

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	+3.5	-19.7	+1.8	+4.1	+5.3	+3.6
Performance (relative to Index)	-3.0	-1.4	+0.3	-0.1	+0.2	+3.1
S&P/ASX Small Ords Acc Index	+6.5	-18.3	+1.5	+4.2	+5.1	+0.5
S&P/ASX Small Inds Acc Index	+7.4	-21.7	-1.3	+2.9	+7.1	+1.9
S&P/ASX Small Res Acc Index	+3.8	-5.6	+12.0	+8.7	-0.7	-3.3

Past performance is not indicative of future returns.

Portfolio Commentary

The Fund rose 3.5%¹ (net of fees) in October, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index increasing by 6.5% over the month. Since inception (May 1998) the Fund's return is 11.9%¹ pa, net of all fees, against the Index's 5.4% pa.

During the month, **Omni Bridgeway (OBL)** rallied 19.6% as the September quarterly report confirmed ongoing consistent performance. Income conversion for the quarter was lower than expected as a Fund 5 investment was realised earlier than the previously forecast FY27, resulting in an internal rate of return (IRR) of 152%. Estimated portfolio value (EPV) in FY23 experienced normal slippage to outer years although pleasingly total EPV increased by 4.4% on the June quarter. Commitments of \$69m and indicative investment opportunities of \$214m imply the business is on track to meet FY23 commitments guidance.

Lifestyle Communities (LIC) rose 15.7% in October post the announcement that the company had secured additional debt capacity. LIC increased its facility size from \$375m to \$525m, secured as a \$150m, 5-year tranche. The total facility now has staged expiries over mid 2025 to late 2027. The debt is earmarked for ongoing land acquisitions and development costs as the business scales up to enable the sale of 2 communities per annum to move towards 3 over the next few years.

EVT Limited (EVT) announced at the AGM that 1q22 performance had been strong with group earnings of \$70.6m exceeding the previous comparable quarter of a loss of \$15.5m and even exceeding \$53.3m earned in 1q19, a pre covid comparable. Strong cost control driven by the covid lockdown has now enabled revenue growth to translate to significant earnings leverage. EVT also announced they have settled their dispute with Vue over the failed 2020 takeover of the EVT German cinema assets. Vue, currently in receivership, paid \$11.6m to expediate bondholder assumption of ownership. At the meeting EVT changed its name and branding to better reflect the spread of businesses across the company beyond merely cinemas hoping to highlight both Hotels and Resort/Holiday assets.

NIB Holdings (NHF) fell 10.2% over the month. The company raised \$150m as part of its previously flagged expansion into NDIS Plan Management, with the acquisition of Maple Plan becoming the first of many. Maple Plan is the 7th largest plan manager, with 7000 participants. NHF is looking at other possible acquisitions to achieve their target of 50,000 participants by 2025. Additionally, strong student visa and work visa grants for the quarter (up 47% and 31% respectively) bodes well for NHF's international business, while the cyber security breach at competitor Medibank Private might see NHF show above system member growth.

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	+5.7	-3.5	+5.2
USA – S&P 500	+8.0	-15.9	+8.4
USA – NASDAQ Composite	+3.9	-29.1	+9.8
Europe – FTSE (UK)	+2.9	-2.0	-0.7
Europe – DAX (Germany)	+9.4	-15.5	+1.0
Asia – Nikkei (Japan)	+6.4	-4.5	+6.4
Asia – Shanghai Composite (China)	-4.3	-18.4	-0.4

Source: IRESS

Market Commentary

October continued what has been a very volatile calendar year with the Small Ordinaries Accumulation Index (XSOAI) rising over the month by 6.5%. This heightened volatility has been a common characteristic of global markets over the year as sharp increases in interest rates have left markets pricing periods where interest rates have plateaued and will fall, to then price a 180-degree different view where rates move higher. In essence, weight of money trying to back the right side of the interest rate trade is moving markets and this is increasingly looking like a random walk decision making tree based on the last published data point. In calendar year 2022 the S&P500 has had 5 months where the index has moved more than 7.5%. The last time this occurred was 1937.

The RBA raised rates 25bp in October (and followed with a further 25bp increase on Melbourne Cup Day on 1 November). The October reduction in the rate of increase (25bp versus the 50bp increase each month over the prior 4 months) gave the market confidence that this was the start of the pivot point and rates would begin the plateau and decline cycle. Pundits pointed to falling shipping costs, rent cost rolling over, wage growth seemingly moderating as the basis for the decision to slow the increase.

Interestingly, global container shipping rates appear to be declining and are supportive of the thesis that there will be deflation in supply chain costs. Current spot rates are now down between 56% and 77% from their covid peaks across all shipping routes (excluding the transatlantic route). The Shanghai Containerized Freight Index (SCFI) at a global level has seen average prices fall from \$5,110 per container to \$1,698, a decline of 67%. New container ship delivery in CY23 & CY24 is set to be 10% and 11% of the current fleet which sits significantly above the c4% over the last decade. Supply should continue to drive prices lower with the estimated breakeven of the major global shipping lines around \$1,000 per container.

AGM season in Australia began in October and will roll into November. With a paucity of available data points, it has become a proxy third reporting season. Markets are keen to digest the earnings outlook and, in most cases, the 1q22 actual. Evidence to date would seem to suggest that the interest rate increases have not dulled the consumers enthusiasm for retail therapy. Arguments abound interest rate impacts seem tethered to fixed rate home loan roll off in 3qCY23. We continue to navigate the volatility in equity markets, remaining process consistent and buying real companies with long term cash flow and valuation appeal.

Portfolio Top 5 Holdings

Stock	% of Fund
1 OMNI BRIDGEWAY	5.4
2 NRW HOLDINGS	4.3
3 DATA#3	4.0
4 IPH	3.9
5 EVT	3.7

Fund at a Glance

Fund Information

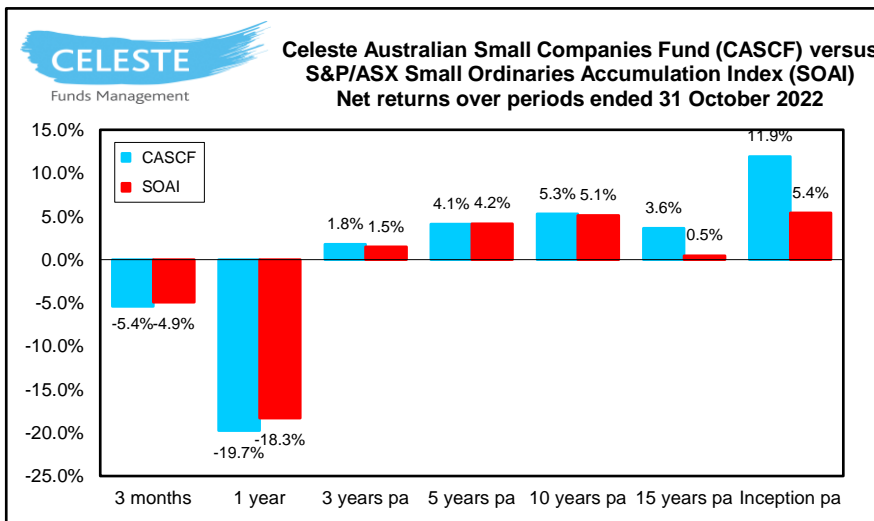
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Exceed Small Ordinaries Accumulation Index over rolling 5 year periods
Unit price (redemption) as at 31.10.2022	\$3.4973
Unit price (application) as at 31.10.2022	\$3.5184
Fund Size as at 31.10.2022	\$74m
Minimum investment	\$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



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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

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