

Celeste Australian Small Companies Fund

Monthly update 31 January 2019

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	+2.5	-12.8	+9.8	+3.7	+10.0
Performance (relative to Index)	-3.1	-9.7	-1.5	-3.7	+2.0
S&P/ASX Small Ords Acc Index	+5.6	-3.1	+11.3	+7.4	+8.0
S&P/ASX Small Inds Acc Index	+4.9	-1.5	+8.3	+8.0	+11.0
S&P/ASX Small Res Acc Index	+8.1	-8.3	+27.9	+4.3	-0.1

Past performance is not necessarily indicative of future returns.

The Fund rose 2.5% in January, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index increasing by 5.6%. Since inception (May 1998) the Fund's return is 12.6% pa, net of all fees, against the Index's 5.5% pa.

Portfolio Commentary

Netwealth Group (NWL) updated the market on Funds Under Administration (FUA) at the end of December 2018. FUA stood at \$19.0b, representing an increase of 23%, or \$3.6b, on the prior year. The December quarter witnessed \$876m of net new flows, with a \$1.2b drag due to negative market movements. Importantly, NWL noted that many advice groups have completed their reviews of the various competing platforms and NWL has been successful in winning their business.

Lycopodium (LYL) rose 2.9% in January. LYL was awarded a \$US95m contract with Perseus Mining in the month, for Engineering and Supply requirements to develop the Yaoure Gold Mine in Cote d'Ivoire. The Yaoure contract award is one of the larger pieces of work awarded to LYL in recent years, with its value equating to over 50% of total group revenues generated in FY18. It is anticipated that the bulk of revenues for the Yaoure contract will be generated in FY20 (>60%). LYL has a long operating history with Perseus having been involved in the engineering of their Edikan Mine (Ghana) and Sissingue Mine (Cote d'Ivoire) over the last decade.

IMF Bentham (IMF) announced that due to an increase in the number of case investments, it has upsized its existing Fund for cases outside the USA (RoW) and will bring forward the proposed timing of its next RoW fund. The combination of the upsizing of the existing fund and acceleration of the new fund should result in IMF having funds under management of \$1.5b prior to the end of FY19.

MACA (MLD) rose 2.7% in the month. In January, Adaman Resources awarded MLD a contract to install and refurbish a 'grinding mill' with a contract value of \$28m; the work to be undertaken by MLD's Interquip subsidiary. Importantly, MLD also announced that it had commenced work on its \$700m, life of mine, contract with Bluff Coal in Qld. In January, MLD also entered into a Memorandum of Understanding with Emerald Resources for its Okvau Gold Project in Cambodia, and signed a Letter of Intent with Echo Resources for open pit mining at its Yandal Gold Project.

Portfolio Top 5 Holdings

Stock	% of Fund
1 IMF BENTHAM	7.0
2 INVOCARE	6.3
3 REECE	5.3
4 MONADELPHOUS	4.7
5 AMA GROUP	4.7

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+4.0	+0.7	+10.0
USA – S&P 500	+7.9	-4.2	+11.7
USA – NASDAQ Composite	+9.7	-1.8	+16.4
Europe – FTSE (UK)	+3.6	-7.5	+4.6
Europe – DAX (Germany)	+5.8	-15.3	+4.5
Asia – Nikkei (Japan)	+3.8	-10.1	+5.8
Asia – Shanghai Composite (China)	+3.6	-25.7	-1.9

Monthly Commentary

In January, markets around the world rallied as investors rediscovered their risk appetites.

Whilst the concerns that caused the December 2018 selloff were still evident in January, investors gained comfort from dovish comments from the US Federal Reserve (US Fed.). In January, the US Fed. tempered its view of economic growth slightly, from strong to solid, and noted that it would be "... patient ..." with future adjustments to interest rates. Investors interpreted the US Fed. comments as supportive of interest rates that will be lower for longer, and that the expectation for rate increases need be tempered. The rally in the US 10 Year Treasury Bond is indicative of this tempering interest rate view. Having been as high as 3.24% in November, the US 10 Year Treasury Bond fell to 2.55% during January, before rallying slightly to 2.63% at month end.

