

Celeste Australian Small Companies Fund

Monthly update 31 December 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	-4.9	-13.8	6.2	2.4	8.9
Performance (relative to Index)	-0.7	-5.1	-1.3	-3.2	2.0
S&P/ASX Small Ords Acc Index	-4.2	-8.7	7.5	5.6	6.9
S&P/ASX Small Inds Acc Index	-3.9	-6.5	4.7	6.3	9.8
S&P/ASX Small Res Acc Index	-5.0	-16.0	22.7	2.4	-1.2

Past performance is not necessarily indicative of future returns.

The Fund fell 4.9% in December, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index decreasing by 4.2%. Since inception (May 1998) the Fund's return is 12.5% pa, net of all fees, against the Index's 5.3% pa.

Portfolio Commentary

IMF Benthams (IMF) rose 7.2% in December. During the month, IMF announced the closing of its second US Fund (Fund 4) with an additional US\$125m of capital committed. IMF now has over A\$1bn in funds under management. The company also announced the effective settlement of two Australian cases, which combined should result in approximately \$6m of profit before tax.

GWA announced an intention to acquire NZ listed company Methven (MVN) for \$112m in December. MVN designs, manufactures and sells shower heads / tapware with sales split NZ 30%, Australia 40%, UK 25%, ME/Asia 5%. The MVN acquisition fits well with GWA's strength in sanitary ware, with both companies selling into the same channel partners and end customers. The MVN acquisition is being made on a headline multiple of 10X EBITDA, moving to 7.4X post medium term synergy delivery. The MVN acquisition effectively redeploys the proceeds from GWA's divestment of its Door and Access Systems business in May 2018.

Lifestyle Communities (LIC) declined 4.2% over December despite strong news around future growth. LIC has acquired a property site in Plumpton, Victoria that will allow for the construction of 260 homes, the company's 17th Community. The site is located in the north-west corridor of Melbourne, an area LIC has had a presence in since 2005. The new development catchment demographics are c50,000 residents +50 years and a median home price of +\$630,000. Future development underwrites ongoing rent & management fee growth driving earnings & dividends.

Autosports (ASG) declined 13.0% during the month. In December ASG provided an update that delayed deliveries due to a recent hail storm and increased quarantine activity will impact the 1H19 result by \$3m. Weak monthly new car sales data have continued for most of the 2018 calendar year due to a weaker consumer environment and tighter credit conditions. While new car sales are highly discretionary in the short term, they are largely non-discretionary over the medium to long-term. It is difficult to forecast macro conditions, however declines in new car sales have historically rarely continued for more than 12-18 months.

Portfolio Top 5 Holdings

Stock	% of Fund
1 IMF BENTHAM	7.2
2 INVOCARE	5.3
3 REECE	5.3
4 MONADELPHOUS	4.4
5 LIFESTYLE COMMUNITIES	4.4

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	-0.4	-3.5	6.6
USA – S&P 500	-9.2	-6.2	7.0
USA – NASDAQ Composite	-9.5	-3.9	9.8
Europe – FTSE (UK)	-3.6	-12.5	2.5
Europe – DAX (Germany)	-6.2	-18.3	-0.6
Asia – Nikkei (Japan)	-10.5	-12.1	1.7
Asia – Shanghai Composite (China)	-3.6	-24.6	-11.0

Monthly Commentary

December saw extreme market and commodity price volatility as markets attempted to process ongoing US/China trade concerns, rising rates in the US, Brexit uncertainty, economic growth concerns in China and global credit availability in a rising rate environment.

Domestically the Reserve Bank of Australia (RBA) left the cash rate unchanged at 1.50%, as has been the case for the last 28 months. Increased scrutiny in lending practices post the Royal Commission is impacting housing lending growth. The 12 months to Nov. grew +4.9%, down from +6.4% a year earlier. Anecdotal evidence suggests credit availability will continue to worsen as it flows down from the major banks to smaller lenders. House price growth as a result is expected to face headwinds. The unemployment rate ticked up slightly in Nov to 5.1% despite job growth slightly above expectations at 2.3% yoy. The mid-year economic outlook remained supportive of a \$4.1bn 19/20 budget surplus.

