

### Celeste Australian Small Companies Fund

Monthly update 30 September 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	-1.3	+8.1	+14.3	+5.4	+8.2
Performance (relative to Index)	-0.9	-12.2	-2.7	-3.3	+3.4
S&P/ASX Small Ords Acc Index	-0.4	+20.3	+17.0	+8.7	+4.8
S&P/ASX Small Inds Acc Index	-0.4	+19.4	+14.1	+9.8	+7.9
S&P/ASX Small Res Acc Index	-0.1	+23.2	+32.3	+4.0	-3.3

Past performance is not necessarily indicative of future returns.

The Fund fell 1.3% in September, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index decreasing by 0.4%. Since inception (May 1998) the Fund's return is 13.7% pa, net of all fees, against the Index's 6.1% pa.

#### Portfolio Commentary

WA based diversified engineer **Monadelphous Group (MND)** rose 14.3% in September. Whilst there was no MND specific news in the month sentiment towards the company improved, as the capital expenditure expectations of the major WA iron ore producers came under some equity market scrutiny. In the next 12 months Rio Tinto, BHP and Fortescue Metals will award significant sustaining capex contracts for their iron ore businesses, with MND well placed to pick up work over the next 12 to 24 months. We remain positively disposed to MND, its core skill sets, operational track record, and return profile.

**IMF Bentham (IMF)** rose 13.9% during the month. The rally in the share price comes on the back of what was technically a weak FY18 result, with the company reporting an after-tax loss of \$7.8m and no final dividend being declared. Rather, the share price reacted positively to other key performance indicators that demonstrated the Company's transition to a capital light funds management continues gather momentum. IMF plans to launch two new funds, US & Rest of World, which should see funds under management of close to \$1.5b by the end of FY19.

**Pacific Smiles Group (PSQ)** increased 13.7% in the month on little news. Directors have been increasing shareholdings on market ahead of a new CEO joining the Company. We remain cautiously optimistic about an improvement in financial performance to reflect the organic growth of dental practices since listing.

**Regis Healthcare (REG)** declined 15.0% during the month after the Federal Government announced a Royal Commission into Aged Care Quality and Safety. Given the revelations that have come out of the banking sector during its Royal Commission and the subsequent impact on share prices investors are concerned about a similar outcome for the listed aged care providers. Regulation and funding to the sector is complicated, however there clearly needs to be some recognition that providers require policy stability and a positive return for there to be additional capital allocated to building the facilities to meet the needs of an ageing population.

#### Portfolio Top 5 Holdings

Stock	% of Fund
1 IMF BENTHAM	5.5
2 REECE	5.2
3 WPP AUNZ	4.6
4 INVOCARE	4.4
5 OOH! MEDIA	4.4

#### Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	-1.1	+14.7	+12.4
USA – S&P 500	+0.4	+15.7	+14.9
USA – NASDAQ Composite	-0.8	+23.9	+20.3
Europe – FTSE (UK)	+1.0	+1.9	+7.4
Europe – DAX (Germany)	-0.9	-4.5	+8.2
Asia – Nikkei (Japan)	+5.5	+18.5	+11.5
Asia – Shanghai Composite (China)	+3.5	-15.8	-2.6

#### Monthly Commentary

The month was dominated by Royal Commissions. The Banking Royal Commission handed down its interim report with a focus on remuneration of banking executives, disclosure, managing conflicts of interest, remediation processes and responsible lending. Despite the Reserve Bank of Australia keeping interest rates on hold at 1.5% some of the banks raised rates to recover increased funding costs in offshore markets. The banks are also tightening lending standards in response to the commission's criticisms of lending standards. Tighter credit markets will flow through the economy in the coming months.

Domestic GDP rose by 3.4% over the year which was above market forecasts. The strong GDP figure makes any further interest rate cuts unlikely. Higher than expected GDP growth has helped the budget. Australia's budget outcome for 2017-18 revealed a smaller underlying cash deficit of around \$10bn (0.6% of GDP) versus \$18bn expected in the May budget.

The Australian stock market fell by 1.1% over the month. Healthcare was the worst performing sector as the establishment of an aged care Royal Commission saw the stocks involved fall heavily. Australian real estate investment trusts also fell over the month as higher global interest rate sentiment fed through to the domestic real estate market. The Energy and Materials sectors performed well as energy prices firmed.

