

Celeste Australian Small Companies Fund

Monthly update 30 April 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	+3.7	-1.9	+11.6	+6.3	+9.6
Performance (relative to Index)	-0.4	-9.1	-0.2	-2.8	+2.2
S&P/ASX Small Ords Acc Index	+4.1	+7.2	+11.8	+9.1	+7.4
S&P/ASX Small Inds Acc Index	+6.3	+13.0	+11.5	+10.2	+11.3
S&P/ASX Small Res Acc Index	-4.2	-11.6	+13.3	+4.5	-2.8

Past performance is not necessarily indicative of future returns.

The Fund rose 3.7% in April, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index increasing by 4.1%. Since inception (May 1998) the Fund's return is 13.2% pa, net of all fees, against the Index's 6.0% pa.

Portfolio Commentary

Celeste increased its position in **City Chic Collective (CCX)** during April, taking advantage of a sell-down by a substantial shareholder. We are attracted to CCX and its strong position in the growing plus-sized apparel sector. CCX currently generates some 40% of its sales online, having grown from 24%, two years ago. CCX is uniquely placed to grow its business domestically & internationally, via its traditional bricks & mortar presence, and via its online offering.

GWA Group (GWA) rose 6.0% in April, having completed the acquisition of NZ listed tap & shower design company, Methven Limited. We remain positively disposed to the Methven acquisition, given its intellectual property and market position in the shower and tap segments. Methven builds out the position of GWA, adding valuable differentiated products to the group offering. We believe the acquisition of Methven was well priced, and will deliver attractive sales and synergy opportunities to GWA in the medium term.

In early April, **Netwealth Group (NWL)** announced that Funds Under Administration at 31 March were \$21.1b, an increase of \$2.1b from the prior quarter driven by \$900m of net flows. The stock rose 15.3% during the month as the market begins to price in continued net flow growth due the fallout from the Financial Services Royal Commission.

IMF Bentham (IMF) rose 6.2% during April. While IMF made a number of announcements in the month, of most interest was the update regarding the size of the Investment Portfolio, up by a further 5% in the March quarter to A\$6.7b. As at March 31st, IMF had 81 fully committed investments, with a further 13 cases conditional, or yet to be funded, which would add another cA\$1b to the portfolio.

Breville Group (BRG) was a strong performer in April, up some 18.2% in the month. BRG management presented at an investor conference during April, confirming that, "...the board and management are encouraged by the continued progress of the acceleration program..." and that BRG is on track to deliver EBIT growth, year on year, slightly higher than 11%.

Portfolio Top 5 Holdings

Stock	% of Fund
1 INVOCARE	7.3
2 MONADELPHOUS GROUP	4.9
3 IMF BENTHAM	4.6
4 STEADFAST GROUP	4.5
5 AMA GROUP	4.2

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+2.5	+10.2	+11.0
USA – S&P 500	+3.9	+11.2	+12.6
USA – NASDAQ Composite	+4.7	+14.6	+19.2
Europe – FTSE (UK)	+1.9	-1.2	+5.9
Europe – DAX (Germany)	+7.1	-2.1	+7.1
Asia – Nikkei (Japan)	+5.0	-0.9	+10.1
Asia – Shanghai Composite (China)	-0.4	-0.1	+1.6

Monthly Commentary

The S&P/ASX Small Ordinaries Accumulation Index rose strongly in April, up 4.1%. The April performance sees a continuation of the stellar performance of the Index which has risen 17.2% since January 1st. Global equity markets rose in April with the Nikkei in Japan up 5.0%, the DAX in Germany increasing by 7.1%, and the US S&P 500 appreciating by 3.9%.

In Australia, the March quarter CPI was flat, quarter on quarter, taking the annual figure to 1.3%. The March quarter CPI is below the Reserve Bank of Australia's (RBA) target of 2% to 3% and equal to the weakest figure recorded since Q2 2016. The unemployment rate in March edged up to 5%, with 26,000 jobs created, and February revised from +5,000 to +11,000. Hours worked in March rose 0.7% month on month, +3% year on year, and up 0.9% in the March quarter. At its April meeting, the RBA held the cash rate at 1.5%, the 32nd month at which the rate has been held at 1.5%.

