

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	+1.2	-16.0	+5.9	+6.3	+6.4	+4.6
Performance (relative to Index)	+0.6	-1.3	+1.8	-0.6	+0.1	+3.1
S&P/ASX Small Ords Acc Index	+0.6	-14.7	+4.1	+6.9	+6.3	+1.5
S&P/ASX Small Inds Acc Index	-1.0	-20.0	+1.0	+5.1	+7.9	+2.5
S&P/ASX Small Res Acc Index	+5.9	+6.0	+16.0	+13.1	+1.6	-1.2

Past performance is not indicative of future returns.

Portfolio Commentary

The Fund rose 1.2%¹ (net of fees) in August, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index increasing by 0.6% over the month. Since inception (May 1998) the Fund's return is 12.3%¹ pa, net of all fees, against the Index's 5.7% pa.

NRW Holdings (NWH) rose 26.0% this month after delivering a strong FY22 result. The company delivered earnings ahead of guidance despite sector-wide shortages in labour and equipment and a broader backdrop of cost inflation. In addition, net debt levels have been significantly reduced via strong operating cash flows during the year, and the divestment of excess plant & equipment. The company also flagged a robust outlook, noting a near-term tender pipeline of \$19.8bn, compared to \$14.5bn this time last year. NWH in the month approached MLD with an opportunistic non-binding acquisition proposal to acquire underutilised assets. Post a higher counter offer from Theiss, NWH have withdrawn their offer.

PSC Insurance (PSI) rallied 18.2% during August, off the back of a FY22 result that exceeded both market expectations and previous company guidance. Underlying EBITDA grew 30% over the year to \$94m, driven by strong organic growth and supplemented by the ongoing M&A strategy. Management provided some further clarity on their medium-term target which includes growing EBITDA to \$130m-140m by FY25. Pleasingly the company is fully funded to achieve this goal and as such remains an attractive investment capable of generating growing, defensive and long-term cash flows.

Nick Scali (NCK) rose 14.5% over the month of August after delivering a strong result in what was deemed a challenging retail environment. While the headline result was in-line with market expectations, written sales orders of \$473.8m (+18.0% vs pcp) and a record order bank of \$185.3m (+67.0%) was a positive surprise to the market that implied consumer spending was stronger than expected. July trading supported a continuation of these trends with written orders tracking +60.0% ahead of pre-COVID levels. Looking ahead, while it is expected the macro-environment will deteriorate from here, we believe this is largely reflected in market expectations and remain positively disposed to the stock.

Aussie Broadband (ABB) fell 23.4% during the month, despite a strong FY22 result. ABB delivered earnings ahead of guidance and grew retail broadband market share by nearly 2%. ABB now makes up 6.46% of the NBN market and was the fastest growing NBN service provider this quarter. With the residential market now largely penetrated, the key to growth is capturing margin-rich business customers. ABB is well-equipped in this space having expanded its business capabilities with the acquisition of Over the Wire, allowing ABB to provide a one-stop-shop for business customers.

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.

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+1.3	-3.9	+6.2
USA – S&P 500	-4.2	-12.6	+10.6
USA – NASDAQ Composite	-4.6	-22.6	+14.1
Europe – FTSE (UK)	-1.9	+2.3	+0.4
Europe – DAX (Germany)	-4.8	-18.9	+2.4
Asia – Nikkei (Japan)	+1.0	0.0	+10.7
Asia – Shanghai Composite (China)	-1.6	-9.6	+3.5

Source: IRESS

Market Commentary

Global equity markets continued their volatile path in August, as the gradual grind higher in the first half of the month was unwound by hawkish commentary out of the Jackson Hole symposium. The S&P500 fell -4.2% while the FTSE fell -1.9%. Australian equities outperformed as the Small Ordinaries Accum. Index rose 0.6% and the ASX100 Accum. Index finished 1.3% higher. After rising 10.2% in July, the Small Resources Accum. Index (XSRAI) enjoyed another strong month, finishing up 5.6% despite volatile commodity prices. The resources sector itself was a mixed bag, as ongoing strength in the lithium and battery metals names was offset by junior gold miners experienced margin pressure from a falling gold price and rising cost pressures. The Small Industrials Accum. Index (XSIAI) fell -1.3% despite a reporting season that was largely better than expected with earnings beats outnumbered earnings misses.

