

Celeste Australian Small Companies Fund

Monthly update 30 June 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	-0.9	-3.3	+12.2	+7.5	+9.2
Performance (relative to Index)	-1.8	-5.2	+1.5	-1.8	+2.9
S&P/ASX Small Ords Acc Index	+0.9	+1.9	+10.7	+9.3	+6.3
S&P/ASX Small Inds Acc Index	+0.4	+6.4	+10.7	+10.4	+10.4
S&P/ASX Small Res Acc Index	+2.9	-12.7	+10.5	+4.3	-4.1

Past performance is not necessarily indicative of future returns.

The Fund fell 0.9% in June, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index increasing by 0.9%. Since inception (May 1998) the Fund's return is 13.1% pa, net of all fees, against the Index's 5.9% pa.

Portfolio Commentary

WPP AUNZ (WPP) announced the appointment of Jens Monsees as CEO in June. Mr Monsees is set to join WPP in October from BMW Group in Munich. Mr Monsees has held senior positions in digital marketing/branding, including roles with Bertelsmann Group; Mondolez; Google Germany; Schwarzkopf & Henkel.

AMA Group (AMA) increased 12.6% during the month. AMA provided an update which reiterated FY19 earnings expectations, detailed a number of acquisitions, and appointment of a new CEO to the panel repair business. AMA has continued to strengthen its management depth, disclosure and corporate governance over the past 12 months to be reflective of a >\$700m market cap company.

Steadfast Group (SDF) rose 11.4% in the month, largely on the back of an agreement with Insurance Brokers Network Australia (IBNA). The agreement sees SDF pay IBNA brokers an upfront payment in SDF shares in exchange for the IBNA brokers professional service fees. The benefits to SDF extend beyond the acquired earnings stream, as the additional Gross Written Premium from the IBNA brokers will begin to flow through SDF's Client Trading Platform delivering significant operating leverage.

Pacific Smiles (PSQ) announced a trading update and sale of shares by a founding Director in late June. While the timing is unusual, the re-iteration of guidance is positive as PSQ has failed to meet expectations in recent years. August 2018 appointed CEO Phil McKenzie appears to have settled into the role and has delivered an improvement in earnings trajectory with EBITDA likely to grow by ~7.5% in 2H19 compared to 2.5% in 1H19. We are optimistic that PSQ will deliver improved reported results in coming periods.

In June, **IMF Bentham** (IMF) announced it had settled various cases with Sirtex Medical, Ashley Services and Murray Goulburn. Additionally, IMF launched its fifth fund, which will be focussed on Non-US dispute finance investments. The fund will initially be US\$500m, with potential to increase to US\$1b. IMF will receive management fees of between 1.68% and 2.15% p.a. on deployed third party capital and performance fees of up to 30% of realised profits. This will take IMF's funds under management to cA\$2b.

Portfolio Top 5 Holdings

Stock	% of Fund
1 INVOCARE	7.5
2 LIFESTYLE COMMUNITIES	4.9
3 MONADELPHOUS GROUP	4.9
4 IMF BENTHAM	4.8
5 STEADFAST GROUP	4.5

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+3.4	+11.0	+12.6
USA – S&P 500	+6.9	+8.2	+11.9
USA – NASDAQ Composite	+7.4	+6.6	+18.2
Europe – FTSE (UK)	+3.7	-2.8	+4.5
Europe – DAX (Germany)	+5.7	+0.8	+8.6
Asia – Nikkei (Japan)	+3.3	-4.6	+11.0
Asia – Shanghai Composite (China)	+2.8	+4.6	+0.6

Monthly Commentary

The S&P/ASX Small Ordinaries Accumulation Index rose in June, up 0.9%. Global equity markets also moved higher in June, with the Nikkei in Japan up 3.3%, the DAX in Germany rising by 5.7%, and the US S&P 500 climbing by 6.9%.

In Australia, Q1 GDP data came in at a disappointing 0.4%, seeing the annual growth rate fall to 1.8%, from a previous 2.3%. GDP growth continues to track below the RBA 2019 and 2020 forecast of 2¾%. With domestic economic data continuing to challenge the RBA's forecasts, some loosening in monetary policy appeared likely, and was delivered in recent weeks. In June and July the Reserve Bank of Australia (RBA) lowered the cash rate by a cumulative 0.5%, to 1.00%, "...to make inroads into the spare capacity in the economy..." and "...to assist with faster progress in reducing unemployment and achieve more assured progress towards the inflation target".

