

Celeste Australian Small Companies Fund

Monthly update 30 November 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	-2.4	-6.4	+7.8	+3.6	+9.7
Performance (relative to Index)	-2.0	-4.8	-2.6	-3.5	+1.9
S&P/ASX Small Ords Acc Index	-0.4	-1.6	+10.4	+7.1	+7.8
S&P/ASX Small Inds Acc Index	+0.8	-1.2	+7.5	+7.7	+10.5
S&P/ASX Small Res Acc Index	-4.1	-3.6	+26.7	+4.2	+0.3

Past performance is not necessarily indicative of future returns.

The Fund fell 2.4% in November, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index decreasing by 0.4%. Since inception (May 1998) the Fund's return is 12.9% pa, net of all fees, against the Index's 5.5% pa.

Portfolio Commentary

AMA Group (AMA) increased 11% during the month. The AMA share price had drifted down post a strong FY18 result in part due to rumours of a large equity overhang. In Nov. AMA announced that management had placed \$59m of their combined shareholdings, and \$10m of new equity to AustralianSuper, Myer Family Investments and private equity firm, Colinton Capital Partners. Importantly, AMA management have entered into a voluntary escrow for their remaining shareholdings and outlined an intention to transition the structure of the AMA Board to be more befitting of a company of its size. We remain positively disposed to AMA, to the changes occurring at a board level, and to AMA's growth prospects.

In Nov. listed childcare operators **Think Childcare** (TNK) & **G8 Education** (GEM) performed strongly, up 30% & 37% respectively. TNK & GEM provided market updates, with guidance broadly in line with market expectations. At an industry level there has been a small increase in the number of children attending long day-care since the introduction of a new Federal Govt. funding scheme. Further, there is also some anecdotal evidence of centre capacity growth stalling as the funding of new centre developments becomes problematic.

oOH!media (OML) announced that the recently acquired business, Adshel, successfully re-tendered a street furniture contract with Brisbane City Council for 10 years. The 'Out of Home' segment of the Advertising industry remains robust compared to other segments and this combined with OML trading at a discount to its historical multiple suggests a favourable risk reward scenario.

At its AGM in Nov. **MACA** (MLD) downgraded FY19 earnings expectations, as H1 has suffered from project commencement slippage and equipment availability. The MLD share price fell 25.7% in the month, with FY19 EBITDA estimates dropping some 12%.

RCR Tomlinson went into administration in Nov. With RCR having raised \$100m in new equity in late Sept., and having had its AGM on Oct. 30th we were shocked by the turn of events. Once we have a clearer understanding of what has occurred at RCR we will assess our legal position, and seek redress if appropriate.

Portfolio Top 5 Holdings

Stock	% of Fund
1 IMF BENTHAM	7.0
2 INVOCARE	5.7
3 REECE	5.3
4 AMA GROUP	4.6
5 NETWEALTH GROUP	4.5

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	-2.2	-1.1	+7.7
USA – S&P 500	+1.8	+4.3	+9.9
USA – NASDAQ Composite	+0.3	+6.6	+12.8
Europe – FTSE (UK)	-2.1	-4.7	+3.2
Europe – DAX (Germany)	-1.7	-13.6	-0.4
Asia – Nikkei (Japan)	+2.0	-1.6	+4.2
Asia – Shanghai Composite (China)	-0.6	-22.0	-9.1

Monthly Commentary

November saw trade concerns dominate investor sentiment, with the prospect of a trade war dampening the mood early in the month. By period end, some temporary relief was felt as a trade truce between China and the USA was broached at the G20 meeting in Buenos Aires, Argentina.

Domestically the Reserve Bank of Australia (RBA) left the cash rate unchanged at 1.50%, as has been the case for the last 27 months. In taking its decision the RBA cited mixed global economic indicators. Unemployment rates in most advanced economies remains low, as does inflation, with wages growth accelerating.

