

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	+0.4	+0.5	+4.3	+3.9	+5.3	+6.6
Performance (relative to Index)	+1.7	+1.6	+1.3	+1.5	-0.4	+3.7
S&P/ASX Small Ords Acc Index	-1.3	-1.1	+3.0	+2.4	+5.7	+2.9
S&P/ASX Small Inds Acc Index ²	-1.5	+2.2	+1.5	+1.6	+6.1	+5.0
S&P/ASX Small Res Acc Index ²	-0.9	-9.9	+9.3	+5.7	+4.2	-2.0

Past performance is not indicative of future returns.

Portfolio Commentary

The Fund rose 0.4%¹ (net of fees) in August, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index, decreasing by 1.3%. 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.

Aussie Broadband (ABB) rose 29.8% in August. The company reported \$89.6m EBITDA (guidance: \$85-90m), with their continuing growth trajectory supporting forward guidance for \$100-110m FY24 EBITDA. Management highlighted the high margin opportunity into FY24 from Enterprise & Government with \$10m new unbilled revenue and a growing sales pipeline. During the month NBN Co also lodged their latest SAU variation which dictates their wholesale pricing. NBN Co selected ABB's preferred "Option 2" pricing structure and received positive early feedback from the ACCC suggesting the SAU could be implemented before the end of 2023. This should provide cost certainty for retailers and specifically benefit ABB through reduced costs for higher speed plans.

Redox (RDX) rose 12.5% in August, with the share price performance driven by a pleasing maiden earnings report. The FY23 result was ahead of Prospectus forecasts on almost all lines of the income statement, resulting in underlying NPAT of \$89.1m coming in 10% ahead of Prospectus of \$81.3m. Moreover the strong FY23 result augurs well for another Prospectus beat in FY24. We remain attracted to Redox, as it is a family-founder led company, with a long track record of earnings growth, net cash balance sheet and trading at an undemanding valuation.

Nick Scali (NCK) rose 16.9% over the month of August on the back of a strong FY23 result that exceeded market expectations. Despite a deteriorating consumer backdrop, the result highlighted that management are doing a good job controlling the factors they can control – disciplined cost management, integration of Plush and tight management of inventory. NCK remains a high-quality retailer with a strong balance that we believe will continue to find ways to grow.

Judo Capital (JDO) closed the month down 32.6%. Despite meeting strong loan growth targets the stock saw an uptick in arrears and past due loans. Market concerns remain around how higher rates will translate into loan losses and impact future capital levels. The use of higher cost wholesale funding in the short term to repay the term funding facility (versus term deposits) will see FY24 net interest margins (NIM) decline below the targeted 300bp level. Ongoing securitisation issuance should see a more even balance of funding by FY25 and drive a NIM recovery to levels back above 300bp. JDO looks undervalued.

Portfolio Top 5 Holdings

Stock	% of Fund
1 NRW HOLDINGS	4.3
2 DATA #3	4.2
3 PSC INSURANCE GROUP	3.9
4 AUTOSPORTS GROUP	3.9
5 LIFESTYLE COMMUNITIES	3.6

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	-0.7	+8.9	+10.5
USA – S&P 500	-1.6	+15.9	+10.5
USA – NASDAQ Composite	-2.1	+19.8	+6.9
Europe – FTSE (UK)	-2.5	+6.2	+11.7
Europe – DAX (Germany)	-3.0	+24.2	+7.2
Asia – Nikkei (Japan)	-1.6	+18.8	+14.3
Asia – Shanghai Composite (China)	-5.1	+0.1	-0.4

Source: Bloomberg

Market Commentary

August marked another reporting season for most stocks listed on the ASX. The Small Ords Accum Index fell 1.3% underperforming its large cap brethren, the ASX 100 Accum Index, which fell a more moderate 0.7%. This continues a sustained period of underperformance, since the end of CY21, which broadly coincided with Central Banks globally raising interest rates to combat rising inflation. With the rate of inflation moderating, any further interest rate increases will be smaller on a relative basis, and this should see investors more attracted to higher earnings growth rates found in small cap stocks.

The six months to June covered in the August reporting period can best be described as "better than feared", as general economic activity and a resilient consumer resulted in a reasonable profit period. Somewhat strangely though, share price volatility was higher than prior reporting periods, with double the number of stocks seeing >10% share price movements on the day of the result. We put this phenomenon down to a greater emphasis on whether stocks beat or miss sell-side expectations, which has little to do with the quality of the result and creates mispriced opportunities for the portfolio.

Several companies, including many within the portfolio, reported strong pricing power. Until management teams believe that they will cede share to competitors from higher prices, inflation is unlikely to fall back to broad based central bank targets of 2-3%. Operating costs were a mixed bag; wage costs continued to grow via a mix of skill shortages and annualising new enterprise bargaining agreements, while freight costs collapsed and commodity input costs also receded. Interest bills provided the biggest cost headwind, with the annualization of higher interest rates reflected over the period.

Consumer spending trends were weaker over the six months to June, but the negative trend was better than feared. Housing remains a curiously challenging sector. House prices have risen against most pundits' expectations and strong auction clearance rates, particularly in Sydney and Melbourne have followed. For sale listings have also picked up from lows seen through February to May, but remain well below prior peaks. Despite these green shoots, new housing supply remains subdued and with the Federal Government looking boost immigration levels, demand will continue to drive rents higher.

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.

Fund at a Glance

Fund Information

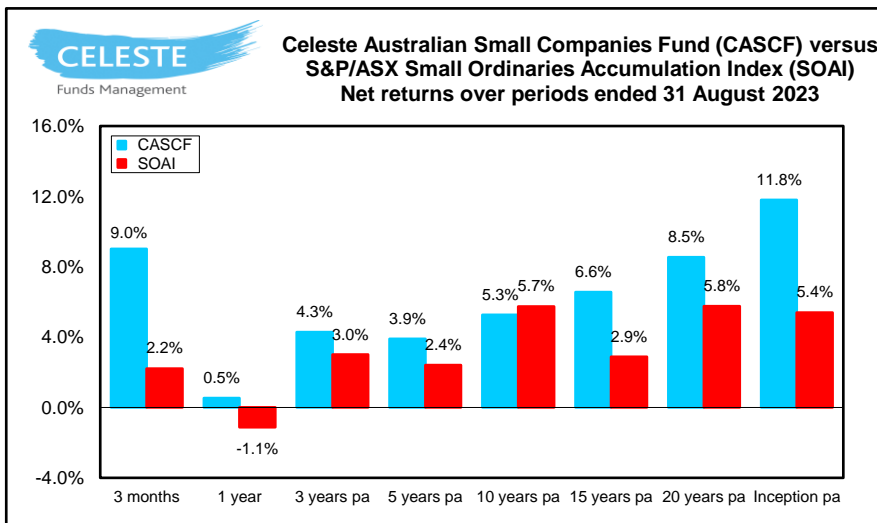
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Exceed Small Ordinaries Accumulation Index over rolling 5 year periods
Unit price (redemption) as at 31.08.2023	\$3.6669
Unit price (application) as at 31.08.2023	\$3.6890
Fund Size as at 31.08.2023	\$62m
Minimum investment	\$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



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 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 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. Past performance is not indicative of future returns.

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