The RBA reports that conditions in the housing market remain soft, although there are tentative signs that prices are now stabilising in Sydney and Melbourne. Growth in housing credit appears to have stabilised and whilst demand for credit remains muted, mortgage rates remain at multi-decade lows, and competition amongst banks for borrowers of high credit quality remains intense.

Economic data in Europe was weaker in June with Germany noting industrial production fell 1.9% in April, month on month, with exports 0.5% lower than last year. The German Bundesbank is now forecasting growth in Germany for 2019 of 0.6%, compared to a 1.6% forecast last December.

US employment data remains mixed, with US Bureau of Labour Statistics reporting 75,000 jobs created in May, and 224,000 in June. Wage growth remains subdued, up 0.2% in May & June. Average hourly earnings are up 3.1% from a year ago. Wages growth in the US remains stubbornly anaemic, despite an unemployment rate which has fallen to 3.7%, from 6.1% in June 2014.

The G20 Economic Summit in Osaka Japan saw some moderation in trade hostilities between the US and China, with no new tariffs levied on China, and with President Trump stating that he would continue to negotiate with Beijing, "for the time being". In June, Ren Zhengfei, CEO of Chinese telecom giant, Huawei, was asked his view of the trade dispute, and noted, "... the Red Army departed from Jiangxi Province in October 1934 with 300,000 people, and arrived in Shaanxi in October 1935 with only 9000 people, but only 14 years later the Communist Party took over the whole of China. It won't take so long for us to achieve victory".

We maintain a cautious stance and anticipate increasing equity market volatility as earnings growth remains elusive and the economic backdrop remains frail. In the coming months, we will look to add to the fund in a process consistent and risk averse manner, steering well clear of concept stocks and speculative fervour.

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Funds Management

Fund at a Glance

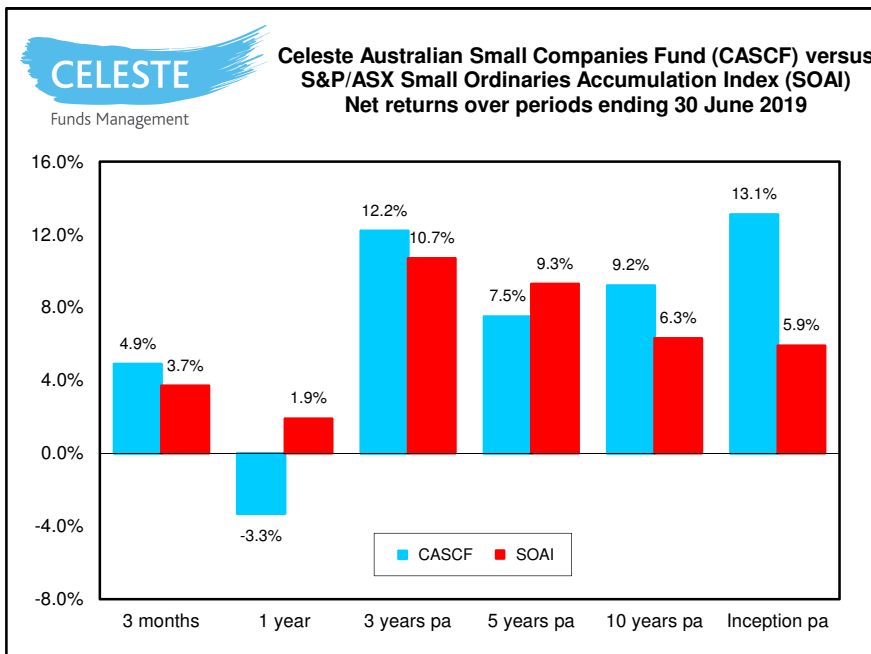
Fund Information

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 30.06.2019 [ex-distribution]	\$3.4317
Unit price (application) as at 30.06.2019 [ex-distribution]	\$3.4523
Fund Size as at 30.06.2019 [ex-distribution]	\$77m
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 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
June 19	10.46	2.9

* 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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