In Australia, economic news flow was mixed. Q4 CPI was 0.5%, taking the yearly figure to 1.8%, well below the Reserve Bank of Australia's (RBA) 2% to 3% target. The CPI figure was consistent with 15 of the last 17 quarters, where the reported figure was below the RBA target. In December, employment rose modestly, with year on year growth tracking at 2.2% nationally, with Victoria +3.7% and NSW +2.4%. The unemployment rate in 2018 finished at 5%.

In the US, the Federal Government shutdown ended on Jan. 25th, after a record 35 day closure, with President Trump agreeing to reopen the Federal Government until Feb. 15th. Jobs growth in December remained robust, with 312,000 jobs added and the US unemployment rate sitting at 3.9%. Average hourly pay grew 3.2%, at an annual rate, with the 3.1% increase seen in the December quarter, the strongest quarterly growth since 2009. US core CPI in December was up 0.2%, a year on year increase of 2.2%.

China's GDP growth was 6.6% in 2018, from 6.8% in 2017. Growth in 4th quarter GDP was 6.4%, compared with 6.7% in the first three quarters of 2018. Retail sales in 2018 rose 9%, compared to 10.2% in 2017, whilst industrial output rose 6.2%, compared to 6.6% in 2017. In early January, the People's Bank of China (PBOC) announced that it would lower the 'required reserve ratio's' (RRR) within the banking sector by a cumulate 100bp, adding liquidity to stimulate the economy. The Jan. RRR cut is the first unconditional cut to the RRR undertaken by the PBOC since March 2016.

In the short term we expect that volatility in equity markets around the world will remain elevated. Globally, the outworking of the US China trade conflict will remain a concern as the March 1st deadline approaches. Domestically interim reporting season, a pending Federal Election, and the release of the Hayne Banking Royal Commission Report will add to investor skittishness. At Celeste, we continue to apply our investment process in a consistent manner and acknowledge that opportunity often emerges in periods when investor concern is acute and volatility extreme.

CELESTE

Funds Management

Fund at a Glance

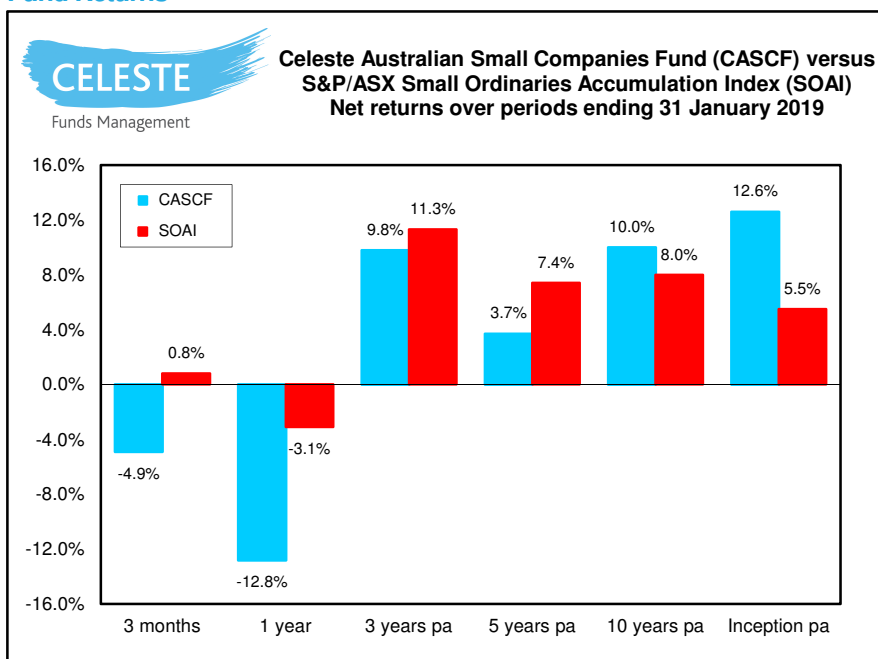
Fund Information

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 31.01.2019	\$3.0202
Unit price (application) as at 31.01.2019	\$3.0384
Fund Size as at 31.01.2019	\$70m
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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