CELESTE
Funds Management

Monthly update: **31 July 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]	+4.9	+1.4	+7.6	+4.3	+5.8	+7.2
Performance (relative to Index)	**+1.4**	**+0.6**	**+1.7**	**+1.1**	**-0.4**	**+4.1**
S&P/ASX Small Ords Acc Index	+3.5	+0.8	+5.9	+3.2	+6.2	+3.1
S&P/ASX Small Inds Acc Index [2]	+4.8	+2.6	+5.1	+2.8	+6.5	+5.4
S&P/ASX Small Res Acc Index [2]	+0.1	-3.7	+9.1	+5.0	+4.8	-2.2

Past performance is not indicative of future returns.

Portfolio Commentary

The Fund rose 4.9%[1] (net of fees) in July, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index, increasing by 3.5%. 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.

Credit Corp (CCP) rose 19.2% during the month, with the strong performance driven by industry feedback that the pricing of new debt ledger purchasers in the US had begun to soften, boding well for CCP's future earnings in that segment. The strong performance in July was somewhat offset at the beginning of August when CCP reported its FY23 result . While the FY23 result was solid, meeting market expectations, the outlook for FY24 was weaker than expected due to what we view as extremely conservative guidance.

Monadelphous Group (MND) rose 16.2% in July. The company announced a series of key contract wins with $150m awarded across new and extended contracts with FMG, BHP and RIO, followed by a $200m award by Albemarle for SMPEI work on the expansion of the Kemerton lithium hydroxide plant. We remain positive on the forward pipeline for MND supported by management commentary that the Albemarle contract is "the first in a new wave of major construction projects to come to market". MND disclosed their intention to vigorously defend a $80m claim against them by UnityWater in relation to design and construction of an upgrade to the Kawana Sewerage Treatment Plant.

PSC Insurance (PSI) declined 14.5% in July on the back of an unusual +16.2% June move. Removing the financial year end noise it rose a more normalised 1% over the last 2 months. In early August, PSC announced $111m EBITDA for FY23, up a strong 19%. PSC also guided to $122-127m of EBITDA in FY24 excluding any acquisitions. The interesting element of the FY24 guidance is that it is consistent with the earnings anticipated when PSC believed they would complete the proposed acquisition of 50% of Tysers in the UK. Core business performance and ongoing acquisitions have filled the earnings gap post AUB reneging on the Tysers deal.

Judo Capital (JDO) rose 15.2% in July post announcing the company had hit $8.9bn in gross loans as at 30th June. This 46% growth over the last 12 months was driven by increased banker activity and ongoing market share growth. While current market conditions are likely to see loan losses increase for the system, we believe that Judo is well placed to navigate these headwinds and use the well capitalised balance sheet to fund future 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.

[2] The S&P/ASX Small Industrials Accumulation Index and the S&P/ASX Small Resources Accumulation Index are used in the table for illustrative purposes. The S&P/ASX Small Industrials Accumulation Index represents all industrial companies within the S&P/ASX Small Ordinaries Accumulation Index. The S&P/ASX Small Resources Accumulation Index represents all resource companies within the S&P/ASX Small Ordinaries Accumulation Index.

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+3.0	+11.1	+12.2
USA – S&P 500	+3.2	+13.0	+13.7
USA – NASDAQ Composite	+4.1	+16.8	+11.0
Europe – FTSE (UK)	+2.3	+7.8	+13.3
Europe – DAX (Germany)	+1.9	+22.0	+10.1
Asia – Nikkei (Japan)	0.0	+22.0	+17.4
Asia – Shanghai Composite (China)	+4.0	+4.0	+2.3

Source: Bloomberg

Market Commentary

Global markets performed strongly in July with the Nasdaq +4.1% driven by strength in tech related names. The S&P500 rose by 3.2%. The Hang Seng +7.2%, Malaysia +6% and Shanghai +4% led the way in Asia with the European bourses all firm, FTSE +2.3% slightly edging out the DAX +1.9% and CAC +1.4%. Commodity prices were mixed: WTI Crude Oil was up +15.8%, Copper +5.2% and Silver +8.5%. HRC Steel was down -6.4% with lean hogs down -7.7%, closing the year down a disappointing -11.5%. Bond yields ended July slightly higher, the US 10-year +12bps to 3.96% and the Australian 10-year +4bps, to reach 4.06% by month-end.

