

CELESTE

Funds Management

Celeste Australian Small Companies Fund

Monthly update 31 October 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	-9.9	-3.5	+8.1	+3.1	+9.0
Performance (relative to Index)	-0.3	-6.1	-2.4	-2.9	+2.3
S&P/ASX Small Ords Acc Index	-9.6	+2.6	+10.5	+6.0	+6.7
S&P/ASX Small Inds Acc Index	-10.6	+0.7	+7.8	+6.7	+9.3
S&P/ASX Small Res Acc Index	-6.1	+8.6	+23.2	+2.5	-0.2

Past performance is not necessarily indicative of future returns.

The Fund fell 9.9% in October, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index decreasing by 9.6%. Since inception (May 1998) the Fund's return is 13.1% pa, net of all fees, against the Index's 5.6% pa.

Portfolio Commentary

Listed "litigation funder" **IMF Bentham's** (IMF) share price was flat over the month. During the period, IMF raised approximately \$75m in new equity, via a placement to institutional shareholders. The purpose of the raising is to fund growth initiatives including: establishing and funding two new funds and expanding their presence in the key growth jurisdictions of continental Europe, Asia and Canada. Moreover, the funds provide balance sheet flexibility while two of their larger case investments – Wivenhoe and Westgem enter final stages.

With Annual General Meeting season in full swing 2 portfolio positions, **Reece** (REH) & **GWA Group** (GWA), provided updates as to Q1 of FY19. GWA's like on like (LOL) sales in their Bathroom & Kitchen products division were up 2%, with margins maintained. The REH AGM noted LOL sales were up 6.1% and that H1 EBITDA was expected to be between \$250m-\$260m.

WPP AUNZ (WPP) declined 34.9% after it announced the resignation of its CEO and provided revised guidance of a decline in full year 2018 EPS of 12-15% compared to FY17. The company had previously expected growth of 3%. WPP flagged that two of its businesses represented 60% of the decline in earnings and also acknowledged challenges within the retail/consumer end markets. While we are disappointed with the decline in earnings, we believe that the majority of the challenges faced by the company are surmountable and with valuation levels compelling, we have maintained our position in the stock.

We sold our position in **Gascoyne Resources** (GCY), down 52.5%, during the month. GCY downgraded gold production expectations which will result in another quarter of negative cash flows and limited headroom in its capital structure. GCY also announced a number of changes to its Board to increase the level of operating experience. Whilst GCY is a 'higher risk' emerging gold producer, and was the smallest position in the portfolio, it has been a poor performer and a disappointing outcome for the fund.

Portfolio Top 5 Holdings

Stock	% of Fund
1 IMF BENTHAM	6.9
2 INVOCARE	5.8
3 REECE	5.3
4 LIFESTYLE COMMUNITIES	4.5
5 OOH! MEDIA	4.5

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	-6.5	+3.1	+8.3
USA – S&P 500	-6.9	+5.3	+9.3
USA – NASDAQ Composite	-9.2	+8.6	+13.1
Europe – FTSE (UK)	-5.1	-4.9	+3.9
Europe – DAX (Germany)	-6.5	-13.5	+1.8
Asia – Nikkei (Japan)	-9.1	-0.4	+4.7
Asia – Shanghai Composite (China)	-7.7	-23.3	-8.4

Monthly Commentary

October saw domestic and global stock markets fall heavily. In Australia, the All Ordinaries fell 6.5%. Falls of similar magnitude were recorded around the world. The technology heavy NASDAQ index in the US was particularly hard hit with a fall of 9.2%. In Australia, the highly valued IT sector led the declines. Health Care, Consumer Discretionary and Energy stocks were also very weak.

The global bond sell off continued in the early part of October with the US 10Y Bond yield peaking at 3.23%. Concerns about global growth saw yields fall in the second half of the month.