In Australia, inflation remains low and stable at 1.9% and the unemployment rate at 5% is at a 6 year low. Wages growth remains elusive despite a tighter labour market. The domestic housing market is falling with annual falls of 5% in Melbourne and 7% in Sydney. The auction clearance rate remains below 50% and credit availability has tightened following the Banking Royal Commission.

The protagonists in the global trade war, the US and China, both appear to have economies that are performing well given the circumstances. China's railway freight volume, an indicator of broad economic activity, expanded at a faster pace in October with volumes up 10.1%. In the US, unemployment remained impressively low at 3.7% in October. A tight labour market in the US is beginning to flow through to higher wages. The US Bureau of Labour Statistics noted wages grew at an annual rate of 3.1% in October, up from 2.8% the month before.

While the Chinese and US economies appear to be rolling along, Japan's economy contracted for the first time in 2 quarters. Gross domestic product in the July-September period shrank an inflation adjusted 0.3% from the previous quarter. Government officials placed the blame for the weak economic performance at the feet of a string of natural disasters in the period that dented exports and consumer spending.

Over in Europe the news was little better with the German economy contracting for the first time since 2015. Europe's largest economy shrank by 0.2% between July and September as global trade disputes had a knock on effect.

The UK continues to grapple with Brexit, with the Prime Minister, Theresa May, announcing a Brexit deal on November 15th. Following the announcement, a number of Ministers resigned their posts, including the Minister of State for Exiting the European Union. The deal is yet to pass parliament.

In the short term we anticipate volatility in equity markets will remain elevated, as 'central banker' unconventional monetary policy initiatives come to an end and global growth expectations are reassessed. At Celeste we remain alert to the opportunities market volatility may present, and will adjust our portfolio accordingly, in a manner consistent with our investment process.

CELESTE

Funds Management

Fund at a Glance

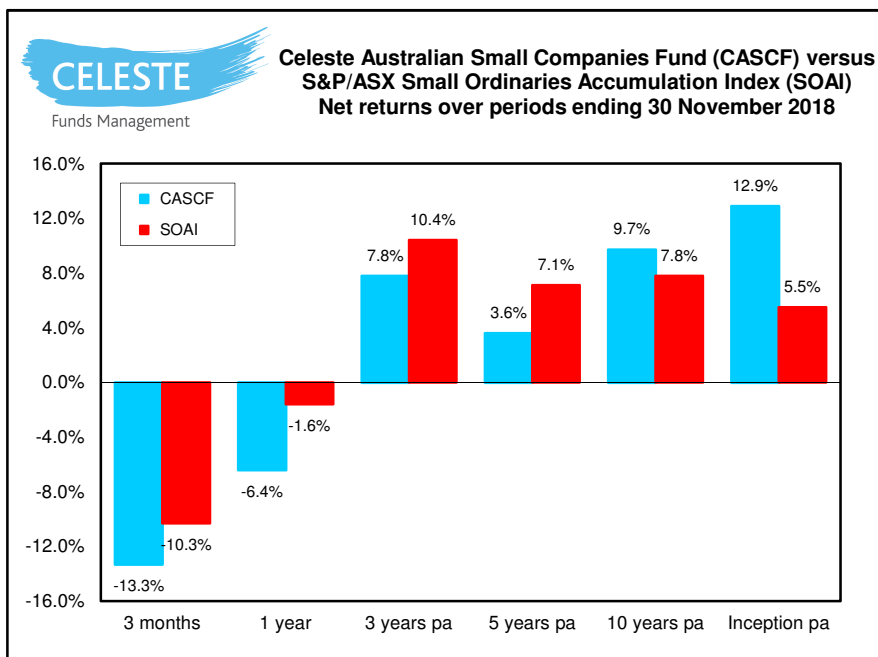
Fund Information

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 30.11.2018	\$3.1675
Unit price (application) as at 30.11.2018	\$3.1865
Fund Size as at 30.11.2018	\$74m
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



Past performance is not necessarily indicative of future returns

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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