

Celeste Australian Small Companies Fund

Monthly update 31 March 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	+1.1	-4.4	+11.7	+5.4	+10.2
Performance (relative to Index)	+1.2	-10.2	+0.3	-2.6	+1.8
S&P/ASX Small Ords Acc Index	-0.1	+5.8	+11.4	+8.0	+8.4
S&P/ASX Small Inds Acc Index	+0.4	+7.8	+9.4	+8.6	+12.0
S&P/ASX Small Res Acc Index	-2.0	-1.3	+20.9	+5.2	-1.2

Past performance is not necessarily indicative of future returns.

The Fund rose 1.1% in March, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index decreasing by 0.1%. 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

AMA Group (AMA) increased 16.5% during the month as the market digested the 1H19 result released late in February. AMA announced reported EBITDA growth of 17.8% (7.3% on a normalised basis) driven by acquisitions and the continued expansion of its vehicle repair network, including greenfield sites. There remains an opportunity to consolidate its position as the dominant player in what has traditionally been a cottage industry and Suncorp's likely divestment of its Capital SMART repair business, may lead to further attention on the panel repair sector and AMA.

Over the month **Lifestyle Communities** (LIC) executed a contract to purchase a 185 home development site in Tyabb, on Victoria's Mornington Peninsula. The site is close to other successful communities, meets strict financial hurdle rates and is subject to the award of a successful Development Approval. To optimise return on capital, settlement is expected to occur in 2020 with development anticipated soon afterwards. LIC also announced the signing of a new debt facility for \$225m (\$165m for 5yrs and \$60m for 3yrs) with NAB, HSBC & CBA, replacing the historic \$120m facility. The new facility will enable LIC to drive future growth by taking advantage of the increased land acquisition opportunities in the market.

In March, the Federal Government announced a temporary funding measure of \$320m to support the Aged Care sector. The share prices of the three listed providers have performed strongly in calendar 2019, with **Regis Healthcare** up 9.7% in March and 33.4% for the quarter as the market digests possible outcomes of the Royal Commission and a likely change in Federal Government.

Over the month two portfolio stocks raised capital to fund growth initiatives. **Invocare** raised \$65m in a placement with a further \$20m sought from retail investors. The proceeds used have been earmarked for regional funeral home acquisitions as well as further capital investment in existing facilities to lift growth across the network. **Think Childcare** raised \$18m via an institutional placement to fund the acquisition of four new purpose built 'Nido' childcare centres and to provide financial flexibility to roll out two greenfield sites and acquire a further six centres in 2019.

Portfolio Top 5 Holdings

Stock	% of Fund
1 INVOCARE	7.0
2 MONADELPHOUS GROUP	5.1
3 REECE	4.8
4 STEADFAST GROUP	4.7
5 IMF BENTHAM	4.5

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+0.7	+11.2	+11.3
USA – S&P 500	+1.8	+7.3	+11.2
USA – NASDAQ Composite	+2.6	+9.4	+16.6
Europe – FTSE (UK)	+2.9	+3.2	+5.6
Europe – DAX (Germany)	+0.1	-4.7	+5.0
Asia – Nikkei (Japan)	-0.8	-1.2	+8.2
Asia – Shanghai Composite (China)	+5.1	-2.5	+1.0

Monthly Commentary

The S&P ASX Small Ordinaries Index was largely flat in March, having risen strongly in the quarter, up some 12.6%. The broader Australian equity market has likewise had a strong start to calendar 2019 with the All Ordinaries Index up 11.1% in the quarter.

The fall-out from the Banking Royal Commission has led to further tightening in lending criteria, and further contraction in credit availability. Australian GDP in Q4 2018 rose just 0.2% quarter on quarter. Residential approvals fell 28.6% over the year to January 2019 and at 173,000 remain near 5 year lows. Retail sales grew 3.3% in January 2019 with food retailing driving growth. Online retail sales continue to grow strongly up 7.5% over the year. With a weakening local economy the Reserve Bank kept official interest rates at historic lows of 1.5%.