Interest rates and inflation were the common theme throughout reporting season, particularly labour shortages and staff absenteeism driving employee costs. A recovery in migration and falling Covid infection rates should help resolve labour pressures, but as recent aggressive rate hikes flow through the economy, the potential for a hard landing remains a concern. While expectations of consumer sentiment had deteriorated in the weeks leading up to reporting season, trading updates and outlook commentary from the consumer discretionary names turned out to be better than feared.. Lenders were weaker given worries surrounding loan losses in a hard landing while insurers and insurance brokers outperformed, having posted strong results. Even though the economic outlook is uncertain, corporate activity was elevated with Tassal Group, Maca Ltd, Nearmap and Pandal all receiving takeover offers in August.

Internationally, investors were focused on the Jackson Hole symposium. Markets sold off following Chairman Powell's short but sharp speech reiterating the Fed's dedication to tackling inflation. US treasury yields rebounded as the market was expecting a more dovish pivot.. China continues to cut rates in a bid to stimulate an economy that has been severely impacted by Covid lockdowns and property debt issues. In Europe, the energy crisis intensified as rising electricity bills contributed to higher inflation. Accordingly, the Bank of England raised interest rates to 1.75%, predicting inflation may reach 13% and that the country is headed for a recession later this year. We anticipate markets will continue to be volatile in the near-term, creating opportunities to generate process consistent alpha.

Portfolio Top 5 Holdings

Stock	% of Fund
1 OMNI BRIDGEWAY	5.1
2 NRW HOLDINGS	3.8
3 DATA #3	3.6
4 PSC INSURANCE GROUP	3.5
5 IPH	3.5

Fund at a Glance

Fund Information

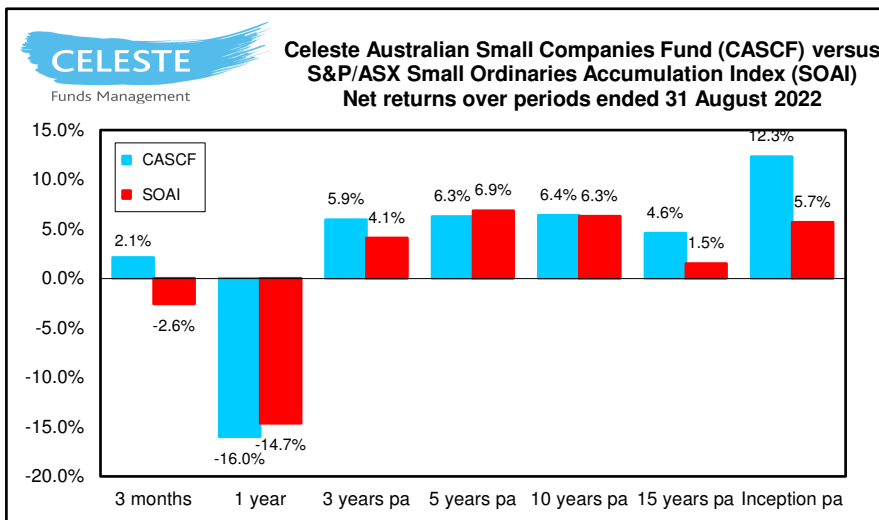
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Exceed Small Ordinaries Accumulation Index over rolling 5 year periods
Unit price (redemption) as at 31.08.2022	\$3.7421
Unit price (application) as at 31.08.2022	\$3.7646
Fund Size as at 31.08.2022	\$81m
Minimum investment	\$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.

This fund is appropriate for investors with “High” risk and return profiles. A suitable investor for this fund is prepared to accept high risk in the pursuit of capital growth with a medium to long investment timeframe. Investors should refer to the fund’s Target Market Determination (<https://documents.feprecisionplus.com/tmd/PCT/TMD/N8Z8-FAM0101AU.pdf>) for further information.

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 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
June 22	25.05	5.5

** 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.

Celeste Funds Management Limited

Level 9, 50 Pitt Street, Sydney NSW 2000. GPO Box 4266, Sydney NSW 2001

T 02 9216 1800 E contact@celestefunds.com.au

www.celestefunds.com.au