

CELESTE

Funds Management

Celeste Australian Small Companies Fund

Monthly update 31 July 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	-2.8	+11.6	+14.8	+7.3	+8.6
Performance (relative to Index)	-1.8	-11.0	+0.8	-2.0	+5.5
S&P/ASX Small Ords Acc Index	-1.0	+22.6	+14.0	+9.3	+3.1
S&P/ASX Small Inds Acc Index	-0.5	+18.0	+11.4	+10.3	+6.7
S&P/ASX Small Res Acc Index	-2.6	+41.1	+25.9	+4.7	-5.6

Past performance is not necessarily indicative of future returns.

The Fund fell 2.8% in July, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index decreasing by 1.0%. Since inception (May 1998) the Fund's return is 13.8% pa, net of all fees, against the Index's 6.0% pa.

Portfolio Commentary

VEEM (VEE) rose 23.4% in July after announcing the sale of 8 gyrostabilisers to various yacht builders as well as successful sea trials with Damen, a large shipbuilder based in the Netherlands. While the sales pipeline has taken longer than expected, VEE appears to be reaching a tipping point in gaining traction for its gyro stabilisers. VEE's core business of propellers & other marine engineered solutions has been a stable earnings contributor over time. The Gyro division has the potential to significantly increase VEE earnings over the medium term.

Mining Contractor, **MACA** (MLD), rose 6.7% in July. MLD announced a number of contract wins in July, \$48m for its Civil Division and \$6m for Structural, Mechanical & Piping work via its Interquip subsidiary. MLD also announced a contract extension with Regis Resources (RRL), covering the open pit mining operations at Duketon South. The contract with RRL is for a five year term, to 7/2023, with an option for a further 5 year extension. The RRL contract adds \$231m to MLD 'work in hand' which now stands at \$1.3b. We remain attracted to the valuation of MLD, and to the prospects of the company in FY19.

InvoCare (IVC) announced the acquisition of 3 funeral operators in July, following 3 similar acquisitions in June. IVC continues to execute on the "Protect & Grow" strategic plan that was articulated to the market in February 2018, and focuses on people, service levels, facility refurbishment and acquisitions. We continue to believe IVC has very durable, growing, long term cash flows that remain undervalued by the market.

The extreme drought conditions in Australia, combined with product registration delays in France, led **Nufarm** (NUF) to reduce FY18 earnings guidance by 15-21%. As a result the stock fell 19.3% during July. The share price reaction to the weather related earnings impact created an opportunity to add to our position. In our view, the current share price does not reflect the medium term benefits of the recent acquisitions in Europe and growth in NUF's seed business, which is likely to be augmented by the successful development of Omega 3 canola.

Portfolio Top 5 Holdings

Stock	% of Fund
1 REECE	6.1
2 STEADFAST GROUP	5.5
3 IMF BENTHAM	5.3
4 AMA GROUP	4.8
5 WPP AUNZ	4.2

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+1.2	+14.9	+8.4
USA – S&P 500	+3.6	+14.0	+10.2
USA – NASDAQ Composite	+2.2	+20.9	+14.4
Europe – FTSE (UK)	+1.5	+5.1	+5.0
Europe – DAX (Germany)	+4.1	+5.7	+4.2
Asia – Nikkei (Japan)	+1.1	+13.2	+3.1
Asia – Shanghai Composite (China)	+1.0	-12.1	-7.7

Monthly Commentary

The Small Ordinaries Accumulation Index fell 1.0% in July, as risk appetites moderated, commodity prices fell and bond yields rose.

On the domestic economic front employment figures for June were strong leading to year on year growth of 2.8% and a period end unemployment rate of 5.4%. The Consumer Price Index (CPI) for Q2 rose 0.4% quarter on quarter, moving the year on year figure to 2.1%. Interestingly the 2.1% figure is now within the Reserve Bank of Australia (RBA) target band of between 2% and 3%, for the first time since Q1 of 2017.

