords rose +0.9% versus a flat ASX100. Globally, strong markets returned as fears of a slowing global economy were offset by solid US corporate earnings. The rebound rally in the US, on the back of the September selloff, pushed the market to all-time highs.

Inflation continues to rise and remains a core issue in economies around the world. Higher prices are persisting due to buoyant global demand and inadequate supply. Supply chain impacts have been a result of disrupted logistics, part availability, labour shortages and an energy squeeze. In response, the Fed and other global central banks have shifted to a hawkish view of tapering QE "earlier" and potentially introducing earlier rate hikes.

Despite this, the RBA reiterated its dovish stance of no rate hikes until well into 2024, and reaffirmed a 0.10% cash rate. In a move distancing itself from its global counterparts, the RBA insists the Australia situation is different and the economy is likely to resist the inflationary and wage pressures faced by other economies. The third quarter CPI reached its highest level since 2015 at 2.1% yoy. Markets had been challenging the RBA's forward guidance on the 3 year yield curve of 10bp and this culminated in sharply rising rates in October. At the RBA November meeting, the RBA abandoned this yield curve control which implies that rates may increase sooner than the stated 2024 target.

The resilience of the local labour market and rapid reopening of key Australian economies is resulting in a record recovery in the economy. First quarter updates and AGM announcements during October have translated into a broad increase in FY22 earnings. The Chinese economy continues to weaken driven by lower manufacturing, impacted by supply shock and power outages. The Evergrande situation along with announcement of potential property tax in China had further weighed on the property market and commodity prices.

Portfolio Top 5 Holdings

Stock	% of Fund
1 STEADFAST GROUP	4.1
2 ARB CORPORATION	3.7
3 EVENT HOSPITALITY & ENTERTAINMENT	3.5
4 BREVILLE GROUP	3.5
5 EAGERS AUTOMOTIVE	3.3

CELESTE
Funds Management

Monthly update: 31 October 2021

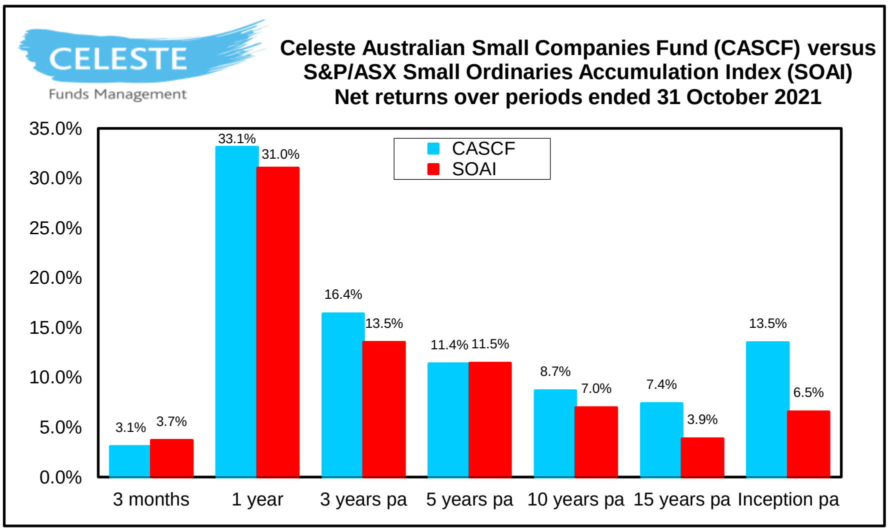
Fund at a Glance

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 31.10.2021	$4.6775
Unit price (application) as at 31.10.2021	$4.7056
Fund Size as at 31.10.2021	$91m
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



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.

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*

Celeste Funds Management Limited ABN 78 098 628 605 (AFSL 222 445) (Celeste) is authorised to provide financial product services to wholesale clients. This report is intended to provide only general securities information and is not to be construed as financial product advice, solicitation of an offer to buy or sell any financial product or a recommendation to buy, sell or hold a particular financial product. Accordingly, reliance should not be placed on this report as the basis for making an investment, financial or other decision. The information in this report does not take into account your investment objectives, financial situation or particular needs. Whilst every effort is taken to ensure the information in this report is accurate, its accuracy, reliability or completeness is not guaranteed.

This report has been prepared by Celeste, the investment manager of the Celeste Australian Small Companies Fund (Fund), and issued by The Trust Company (RE Services) Limited ABN 45 003 278 831 (AFSL 235 150) (Perpetual) as the Responsible Entity of and issuer of units in the Fund. Retail clients can invest in units in the Fund issued by Perpetual. Perpetual is authorised to deal with retail clients and a product disclosure statement (PDS) issued by Perpetual is available from Celeste Funds Management Limited (02) 9216 1800 or at www.celestefunds.com.au. You should obtain and consider the PDS before deciding whether to acquire, or continue to hold, an interest in the Fund. Initial applications for units in the Fund can only be made pursuant to the application form attached to the PDS. Before making any decision to make or hold any investment in the Fund you should consider the PDS in full as well as the Fund's Target Market Determination (available at www.celestefunds.com.au) which outlines the likely objectives, financial situation and needs of customers the Fund has been designed for. You should consider your own investment objectives, financial situation and particular needs before acting upon any information provided and consider seeking advice from a financial advisor if necessary. Neither Celeste nor any company in the Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries), nor their officers, employees or agents, in any way guarantee the performance of the Fund or the return of the capital value of your investment.

[1] 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. You should not base an investment decision simply on past performance. Past performance is not an indicator of future performance. Returns are not guaranteed and so the value of an investment may rise or fall.

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