CELESTE
Funds Management

Monthly update: 28 February 2023

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]	-4.8	-10.6	+3.6	+2.9	+4.2	+5.3
Performance (relative to Index)	**-1.1**	**-2.7**	**-0.6**	**-0.6**	**-0.7**	**+3.4**
S&P/ASX Small Ords Acc Index	-3.7	-8.0	+4.2	+3.6	+4.9	+1.9
S&P/ASX Small Inds Acc Index	-1.7	-7.4	+1.1	+2.9	+5.9	+4.0
S&P/ASX Small Res Acc Index	-9.1	-10.1	+17.0	+6.1	+1.2	-2.9

Past performance is not indicative of future returns.

Portfolio Commentary

The Fund fell 4.8%[1] (net of fees) in February, 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 5.5% p.a.

Listed car dealers **Eagers Automotive** (APE) and **Autosports Group** (ASG) rose 19.9% & 0.5% respectively off the back of strong earnings results in February. APE delivered Profit Before Tax (PBT) (adj) of $405.2m, in-line with expectations and set a FY23 revenue target of $9.5 - $10b, underpinned by FY22 acquisitions, BYD Auto sales, and organic growth initiatives. ASG delivered PBT of $52m, 9.9% ahead of expectations. No quantified guidance was provided, but the company noted continued momentum in 2h23. We remain positively disposed to both stocks. We believe both companies will continue to benefit from an elevated orderbook that should provide high earnings visibility over the next 12 - 24m.

Infomedia (IFM) rose 26.7% over the month, with the 1h23 result pointing to sales re-acceleration, good progress on cost control and a healthy sales pipeline. IFM delivered sales growth across all regions (hoh) and made solid progress in reshaping the cost base. The company disclosed $15m of potential annual recurring revenue opportunities, and while they still have to be won, it highlighted a refocus on client engagement by the new management team. The balance sheet is net cash and IFM should see ongoing improved performance.

Australian Clinical Labs (ACL) rallied 16.5% during the month following a 1h23 result that beat market expectations. Although Covid revenue was down (PCR testing volumes) the core business revenue grew 18%. Management demonstrated strong cost control and maintained an operating profit margin of 11%, in line with previous guidance. Looking ahead, 2h23 has started strongly with Jan 23 LFL revenue growth of 22%. ACL is an appealing exposure to a defensive industry and remains cheap versus listed peers.

Omni Bridgeway (OBL) fell 25.0% on a weak result and the announcement of the retirement of the long-term CEO. Completions in the half were significantly lower than expected and operating costs were materially higher. With $304m of commitments during the period OBL are on track to achieve their FY23 target of $550m. We think the result and completions remain a timing issue.

NRW Holdings (NWH) fell 16.8% in February post a slightly softer than expected earnings result impacted by weather, delay of new contract awards and investment in North America. Cash conversion was softer driven by projects working capital releases and requirements. NWH reiterated FY23 guidance of $2.6-2.7b revenue and $162-172m EBITA with normalising cash flow. NWH's group pipeline is a strong $19.3b with orderbook up +$0.9bn to $4.9b.

[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	-2.5	+6.0	+8.5
USA – S&P 500	-2.6	-9.2	+10.4
USA – NASDAQ Composite	-1.1	-16.7	+10.2
Europe – FTSE (UK)	+1.3	+5.6	+6.3
Europe – DAX (Germany)	+1.6	+6.3	+8.9
Asia – Nikkei (Japan)	+0.4	+3.5	+9.1
Asia – Shanghai Composite (China)	+0.7	-5.3	+4.4

Source: IRESS

Market Commentary

After what had been a strong start to the year for equities, earnings season and hawkish commentary from central banks led to global equity markets down in February. Developed market equities fell 2.5%, while emerging market equities fell 6.5%. Australian equities were not immune with the Small Ordinaries Accum Index falling 3.9% and the ASX100 Accum Index falling 2.4%. Commodity prices were weaker, driven by USD strength amid higher-than expected inflation prints. Continued warm weather and lower spot gas prices saw thermal coal fall 23.5% m/m. Iron ore fell 3.8% and precious metals retraced with gold -5.2%. During the month, the Australian 10-year bond yield increased by 30bps, whilst the AUDUSD depreciated by 4.3%. The rise in yields reflected the RBA beginning the month with a more hawkish tone, outlining their intention to lift rates further. Interest rates will go higher, the extent and duration however will depend on how the RBA balances the persistence of inflation with softer domestic activity, modest wages growth and a weaker labour market.

Reporting season was a key feature in the month. In the US, Q4 earnings contracted by 2% yoy (-6% ex-Energy), which was broadly in-line with expectations. Of the companies reported, most delivered Earnings Per Share (EPS) beats, led by IT, Healthcare and Discretionary stocks. Domestically, trends were similar with EPS beats slightly ahead of misses. Despite the consumer remaining more resilient than expectations over the half, guidance statements were on balance tentative. This was reflected in the market upgrading short-term earnings by 5.2%, with earnings in subsequent years revised down -1%. Cost pressures remained a key theme throughout reporting season with company reports suggesting some input and freight costs easing. Labor pressures and the ability to source workers remained problematic, particularly across companies in mining services, transport, and consumer sectors. The results of some companies were also weighed down by higher interest costs, especially those who have floating rate debt.

Looking ahead, while we expect a large part of these cost pressures to be transitory, the expected collapse of the consumer and slowing economic activity will continue to weigh on equity markets. While this will likely mean volatility remains elevated, we believe this will create mis-priced opportunities to build new or add to positions in companies we believe have robust business models, conservative financials and high-quality board and management teams.

Portfolio Top 5 Holdings

Stock	% of Fund
1 NRW HOLDINGS	4.5
2 DATA #3	4.4
3 NIB HOLDINGS	4.0
4 PSC INSURANCE GROUP	3.8
5 OMNI BRIDGEWAY	3.8

Funds Management

Monthly update: 28 February 2023

Fund at a Glance

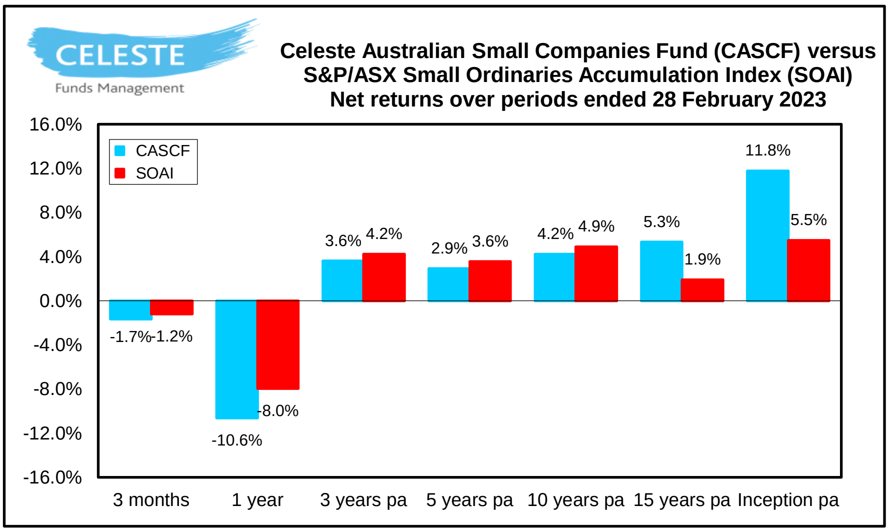
Fund Information

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 28.02.2023	$3.4866
Unit price (application) as at 28.02.2023	$3.5076
Fund Size as at 28.02.2023	$68m
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

ABN 78 098 628 605