CELESTE
Funds Management

Celeste Australian Small Companies Fund

Monthly update **28 February 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	+8.4	-6.8	+13.0	+4.7	+11.0
Performance (relative to Index)	**+1.6**	**-10.3**	**-0.4**	**-3.0**	**+1.6**
S&P/ASX Small Ords Acc Index	+6.8	+3.5	+13.4	+7.7	+9.4
S&P/ASX Small Inds Acc Index	+7.1	+5.5	+11.4	+8.5	+13.0
S&P/ASX Small Res Acc Index	+5.8	-3.4	+22.9	+4.3	+0.2

Past performance is not necessarily indicative of future returns.

The Fund rose 8.4% in February, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index increasing by 6.8%. Since inception (May 1998) the Fund's return is 13.0% pa, net of all fees, against the Index's 5.8% pa.

Portfolio Commentary

Breville (BRG) increased 45.1% during the month on the back of a strong result and upgrade to earnings expectations for FY19. Part of the share price move was a recovery of the late 2018 decline driven by general consumer sentiment concerns. While we view concerns over domestic consumer health as being well placed, BRG's earnings are increasingly weighted towards international geographies and the outlook for growth largely driven by both new product development and taking back control of a number of countries from distribution partners.

Steadfast Group's (SDF) share price performed solidly in February, up 19.4%. The performance was driven by the release of the Royal Commission's recommendation that there be no change to Insurance Broker commissions in the short term, with a review expected by 2022. The company's strong 1H19 result suggests FY19 earnings are tracking towards the high end of guidance on the back of increased Gross Written Premiums across both SDF's Broking and Underwriting Agencies businesses.

Think Childcare (TNK) reported a FY18 result that was in line with market expectations. The TNK share price reacted positively, up 27.3% in February, due to increasing evidence that the oversupply of childcare places is diminishing. A marginal slowing in supply has occurred as developer access to funding has been crimped. At the same time demand has improved due to increased subsidisation under the Federal Government's new funding mechanism.

City Chic (CCX) rose 42.0% in February. The outlook for CCX is, in our view, much better than most other fashion retailers due to the natural tailwind from it having the strongest domestic offering in the growing plus-sized apparel sector. CCX is unusual in that 40% of total sales are online, the majority directly through the City Chic website. This is amongst the highest for retailers that also have a physical store footprint. If CCX can continue to execute, this places it in a largely unique position with online earnings growth benefitting from lower capital intensity, stronger inventory turns and reduced cannibalisation of physical store earnings.

Portfolio Top 5 Holdings

Stock	% of Fund
1 INVOCARE	7.2
2 MONADELPHOUS GROUP	5.3
3 REECE	5.1
4 IMF BENTHAM	5.1
5 STEADFAST GROUP	4.7

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+6.1	+6.6	+12.8
USA – S&P 500	+3.0	+2.6	+12.6
USA – NASDAQ Composite	+3.4	+3.6	+17.9
Europe – FTSE (UK)	+1.5	-2.2	+5.1
Europe – DAX (Germany)	+3.1	-7.4	+6.6
Asia – Nikkei (Japan)	+2.9	-3.1	+9.7
Asia – Shanghai Composite (China)	+13.8	-9.8	+2.1

Monthly Commentary

The market continued its strong start to the year during February, as investor confidence increased. Reporting season was characterised by acute share price moves, with a number of stocks benefitting from exceedingly low expectations and crowded short selling. Perhaps the best example was Automotive Holdings Group, which reported a weak result, cut its dividend but subsequently rose 47.9%. This heightened volatility and momentum will continue in 2019 and create opportunities going forward.

Pleasingly, most of the fund's holdings met or exceeded expectation and we avoided any major disappointments during the month. While we can always do better, a positive reporting season is a good forward indicator, as market prices can often take time to adjust to new information.

Companies exposed to the housing sector offer an interesting point of debate due to concerns around the impact of the weakening macro backdrop. Companies such as CSR, Domain, Nick Scali and GWA reported results no worse than expected, considering the external environment. We will keep one eye on longer term value as the backdrop will inevitably rebound, and another on ensuring that nearer term earnings disappointment is limited.

The technology sector remained a drag on relative performance as investors continue to respond positively to companies reporting strong revenue growth, even more so if the IP is perceived to be scalable. We have often argued that given the valuation metrics most of these stocks trade on, these results are needed to simply justify the current share prices. When a stock is valued on a revenue multiple rather than an earnings multiple, this is usually done as a proxy for the expectation of strong earnings delivery in future years. One wonders when some of these companies will start to "eat into" these multiples as earnings come through, rather than simplistically rolling forward revenue multiples. Some will ultimately justify these valuations but many won't and we continue to look for better risk adjusted value elsewhere.

Just after the month-end, the RBA decided to keep the cash rate unchanged at 1.5% for the 28th month in a row. Market expectations of a rate cut by the end of the year have increased due to slowing conditions and a reduction in GDP growth. We continue to see increased regulatory scrutiny of various sectors with the outcomes placing clouds over the outlook for listed players. Mortgage brokers have been particularly impacted by the Banking Royal Commission recommendations for changes to commission structures; the commencement of a Royal Commission into Aged Care has coincided with a sudden and temporary injection of funding for the sector; and a Senate Committee inquiry into credit products had the potential to affect the business models of buy now, pay later companies. The outcomes and subsequent impact on company valuations can be difficult to predict at this point and so we remain cautious of exposure to these areas.

We continue to apply our investment process in a consistent manner and seek opportunities in areas that the market has overlooked.

Fund at a Glance

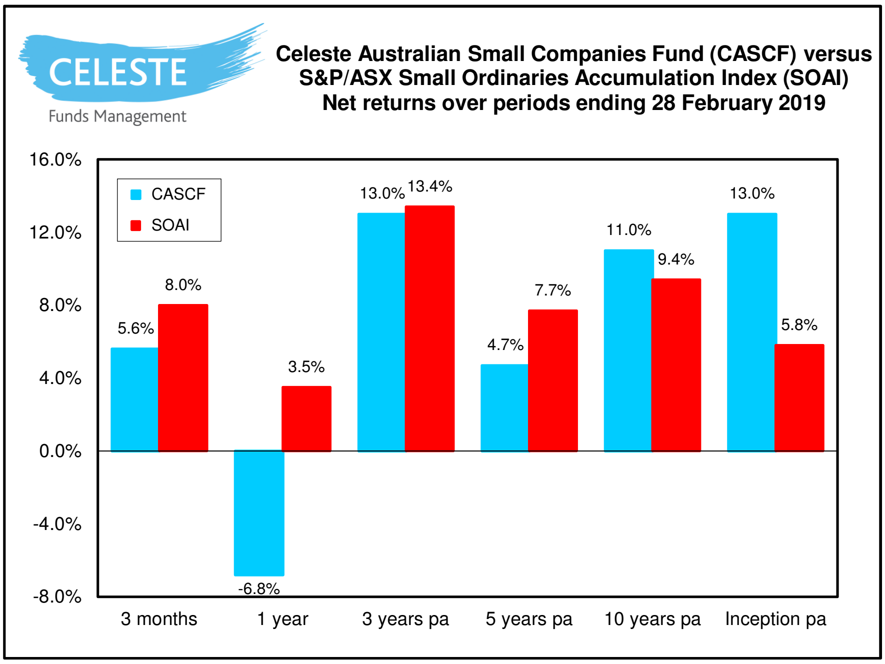
Fund Information

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 28.02.2019	$3.2730
Unit price (application) as at 28.02.2019	$3.2927
Fund Size as at 28.02.2019	$75m
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.

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