At the RBA's July meeting the cash rate was held at 1.5%, consistent with the rate set in place since August 2016. At the same meeting the RBA noted that "...housing credit growth had declined..." with lending standards more stringent than had been the case in recent years. The RBA went on to say that, looking ahead, "...some further tightening of lending standards... was possible...". The RBA noted that global conditions, "...generally remained positive..." and that "...growth had remained above trend...". To add a note of caution the RBA suggested that, "...an escalation of trade tensions could harm global growth by undermining confidence, delaying investment decisions...".

The Office of the United States Trade Representative initiated a course of action that would lead to some \$34b in Chinese imports being subject to a 25% tariff in July. China responded in the same period and imposed a 25% tariff on 545 US product categories, expected to be worth some \$34b. In a further round of trade tension escalation, US President Donald Trump tweeted in July that a further levy of 10% would be placed on \$200b, and potentially up to \$500b of Chinese goods. Whilst the outworking of the new trade regulation is uncertain it is likely to dampen consumer confidence, weaken investor sentiment, and lead to some moderation in global growth expectations. In addition we also acknowledge that for a period Celeste will need have a heightened focus on supply chains, and their potential disruption, as China trade involves far more parts and components, rather than finished goods. With some 2/3 of China trade to the US being parts and supplies some fallout in the ability of companies to deliver final goods appears inevitable.

Global economic news in July was overshadowed by trade anxiety but was generally positive. China's GDP growth annualised at 6.8%, with Q2 growth of 6.7%. In the US 213,000 jobs were created in June, with the unemployment rate sitting at 4% and wages growth annualising at 2.7%.

We look forward to the forthcoming reporting season and the opportunity to test, challenge and reassess our portfolio positions. At Celeste we continue to apply our investment process, maintain a patient disposition whilst always being on the lookout for attractive investment opportunities.



Funds Management

Fund at a Glance

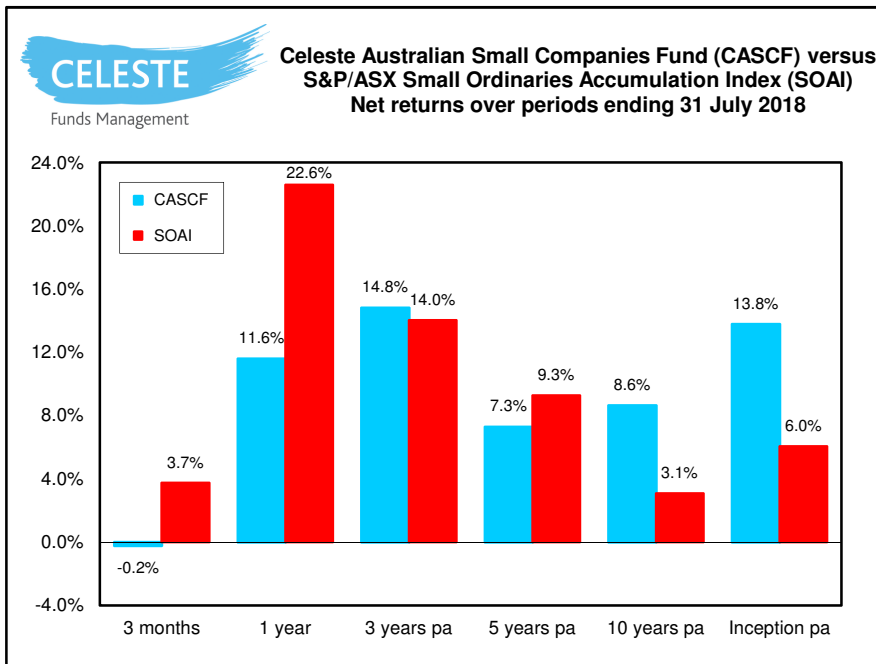
Fund Information

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 31.07.2018	\$3.5671
Unit price (application) as at 31.07.2018	\$3.5886
Fund Size as at 31.07.2018	\$63m
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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