

CELESTE

Funds Management

Celeste Australian Small Companies Fund

Monthly update 30 June 2018

Performance Statistics (Net of fees)

	1 mth %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	10 yrs % p.a.
Celeste Aust. Small Co. Fund	-0.3	+16.0	+16.6	+10.1	+8.6
Performance (relative to Index)	-1.4	-8.2	+1.6	-1.5	+6.0
S&P/ASX Small Ords Acc Index	+1.1	+24.2	+15.0	+11.6	+2.6
S&P/ASX Small Inds Acc Index	+1.4	+18.3	+12.9	+11.8	+7.1
S&P/ASX Small Res Acc Index	0.0	+49.0	+23.1	+9.8	-7.0

Past performance is not necessarily indicative of future returns.

The Fund fell 0.3% in June, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index increasing by 1.1%. Since inception (May 1998) the Fund's return is 14.0% pa, net of all fees, against the Index's 6.1% pa.

Portfolio Commentary

Specialty Fashion Group (SFH) re-rated materially in June as the company divested 5 of its retail brands and announced that it would effectively morph into its City Chic offering. City Chic caters for the plus size woman, is profitable, has a significant on-line presence, and has experienced healthy growth in the last few years. The \$31m divestment of Millers, Katies, Crossroads, Autograph and Rivers removes brands that generated an EBITDA loss of \$6.2m in the last 12 months. We believe that City Chic is an attractive retail offering with ample scope for growth both domestically and internationally.

Early in June, **GUD Holdings** (GUD) acquired Disc Brakes Australia (DBA), a vendor of disc brake drums, pads and rotors. DBA sells into the local auto aftermarket, servicing a customer base that largely mirrors the GUD automotive business. We believe the deal is an attractive and well-priced entry point into the 'disc brake aftermarket'. We remain believers in GUD's auto aftermarket exposure, its cash flow and the potential for further growth.

Lifestyle Communities (LIC) rose 10.8% on the back of retirement sector corporate activity. Gateway Lifestyle a developer and manager of retirement parks was bid for by US based Hometown America Holdings at \$2.10/share. Brookfield Property then offered \$2.30/share only to be trumped by a further \$2.35/share Hometown bid. Aging baby boomers are seeking good quality properties and these generate a high quality rent roll revenue stream. LIC is the best operator in the sector, has the best management team and remains undervalued.

Hansen Technologies (HSN) fell 30.0% after announcing weaker organic revenue growth. While acquisitions will drive a 26% FY18 profit increase, FY19 earnings are expected to be flat on weaker project revenues. Billing remains central to every business and we don't expect this to change overnight. Project revenues should trend up over time but remain hard to predict on a year-on-year basis. HSN generates strong free cash flow creating corporate flexibility. We used the share price weakness in HSN to buy back the stock we had sold in the mid \$4's and we expect a higher stock price in the medium term.

Portfolio Top 5 Holdings

Stock	% of Fund
1 REECE	62
2 IMF BENTHAM	54
3 RELIANCE WORLDWIDE CORPORATION	53
4 STEADFAST GROUP	52
5 AMA GROUP	51

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+2.9	+13.7	+9.5
USA – S&P 500	+0.5	+12.2	+9.6
USA – NASDAQ Composite	+0.9	+22.3	+14.6
Europe – FTSE (UK)	-0.5	+4.4	+5.4
Europe – DAX (Germany)	-2.4	-0.2	+4.0
Asia – Nikkei (Japan)	+0.5	+11.3	+3.3
Asia – Shanghai Composite (China)	-8.0	-10.8	-12.7

Monthly Commentary

The Small Ordinaries Accumulation Index was up 1.1% in June, which capped off a strong year with the index up 24.2%. US markets were up marginally in June, the S&P 500 +0.5%, while in Europe the FTSE and DAX both declined, 0.5% and 2.4% respectively.

The US 10 year Treasury Bond was essentially flat during June closing the month at 2.86%. Yields are up 45bps since the beginning of the year, but are 25bps lower than the most recent peak in mid-May of 3.11%. The AUD continued to weaken against the USD, down 1.6c or 2.1% for the month.

Domestically, the Australian Bureau of Statistics reported that Australian Real GDP grew 1.0% quarter-on-quarter in 1Q18 and 3.1% year-on-year. Meanwhile the unemployment rate declined to 5.4% in May. Underutilisation remains steady at 13.9%, suggesting excess capacity remains within the labour market, which is likely to curtail any acceleration in wage growth.