Bulk commodity prices rose in October with Iron Ore up US\$6.47/t, while coking coal also rose. Thermal coal was the notable exception, it fell over US\$3/t to close September at US\$114.16/t. Oil prices fell with the key international indicator, Brent Crude, shedding US\$7.25/barrel over the month to close at US\$75.47. The Oil price had rallied strongly off its lows of US\$45 in June 2017 and the monthly fall was a notable change of trend. Gold prices rose by 1.9% over the month as investors sought safety in the yellow metal.

US GDP rose an annualized 3.5% in the third quarter of 2018, beating market expectations of 3.3%. Despite strong growth, inflation in the US remains low. The Consumer Price Index (CPI) figures were just 2.3% for the year to September.

Third quarter GDP growth in China was 6.5%, year on year, against market expectation of 6.6%. Industrial production in September grew 5.8%, down from 6.1%, the slowest pace since seen since late 2015. In contrast fixed asset investment grew 6%, year on year, from 4.1% in August. Interestingly the People's Bank of China cut the banking sectors 'Reserve Requirement Ratio' by 100bp to 14.5%, the third cut this year, to assist lending activity in the domestic economy. Whilst the Chinese economy is cooling, the absolute level of GDP growth in China remains very high.

Internationally, talks between Donald Trump and China's Xi Jinping failed to ease trade war tensions. The US is looking to impose new tariffs against all remaining Chinese imports that it has not already levied. Geopolitical tensions surrounding the South China Sea remain high. US/China relations remain a major concern for global markets of all descriptions.

Australian economic data was mixed in the month. Retail sales were up 3.7% for September, at odds with retailer commentary. Building approvals for the year to September fell a rather large 14.1%. The Sept. trade surplus of \$3,017m was higher than expected and the unemployment rate was lower than expected at 5.0%.

At Celeste we remain alert to the opportunities the current volatile market presents to us whilst applying our investment process of selective bottom-up analysis which we expect will generate attractive medium term returns.

CELESTE

Funds Management

Fund at a Glance

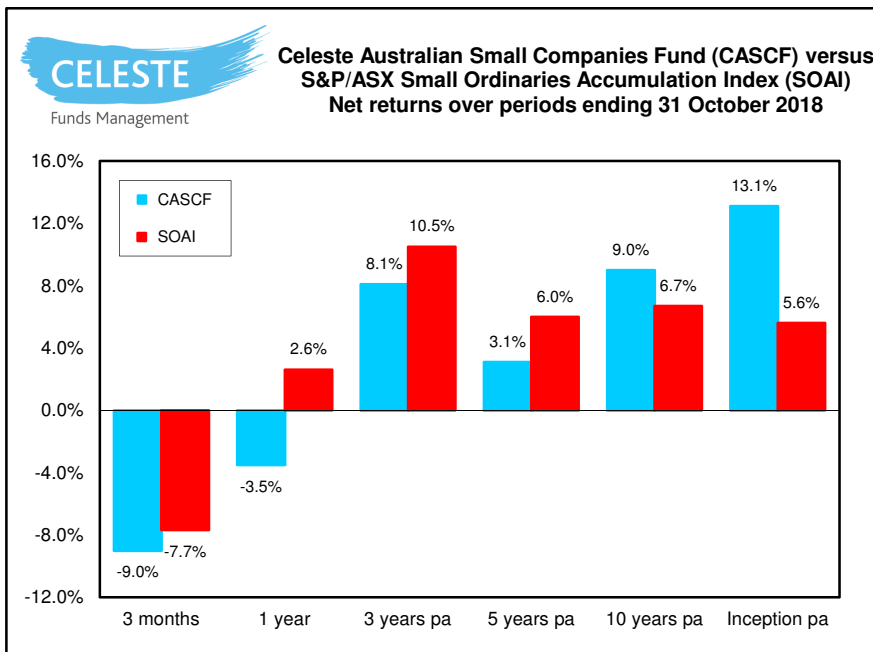
Fund Information

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 31.10.2018	\$3.2466
Unit price (application) as at 31.10.2018	\$3.2662
Fund Size as at 31.10.2018	\$76m
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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