

# CELESTE

Funds Management

## Celeste Australian Small Companies Fund

Monthly update 31 May 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	+2.1	-2.7	+12.5	+7.1	+9.6
Performance (relative to Index)	+3.4	-4.8	+2.7	-1.7	+3.1
S&P/ASX Small Ords Acc Index	-1.3	+2.1	+9.8	+8.8	+6.5
S&P/ASX Small Inds Acc Index	-1.3	+7.3	+9.2	+9.9	+10.9
S&P/ASX Small Res Acc Index	-0.9	-15.2	+12.6	+4.0	-4.4

Past performance is not necessarily indicative of future returns.

The Fund rose 2.1% in May, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index decreasing by 1.3%. Since inception (May 1998) the Fund's return is 13.2% pa, net of all fees, against the Index's 5.9% pa.

### Portfolio Commentary

**Think Education (TNK)** rose 10.5% during the month on the back of a trading update which reaffirmed full year guidance for 2019. TNK also had an investor tour across a number of sites visiting some under construction and several greenfield sites that were in operation. We remain attracted to TNK's roll-out of its "Nido" branded childcare centres, which is creating a highly differentiated education and community offering for both parents and staff.

Media stocks performed well over the month of May, with investors positioning for a potential bounce in advertising spending post the Federal Election. **oOh!media** and **HT&E** rallied 12.2% and 7.2% respectively, with both companies indicating at their respective AGM's that they had witnessed an improved outlook for forward bookings post Easter.

**Hansen Technologies (HSN)** announced the \$166m acquisition of Sigma Systems, a Canadian based global provider of catalogue-driven software for telco, media and tech-companies. The acquisition was entirely funded from a new A\$225m debt facility. Sigma will be highly complementary to the core HSN business and should leverage common clients. In FY20, Sigma is expected to earn round CDN\$20m EBITDA, be earnings accretive and generate significant free cash flow. We continue to think that HSN's long term free cash flow generation remains undervalued.

**Lifestyle Communities (LIC)** held an investor day during the month showcasing the quality and spread of their retirement living assets. The market and investors continue to warm to the consistent delivery of housing stock and the strong retiree underlying demand to live in a Lifestyle Community. LIC management continue to recycle capital via land purchases and speedier delivery of housing stock without compromising quality or finish. In a world where yield is a scarce commodity, we continue to think that the long term free cash flow from the LIC rental portfolio is significantly misunderstood and subsequently undervalued.

### Portfolio Top 5 Holdings

Stock	% of Fund
1 INVOCARE	7.3
2 MONADELPHOUS GROUP	4.9
3 LIFESTYLE COMMUNITIES	4.5
4 IMF BENTHAM	4.5
5 ARB CORPORATION	4.3

### Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+1.7	+10.5	+10.5
USA – S&P 500	-6.6	+1.7	+9.5
USA – NASDAQ Composite	-7.9	+0.1	+14.6
Europe – FTSE (UK)	-3.5	-6.7	+4.8
Europe – DAX (Germany)	-5.0	-7.0	+4.5
Asia – Nikkei (Japan)	-7.4	-7.2	+6.1
Asia – Shanghai Composite (China)	-5.8	-6.4	-0.2

### Monthly Commentary

The S&P/ASX Small Ordinaries Accumulation Index declined in May, down 1.3%. Global equity markets were weaker in May, with the Nikkei in Japan down 7.4%, the DAX in Germany decreasing by 5.0%, and the US S&P 500 down by 6.6%.

In Australia, the miracle believing Prime Minister, Scott Morrison delivered a stunning Liberal/National election win mid-month, winning 77 of the 151 seats to govern in a majority government. The dire forecasts had apparently not predicted voter backlash on negative gearing, franking credits and tax increases. While the Senate count has not yet been completed, it seems fair to assume that any legislative passage will require the support of the cross benches. The market responded positively in sectors which would have been impacted by a Labor Government, namely those housing exposed, financial services & private health insurance.

Australian wage growth was subdued and below RBA expectations with 1Q/19 delivering +0.5% for an annualised rate of +2.3%. While April saw a +2.6% annual growth rate (+28,000 mom), the unemployment rate rose slightly to +5.2% driven by a record high participation rate of 65.8%. APRA post-election removed the 7% minimum serviceability floor for new loan applications in order to kick-start housing credit growth which has hit an all-time low of 4% annualised. The new 2.5% buffer suggests a c10% increase in borrower's maximum capacity. Increasing RBA concern around economic growth and activity levels led to a 25bp interest rate cut in early June.