There has been a resurgence of Initial Public Offerings (IPO's) since the close of the reporting season. The document exchange company PEXA, and Coronado Coal are looking to list. Coronado seeks to raise \$1.2-\$1.4bn in the largest IPO of 2018. Its total market capitalisation post the listing will be \$3.8-\$4.4bn. Coking coal prices are currently buoyant at over \$200/t.

The US v China trade war escalated. The US imposed a 10% tariff on \$200bn of imports from China. China retaliated with tariffs on \$60bn of US imports at a 5-10% rate. As the US and China continue their trade dispute the North American Free Trade agreement was renegotiated. Perhaps most notable was the auto sector where cars must now have 75% of components manufactured within the region to qualify for 0% tariffs. More importantly wages for auto workers must be a minimum of US\$16/hr, a quantum leap for Mexican auto workers. In spite of the trade war global markets were generally stronger over the month. Japan's Nikkei 225 index put in a particularly strong performance up 5.5%.

Implied growth rates in current valuations on the Australian equity market remain high. We continue to follow our investment process seeking to find stocks that have an upside skew to valuation with less lofty implied growth rates.



## Funds Management

### Fund at a Glance

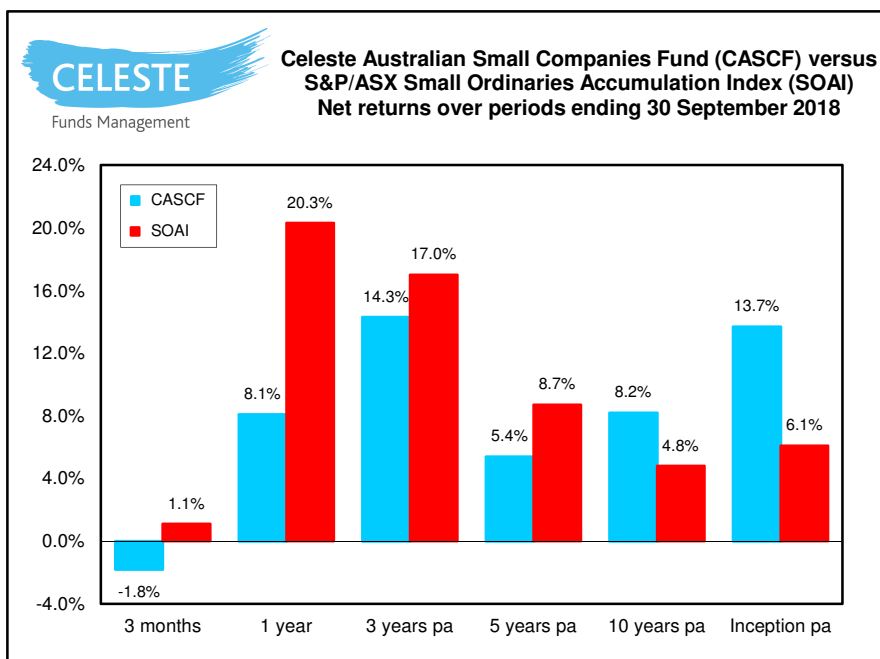
#### Fund Information

<b>Primary Investments</b>	Shares in listed Australian smaller companies
<b>Investment objective</b>	Small Ordinaries Accumulation Index + 5% p.a. over rolling 3 years
<b>Unit price (redemption) as at 30.09.2018</b>	\$3.6258
<b>Unit price (application) as at 30.09.2018</b>	\$3.6041
<b>Fund Size as at 30.09.2018</b>	\$84m
<b>Minimum investment</b>	\$25,000
<b>Minimum additional investment</b>	\$1,000
<b>Minimum balance</b>	\$15,000
<b>Redemption will generally be available in</b>	7 days
<b>Distributions</b>	30 June and 31 December
<b>Entry fee*</b>	0%
<b>Exit fee*</b>	0%
<b>Buy/Sell differential*</b>	0.30%
<b>Management fee*</b>	1.20% p.a.
<b>Performance fee**</b>	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](http://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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