

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	+19.6	+16.7	+11.4	+8.9	+7.0
Performance (relative to Index)	-1.3	+1.2	+3.2	-0.3	+1.5	+3.4
S&P/ASX Small Ords Acc Index	-0.3	+18.4	+13.5	+11.7	+7.4	+3.6
S&P/ASX Small Inds Acc Index	-1.4	+14.1	+12.6	+10.8	+11.1	+4.8
S&P/ASX Small Res Acc Index	+3.6	+35.6	+17.0	+14.9	-1.9	+0.3

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Portfolio Commentary

The Fund fell by 1.6% in November, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index decreasing by 0.3%. Since inception (May 1998) the Fund's return is 13.4% pa, net of all fees, against the Index's 6.5% pa.

Judo Capital Holdings (JDO) popped 9.5% on the back of its initial public offering on 1 November, making it the first Australian bank float in 25 years. Acquiring its ADI licence in April 2019, JDO focuses on relationship banking with the resilient yet "underbanked" SME sector. It has a goal to significantly scale up its loan book from \$3.5b as of 30 June 2021 to \$15.20b in the "medium term". JDO recently received an earlier than expected BBB- rating from credit rating agency S&P granting it access to cheaper deposit funding. JDO has strong customer relationships, fast turnaround times which underpin high satisfaction levels. We see these as sustainable competitive advantages which are likely to underpin JDO's plans to achieve a net interest margin of +3%. We believe that JDO's experienced management team will be able to execute on its expansion plan and continue to grow its loan book.

Steadfast Group (SDF) rose 5.8% during November post an earnings update at the AGM (late October) that the Coverforce acquisition was being integrated as per expectations and that the anticipated synergies were materialising. During November, SDF refinanced all its debt facilities and increased its debt capacity by \$200m – reducing its refinancing risk and giving it further dry powder to execute on its "Trapped Capital Project". This project remains a key part of the growth strategy for SDF as they build equity positions across their network brokers and ultimately facilitate generational change across the management. In addition, SDF announced an investment into a large valuation and consultancy firm, Robertson & Robertson which will form part of a newly established division at SDF. The investment will expand the tools available on the SDF Network to all brokers to assist them to help their clients better understand asset prices and determine appropriate levels of insurance coverage.

Hansen Technologies (HSN) fell 12.0% after an AGM that highlighted ongoing customer wins and strong cash flow generation from very high client retention levels. Company management reiterated the FY25 financial target of \$500m of revenue and EBITDA margin exceeding 30%. This will be driven by inorganic opportunities and may include the addition of a further vertical outside energy, communications, water and PayTV.

Bapcor (BAP) fell 9.8% in November on the news that CEO Daryl Abotomey would retire effective February 2022 post discussions with the Board on succession. The stock fell in early December on a further announcement that the CEO would retire immediately as the relationship between him, and the Board had become untenable. As an aside, the previously announced appointment of Mark Powell to Acting CEO has now been reversed with the CFO, Noel Meehan stepping into the role until a permanent CEO can be found. Companies with significant levels of uncertainty in both executive and Board roles typically spend a significant amount of time dealing with internal issues and run the risk they drop the ball in both client service and revenue generation. We also note that the Melbourne DC integration remains key for BAP and are concerned that this might see some distraction and cost overruns as a consequence of this chaos. Over the early December period we exited our entire BAP position.

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	-0.3	+16.7	+13.6
USA – S&P 500	-0.8	+26.1	+18.3
USA – NASDAQ Composite	+0.3	+27.4	+28.5
Europe – FTSE (UK)	-2.5	+12.7	+0.4
Europe – DAX (Germany)	-3.8	+13.6	+10.3
Asia – Nikkei (Japan)	-3.7	+5.3	+7.6
Asia – Shanghai Composite (China)	+0.5	+5.1	+11.3

Source: IRESS

ARB Corporation (ARB) rose 10.0% over the month of November off the back of its AGM update and broker upgrades in subsequent weeks. Despite vehicle supply interruptions and inflationary pressures, year-to-date trading was noted as strong with sales and profit continuing to grow. The AGM update, in addition to Q3 reporting from US peers, highlighted continued strength in demand for outdoor recreational expenditure, helping allay concerns around a post-pandemic sales dip. Looking ahead, we believe the current backlog should mitigate any revenue impact over 1H22. Longer-term, we remain positively disposed. ARB has a track record of successful execution; it is a customer-centric brand with pricing power and continues to benefit from a strong new product line-up and supportive industry backdrop.