Unsurprisingly, the Reserve Bank of Australia (RBA) left interest rates unchanged at 1.5% in both June and July. In recent weeks, many pundits have argued the RBA needs to lift rates, principally because other central banks globally have done so. Given an already weakening housing market, due to the implementation of macro-prudential policies, a further decline in the housing sector would place undue pressure on the broader economy. As such, it seems highly unlikely that the RBA will lift rates in the second half of calendar 2018.

Globally, there was a continued escalation in global trade tensions, with the most recent addition being the US proposing a 25% tariff on US\$50b of imports from China. While specific segments of the global economy will be impacted by the implementation of these policies, the relative size of these tariffs in the context of the global economy is exceedingly small.

The US Federal Reserve (Fed) raised its target lending rate by 25bp, to a range of 1.75-2.00%. The Fed noted its pleasure with the labour market and inflation at target. The Bank of England Monetary Policy Committee left interest rates unchanged in June, but signalled an increase is imminent if economic data was supportive. Conversely, China's Central Bank (PBC) rolled out a 50bp targeted 'deposit reserve requirement' cut, releasing total liquidity of RMB700b. The PBC reiterated that this cut is "targeted" and that monetary policy remains "neutral and prudential".

As broad-based asset price growth continues, we believe that investors should remain cautious. At Celeste, we continue to apply our investment process of selective bottom-up analysis which we expect will generate attractive medium term returns, and provide downside capital protection in periods of equity market volatility.



Funds Management

Fund at a Glance

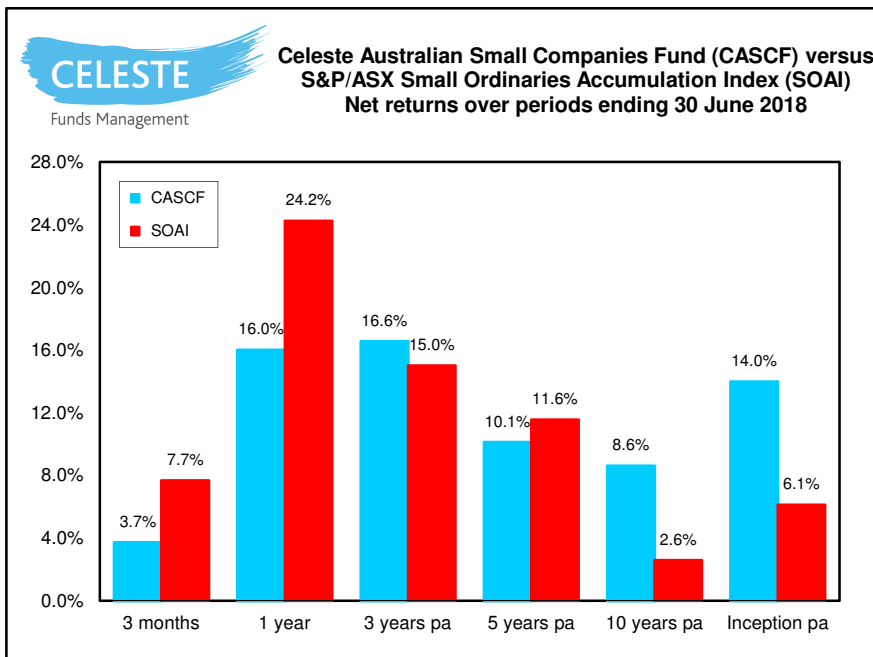
Fund Information

Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Accumulation Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 30.06.2018 [ex-distribution]	\$3.6687
Unit price (application) as at 30.06.2018 [ex-distribution]	\$3.6908
Fund Size as at 30.06.2018 [ex-distribution]	\$64m
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*	1.20% 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.

Fund Returns



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Distribution History

Total distribution year ended	Cents Per Unit	Annual Yield %*
June 09	10.06	4.2
June 10	18.70	8.9
June 11	11.89	4.6
June 12	4.07	1.4
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

* CPU / unit price at beginning of period

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The issuer of units in Celeste Australian Small Companies Fund (ARSN: 093 539 416) is the Fund's responsible entity The Trust Company (RE Services) Limited ABN 45 003 278 831 (AFSL 235150). You should read the Product Disclosure Statement (PDS) before deciding to acquire the product. Copies of the PDS are available from Celeste Funds Management Limited (02) 9216 1800 or at www.celestefunds.com.au.

Before making any decision to make or hold any investment in the Fund you should consider the PDS in full. The information provided does not consider your investment objectives, financial situation or particular needs. 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.

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.

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