China announced individual tax reform in December which is expected to be supportive of increased consumption. Concerns remain around underlying momentum in the Chinese economy with machinery & equipment sales and food & clothing weak. Ongoing pull forward of infrastructure and construction spending may provide some offset. The official GDP forecast is expected to be 6.3% over 2019. China remains committed to ongoing economic reform citing its economic success at having lifted 740m people from poverty over the last 40 years.

The US Federal Reserve (Fed) raised the interest rate target range by 25bp to 2.25% - 2.50%, the highest in over a decade. The Fed cited ongoing strength in the economy, annualised GDP growth of 3.5% in the Q3, 12 month inflation near 2% and the lowest unemployment rate in over 50 years. US equity markets were softer as investors reassessed the outlook for economic growth & corporate profitability in a rising rate environment. Trade war supply disruptions are also causing concerns and are likely to lead to lower corporate profit expectations in 2019.

The Brexit sideshow in the UK continued with the government postponing a parliamentary vote on the final Withdrawal Agreement and £39b settlement. Ongoing concerns remain as to whether this vote will proceed. With the 29th March 2019 deadline looming chaos seems inevitable with a probability that there will be a stay on Article 50 as the UK calls a general election. Significant uncertainty exists around border processes, customs inspections, cargo delays and immigration. Corporate profitability is expected to be impacted.

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

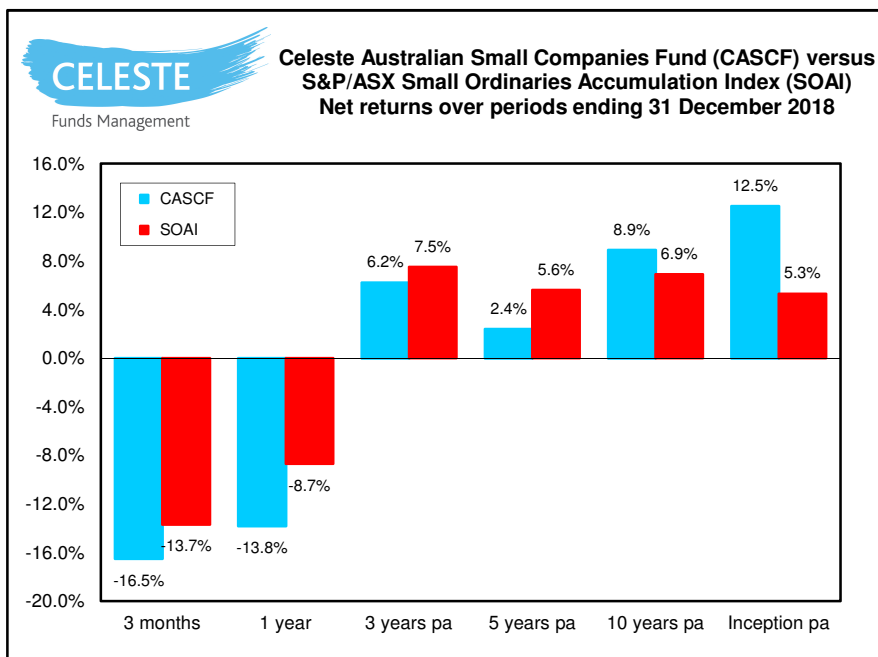
Fund Information

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 31.12.2018 [ex-distribution]	\$2.9460
Unit price (application) as at 31.12.2018 [ex-distribution]	\$2.9637
Fund Size as at 31.12.2018 [ex-distribution]	\$68m
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

This report is intended to provide only general securities advice. Celeste Funds Management Limited does not purport to make any recommendation that any securities transaction is appropriate to your particular investment objectives, financial situation or particular needs. Prior to making any investment decision, you should assess, or seek advice from your adviser, on whether any relevant part of this report is appropriate to your individual circumstances. Celeste Funds Management Limited believes that the information contained in this report has been obtained from sources that are accurate, but it has not checked or verified that information. Except to the extent that liability cannot be excluded, Celeste Funds Management Limited accepts no liability for any losses or damage caused by any error in or omission from this report.

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.

Celeste Funds Management Limited

Level 14, 15 Castlereagh Street, Sydney NSW 2000. GPO Box 4266, Sydney NSW 2001

T 02 9216 1800 F 02 9216 1899 E contact@celestefunds.com.au

www.celestefunds.com.au

ABN 78 098 628 605