The US Federal Reserve does not expect to raise interest rates for the rest of 2019 amid slower economic growth. Federal Reserve Bank members changed their outlook for 2019 in late March, from two interest rate increases over the course of 2019, predicted in December, to a preparedness to be ".patient.." in determining when to make future changes to its benchmark interest rate.

On March 19th, the yield on the US 10 year Treasury Note fell below the 3 month Treasury yield. The yield curve inversion followed a sharp decline in long dated US Treasury Bonds. Market sensitivity to 'yield curve inversion' is acute as it is often an excellent forward indicator of recession. US total non-farm payroll employment was flat in February (+20,000), and the unemployment rate in the USA fell to 3.8%. Average wage growth in the US accelerated to 3.4%, year on year, from 3.1% in the prior month.

Trade tensions between the USA and China remain elevated, and continue to weigh on global growth expectations. In China, the National Development and Reform Commission (NDRC), the nation's top economic planning agency, highlighted a desire to expand consumer spending in 2019, to achieve "high quality" growth and offset the impact of the trade war with the US. The NDRC comments follow statements from Chinese Premier, Li Keqiang, at the 13th National People's Congress, that the nation aims to reduce the tax burden on enterprises by \$2 trillion yuan, some \$298b, in 2019. The tax cut in 2019 is central to the Chinese Government's desire to promote high end manufacturing, and spur increased investment, despite the current slowdown in sales and profits.

We anticipate that the outlook for select smaller companies remains attractive, in the context of earnings growth, return profile and yield. We expect that the likely operational backdrop and earnings trajectory for some sectors in the ASX 100, especially the Banks and Telcos, will be challenged in 2019. At Celeste we continue to execute our process, and will add to the portfolio when risk and reward characteristics are appropriately attractive.

CELESTE

Funds Management

Fund at a Glance

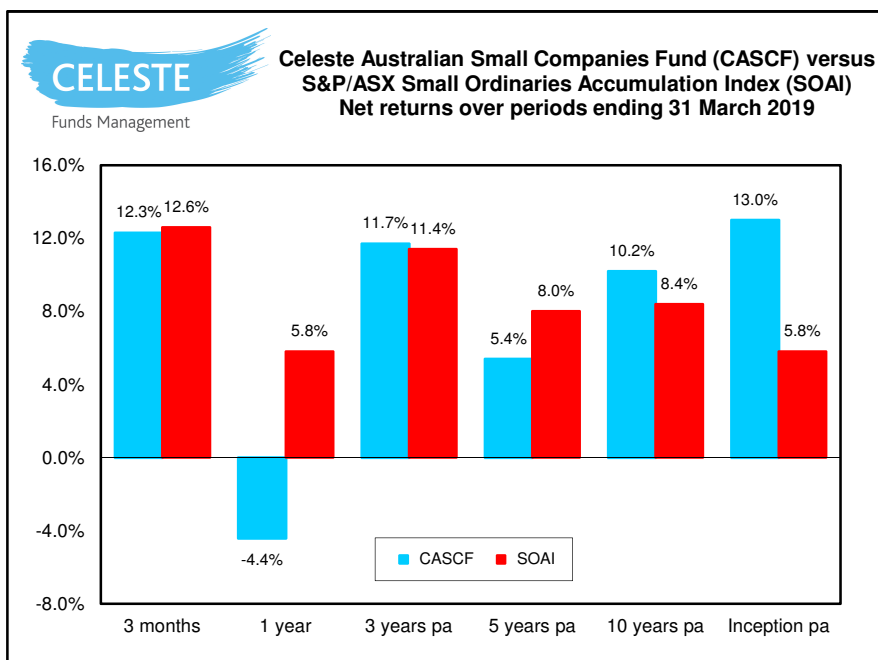
Fund Information

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 31.03.2019	\$3.3074
Unit price (application) as at 31.03.2019	\$3.3273
Fund Size as at 31.03.2019	\$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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