Market Commentary

The Small Ords fell 0.3% in the month, against a 0.6% fall in the ASX100, with strength in IT and Materials, and weakness in the Energy, Industrials and Consumer Discretionary sectors. Global markets remain volatile, with mounting concerns around Omicron and inflation.

As the world inadvertently learns the entire Greek alphabet, news of the Omicron variant underpinned market weakness towards month-end. Strong Australian economic data released during the month indicates a bounce back may be quicker than expected, however, any recovery is likely to be muted by fears of new lockdowns and border restrictions. This would translate to continued supply chain disruption and added pressure to an already scarce labour market. As expected, travel names traded weaker on the back of the news. Volatility is set to continue until there is clarity on Omicron's contagiousness, severity, and response to vaccines. These factors will be vital in determining the outlook for the coming months.

Omicron concerns were coupled with hawkish comments from Fed Chair Powell, the Chairman retiring the use of the word 'transitory' to describe inflation. The US reported October CPI of +6.2%, while bonds rallied sharply. US 10 year yields fell 11bps to 1.44% and Australian 10 year yields fell 40bps from 2.09% to 1.69%. However, the disconnect between the RBA and bond markets remains evident, with the RBA exiting yield curve control during the month, and insisting interest rates will be anchored to near-zero until 2024.

Despite the sharp decline in oil prices on the news of the variant, OPEC+ maintains its plan to incrementally raise oil output, unwinding the deep production cuts declared in 2020. Iron ore prices continued to fall during the month as Chinese demand for steel remained weak, contributing to the fall in the AUD (0.71 AUDUSD). The lithium market remains hot, with prices continuing to climb during the month, and lithium stocks underpinning the strength of the XSO's materials sector.

Portfolio Top 5 Holdings

Stock	% of Fund
1 ARB CORPORATION	4.0
2 BREVILLE GROUP	3.6
3 IRESS	3.4
4 EAGERS AUTOMOTIVE	3.3
5 DETERRA ROYALTIES	3.3

Fund at a Glance

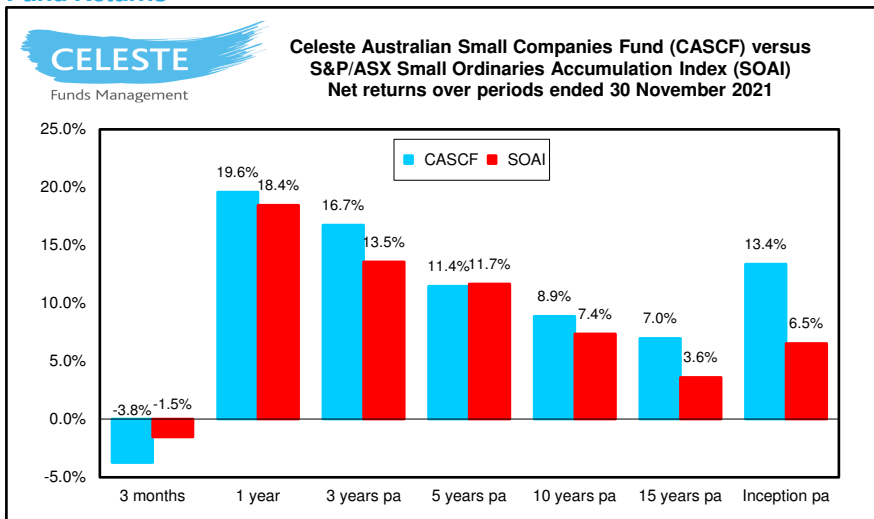
Fund Information

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 30.11.2021	\$4.6023
Unit price (application) as at 30.11.2021	\$4.6300
Fund Size as at 30.11.2021	\$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



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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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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