Australia's headline 2q CPI surprised to the downside +0.8% qoq to record +6% yoy. The RBA preferred underlying measure eased further with a +0.9% qoq driving a 5.9% yoy rise. Inflation breadth moderated with only around 52% of the CPI basket rising by more than 3%. Domestic service inflation was strong which raises a watching brief on how much of this strength has been driven by higher wage growth. The RBA decided to leave cash rates on hold for July. Forward eps estimates declined by 1.8% mom which is the first time there has been 2 consecutive months of material eps declines in this downgrade cycle. With markets higher over the last few months, we are mindful that this PE expansion is often based on expectations of near-term policy easing. Recent statements around slower consumer demand and higher loan losses may be fuelling market expectations of lower rates in the shorter term.

Inflation prints for June in the US also highlighted signs of slowing. Core CPI yoy slowed to 4.8% from 5.3%. Headline CPI slowed even more to 3% from 4%. The US Fed decided to leave cash rates on hold for July. Post the CPI print, money markets moved to price in just one more cash rate rise suggesting that inflation has peaked, will trend down and that the Fed will stick the soft landing. Late in the month Fitch downgraded the US Long-Term Foreign-Currency Issuer Default Rating to 'AA+' from 'AAA'. The Rating Watch Negative was removed, and a Stable Outlook assigned.

August will see reporting season collide with inflation outlook, central bank policy and the strength of the consumer. As data flow emerges, we expect this to manifest in more volatile investment markets. We think reporting season will have little in the way of earnings guidance which may allow us to be opportunistic in areas where markets misprice quality businesses.

Portfolio Top 5 Holdings

Stock	% of Fund
1 NRW HOLDINGS	4.4
2 DATA #3	4.0
3 AUTOSPORTS GROUP	3.9
4 CREDIT CORP	3.6
5 LIFESTYLE COMMUNITIES	3.6

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Fund at a Glance

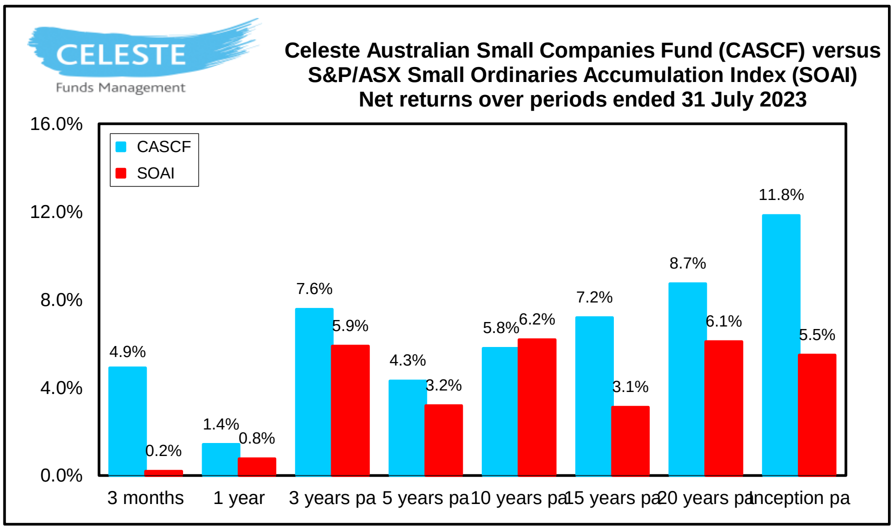
Fund Information

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 31.07.2023	$3.6541
Unit price (application) as at 31.07.2023	$3.6761
Fund Size as at 31.07.2023	$62m
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 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
June 23	8.93	2.7

*** CPU / unit price at beginning of period*

Celeste Funds Management Limited
Level 9, 50 Pitt Street, Sydney NSW 2000
T 02 9216 1800 **E** contact@celestefunds.com.au
www.celestefunds.com.au

ABN 78 098 628 605