The US unemployment rate hit 3.6%, the lowest level since 1969 with participation rates falling to 62.8%. 1Q/19 GDP growth was strong, up 3.2%, driven by better retail sales and some lumpier Federal spending. Core US inflation of 1.8% pa remains stubbornly under the 2% Fed target. The US listed \$300bn of new Chinese goods for 25% tariffs with China listing a further \$60bn of US goods. The ongoing trade war continues to splinter supply chains and cause economic disruption across the globe. Higher US tariffs are expected to lower annualised Chinese economic growth by 30-40bp. China remains likely to move interest rates lower in the hope of driving higher domestic consumption. African swine flu remains rampant in China affecting some 150-200m pigs with the 30% loss in production equivalent to the total annual EU production and 30% higher than the total US annual production. Losses will not be able to be met internally from other protein sources and as such high cost imported animal protein will need occur over the next several years.

We remain concerned with the extreme pockets of valuation stretch evident in equity markets. Our expectation in the medium term is that valuation excesses 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.

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Funds Management

## Fund at a Glance

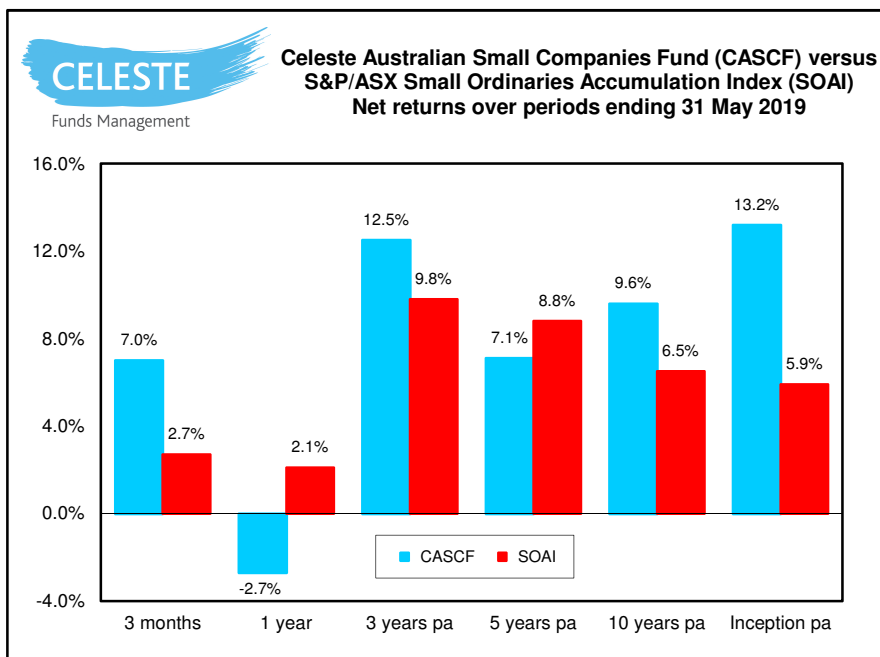
### Fund Information

<b>Primary Investments</b>	Shares in listed Australian smaller companies
<b>Investment objective</b>	Small Ordinaries Accumulation Index + 5% p.a. over rolling 3 years
<b>Unit price (redemption) as at 31.05.2019</b>	\$3.5021
<b>Unit price (application) as at 31.05.2019</b>	\$3.5232
<b>Fund Size as at 31.05.2019</b>	\$79m
<b>Minimum investment</b>	\$25,000
<b>Minimum additional investment</b>	\$1,000
<b>Minimum balance</b>	\$15,000
<b>Redemption will generally be available in</b>	7 days
<b>Distributions</b>	30 June and 31 December
<b>Entry fee*</b>	0%
<b>Exit fee*</b>	0%
<b>Buy/Sell differential*</b>	0.30%
<b>Management fee*</b>	1.20% p.a.
<b>Performance fee**</b>	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](http://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](mailto:contact@celestefunds.com.au)

[www.celestefunds.com.au](http://www.celestefunds.com.au)

ABN 78 098 628 605