Data points on the state of the Chinese economy were broadly positive in the month with March quarter GDP growth of 6.4%, year on year. Industrial output in the March quarter was 6.5%, compared to 5.7% in the previous quarter, whilst retail sales grew 8.7% on last year and fixed asset investment rose 6.3% year on year. Trade negotiations between China and the US continue, with US Treasury Secretary Mnuchin describing the talks as productive. Expectations at this stage are that discussions will conclude in mid-May, that a deal will be reached, and that a summit between President Trump and Chinese counterpart Xi Jinping will be held in June.

In the US, economic growth continues, albeit at a slower pace, with March quarter GDP seeing expansion of 3.2%, year on year. Job creation in March was strong, with 196,000 new jobs created, and the unemployment rate holding at 3.8%, somewhat below the natural rate, often cited at 4.5%. Average hourly earnings grew at 3.2% in March, a little below the 3.4% recorded in February. Inflation data in the US remains muted, at 1.8% in March, prompting a comment from US Federal Reserve Chairman Jerome Powell that if inflation were to persistently stay below 2%, then, "...we would be concerned, and we would take it into account in setting policy...". The US Federal Reserve kept interest rates on hold with the central bank keeping borrowing costs at between 2.25% and 2.5%. In a statement explaining the decision, the Federal Open Market Committee maintained its "patient" approach to interest rates. Interestingly in the US, Director of the National Economic Council, Larry Kudlow, commented that, "...he wouldn't see another rate hike in his lifetime...", with Larry Kudlow a spry 71 year old.

At Celeste we remain concerned with the valuation extreme currently evident in some pockets of the equity market. Our expectation in the medium term is that valuation excess will unwind, potentially dramatically. At Celeste, we continue to apply our investment process and acknowledge that opportunities often emerge in periods of extreme volatility and investor distress.



Funds Management

Fund at a Glance

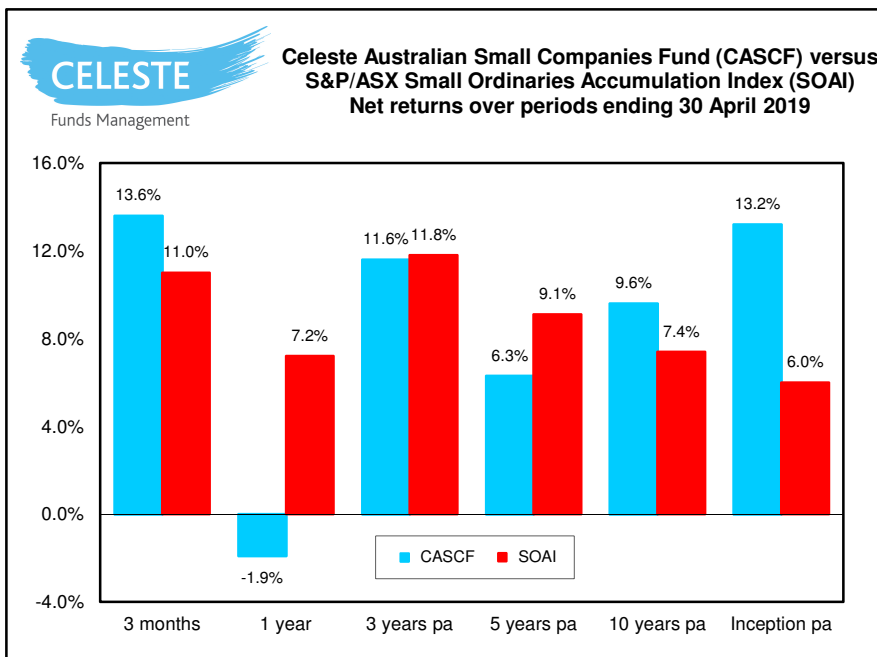
Fund Information

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 30.04.2019	\$3.4313
Unit price (application) as at 30.04.2019	\$3.4520
Fund Size as at 30.04.2019	\$78m
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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