

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	-2.8	-19.6	+1.4	+3.3	+4.9	+3.7
Performance (relative to Index)	+0.9	-1.2	+0.0	+0.4	-0.2	+2.8
S&P/ASX Small Ords Acc Index	-3.7	-18.4	+1.4	+2.9	+5.1	+0.9
S&P/ASX Small Inds Acc Index	-3.4	-21.8	-2.0	+1.9	+6.6	+2.4
S&P/ASX Small Res Acc Index	-4.7	-6.4	+14.2	+6.5	+0.6	-2.7

Past performance is not indicative of future returns.

Portfolio Commentary

The Fund declined 2.8%¹ (net of fees) in December, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index decreasing by 3.7% over the month. Since inception (May 1998) the Fund's return is 11.8%¹ p.a. (net of all fees), against the Index's 5.4% p.a.

Smartgroup Corporation (SIQ) rose 6.5% in December, recovering from oversold levels in November post a weaker than expected earnings update. The company noted that while they had experienced positive momentum with respect to novated leasing leads, a continued lack of new car supply into Australia saw further delays in settlement volumes. Regardless of the level of earnings, SIQ is a high cash conversion business, which it returns to shareholders via dividends. As such, the current share price is underwritten by an attractive dividend yield in our view.

NIB Holdings (NHF) rose 6.2% for the month. After completing a \$158m equity raise in November to expand into the National Disability Insurance Scheme (NDIS) industry by acquiring plan manager Maple Plan, the market refocused its attention on the underlying strength of the Australian Residents Health Insurance division, with earnings growth across the group to be enhanced by a continued recovery in its Travel Insurance and International Inbound Health Insurance divisions.

Thermal management solutions provider **PWR Holdings (PWH)** had a weak month, falling 8.0% following a very strong rally off the back of the FY22 result. While there were no new trading updates over the period, the stock was supported by a strong FY22 result that saw NPAT of \$20.8m (+23.9% vs pcp), 6.5% ahead of consensus expectations. Although we are mindful of valuation, we believe the committed orderbook, a strong balance sheet and the growth optionality in emerging technologies will underwrite earnings momentum over the near term.

Australian Clinical Labs (ACL) declined 12.1% for the month. ACL's share price has been impacted by two factors. The first is revenue generated from COVID testing. With Australia well into the endemic phase of COVID-19, the number of COVID tests and Government Funding for those tests has declined precipitously. This should not have come as a surprise, but consensus estimates have been slow to come down. The second issue relates to the recovery in business-as-usual (BAU) pathology testing. While testing rates have recovered from pandemic lows, the recovery has been slower than expected across the industry. In part this has been driven by increased telehealth consultations and in part by staff/patient absenteeism. As the endemic phase of COVID-19 annualises, we expect BAU testing to recover to well above pre-COVID levels.

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	-3.3	-3.0	+5.8
USA – S&P 500	-5.9	-19.4	+5.9
USA – NASDAQ Composite	-8.7	-33.1	+5.3
Europe – FTSE (UK)	-1.6	+0.9	-0.4
Europe – DAX (Germany)	-3.3	-12.3	+1.7
Asia – Nikkei (Japan)	-6.7	-9.4	+3.3
Asia – Shanghai Composite (China)	-2.0	-15.1	+0.4

Source: IRESS

Market Commentary

December rounded out a poor year for Australian Small Cap stocks. The Small Ordinaries Accumulation Index fell 3.7% for the month and 18.4% for the year. For the month, the S&P500 declined 5.9%, while the FTSE 100 was down 1.6%. Commodities were positive however, with Gold up 3.8%, Iron Ore up 14.1% and Copper up 2.3%. Coal was up 1.8% capping off another strong year up 138%.

On the macroeconomic front, the market remains focused on inflation and Central Bank policy response. While the consensus view appears to accept that inflation has peaked, debate continues around whether inflation will remain elevated relative to the 2-3% range preferred by most Central Banks, causing interest rates to remain higher for longer or whether interest rate moves to date will result in sufficiently weaker economic activity and lead to Central Banks cutting interest rates at some point in 2023. Evidence of weaker economic activity to date has been patchy. In the US, the housing and manufacturing industries have declined, and various lead economic indicators are negative, but employment has remained strong and as a result the consumer has proven to be robust. Importantly, markers of future inflation, such as money supply (M2), global supply chains, manufacturer delivery times and supplier input prices have all returned to pre-Covid levels. In a domestic context, the market is concerned with the looming roll-over of ultra-low fixed interest rate mortgages entered into 18-24 months ago. Given the significant increase in mortgage rates since that time, increased interest payments from the middle of the year is expected to see the Australian consumer rein in spending and house prices fall further.

It is important to remember that markets are forward-looking. The potential for a global recession in 2023 is arguably the most predicted recession in modern history and has to some extent been reflected in weaker equity markets over the course of 2022. While we expect slower economic activity to impact corporate earnings by more than current consensus estimates, this will create mis-priced opportunities to build new or add to positions in companies with resilient business models, conservative financials and experienced Board and management teams. At some point in 2023, we expect market participants to focus on the potential for economic recovery, which should eventually buoy markets.

Portfolio Top 5 Holdings

Stock	% of Fund
1 NRW HOLDINGS	4.8
2 OMNI BRIDGEWAY	4.4
3 NIB HOLDINGS	4.0
4 DATA#3	4.0
5 HANSEN TECHNOLOGIES	3.8

Fund at a Glance

Fund Information

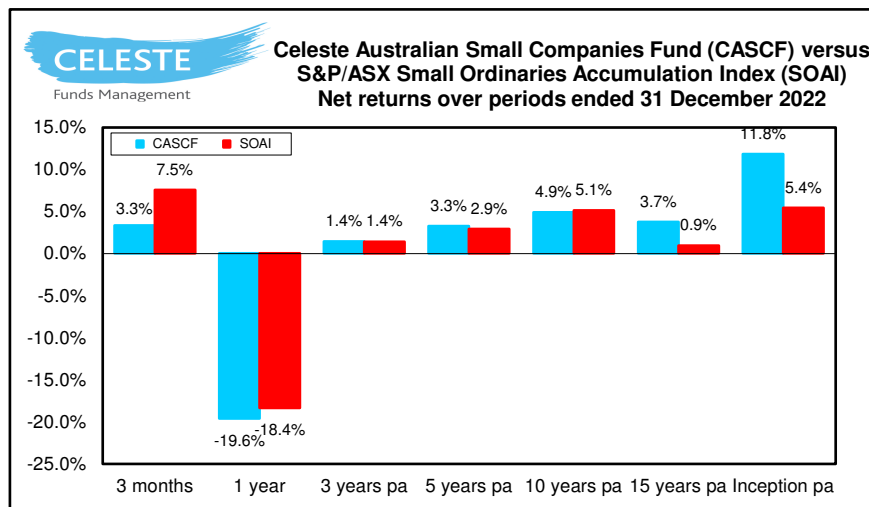
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Exceed Small Ordinaries Accumulation Index over rolling 5 year periods
Unit price (redemption) as at 31.12.2022 [ex-distribution]	\$3.4470
Unit price (application) as at 31.12.2022 [ex-distribution]	\$3.4678
Fund Size as at 31.12.2022	\$73m
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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