

Celeste Australian Small Companies Fund

Monthly update 31 July 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	+6.8	+6.2	+11.2	+7.9	+9.0
Performance (relative to Index)	+2.3	-1.4	+1.9	-1.3	+3.1
S&P/ASX Small Ords Acc Index	+4.5	+7.6	+9.3	+9.2	+5.9
S&P/ASX Small Inds Acc Index	+3.7	+10.9	+9.1	+10.3	+10.0
S&P/ASX Small Res Acc Index	+7.9	-3.3	+9.9	+4.3	-4.5

Past performance is not necessarily indicative of future returns.

The Fund rose 6.8% in July, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index increasing by 4.5%. Since inception (May 1998) the Fund's return is 13.4% pa, net of all fees, against the Index's 6.1% pa.

Portfolio Commentary

Invocare (IVC) acquired Toowoomba Qld based Australian Heritage Funerals in July, as part of their regional market expansion strategy. This will be the second brand operated in Toowoomba alongside Hiram Philp Funerals. The execution of their regional strategy together with the capex led refurbishment program should see IVC gain market share, grow earnings, cash flow and dividends. We think IVC remains undervalued despite a strong share price move over the past 12 months.

Lifestyle Communities (LIC) announced that due to permitting delays, some FY20 home sales would be pushed into FY21. The self-enforced capital constrained nature of the LIC model means that there is no lazy land bank to draw upon when planning permits are slower than expected. As initial home sales are recorded at cost, the valuation impact is essentially a 6 month delay in the commencement of land rental payments. As the rental agreement still covers a 99 year duration, the absolute effect is quite small. We think the long duration inflation adjusted cash flows that will be generated from the LIC land portfolio, even assuming they cease building in 2025, remain significantly undervalued.

Monash IVF (MVF) increased 9.3% in July. MVF announced the acquisition of Fertility Solutions, a small IVF practice based in Queensland's Sunshine Coast. Late in July, Medicare data was released showing an improvement in Australian IVF cycles towards the end of the financial year. Barring the lagged impact of a meaningful doctor leaving MVF in FY18, we believe that the outlook for the company has improved materially in FY20 and beyond.

Clearview Wealth (CVW) pre-announced their FY19 result late in July. In what has been a difficult year, CVW reported several one off Royal Commission, remediation and restructuring costs. Further to this, CVW has changed some of its insurance expense, claims, lapse and actuarial assumptions. Impairments around the value of financial advice trails and capitalised software completed what looks to have been a comprehensive profit and loss clean-up. Whilst FY19 has been challenging for CVW, we believe that the company has the opportunity to grow its position in the life insurance sector materially and generate attractive returns for shareholders

Portfolio Top 5 Holdings

Stock	% of Fund
1 INVOCARE	6.3
2 LIFESTYLE COMMUNITIES	4.7
3 STEADFAST GROUP	4.6
4 MONASH IVF GROUP	4.3
5 WPP AUNZ	4.2

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+3.0	+12.9	+11.4
USA – S&P 500	+1.3	+5.8	+11.1
USA – NASDAQ Composite	+2.1	+6.6	+16.6
Europe – FTSE (UK)	+2.2	-2.1	+4.1
Europe – DAX (Germany)	-1.7	-4.8	+5.6
Asia – Nikkei (Japan)	+1.2	-4.6	+9.1
Asia – Shanghai Composite (China)	-1.6	+2.0	-0.5

Monthly Commentary

The Australian equity market traded through all-time highs in July with the All Ordinaries index up 3.0%. The S&P/ASX Small Ordinaries Accumulation Index also rose a healthy 4.5%.

In Australia economic data in July was uniformly soft. The June unemployment rate was 5.2%, trending up from a Feb.'19 post GFC low of 4.9%. Retail sales in May grew 2.4%, year on year, well down from the 3.5% increase seen in March. Car sales fell 9.6% in June, from an 8.1% decline in May, extending the negative sales streak currently being experienced to 15 months. Residential building approvals edged up 0.7% month on month in May, taking the annual figure to a 19.6% year on year decline, whilst renovation activity rose 1% in May, and fell 3% year on year.

The Chinese economy grew 6.3%, year on year, in the first half of 2019, in line with the government's target of 6% - 6.5%. Q2 growth slowed to 6.2%, from 6.4% in Q1, its slowest pace in 27 years. Industrial output rose 6% year on year, in H1 2019, showing some slowing from the 6.5% achieved in Q1. Electricity consumption rose 5% in H1, year on year, with the June month alone up 5.5%. The Chinese consumer appears to be maintaining a chipper disposition with retail sales up 9.8% in June, year on year, accelerating from 8.4% achieved in H1 2019. China's per capita disposable income rose a healthy 8.8% in H1, year on year.

The US economy created 224,000 jobs in June, with the unemployment rate at 3.7% (from 3.6% in May) and wages growth annualising at 3.1%. The US economy grew at an annual rate of 2.1% in Q2, compared to 3.1% in Q1, with H1 2019 growth of 2.6%. Late in July the US Federal Reserve cut interest rates by 0.25%, the first cut since 2008, taking the US Federal Funds benchmark target range to 2% - 2.25%.

The International Monetary Fund (IMF) cut its global growth outlook in July forecasting 2019 growth of 3.2%, and 2020 growth of 3.5%, both down 0.1% from their April forecast. The IMF also cut its growth expectations for China, also down 0.1%, now expecting the Chinese economy to grow by 6.2% in 2019, and 6.0% in 2020. In his commentary, the IMF's Chief Economist, Gita Gopinath noted, "...dynamism in the global economy is being weighed down by prolonged policy uncertainty as trade tensions remain ...".

Trade tensions between Japan and South Korea simmered in July as Japan imposed export restrictions on three classes of chemicals, critical to the production of semiconductors and digital displays. In July, Japan also removed South Korea from its list of trading partners that are exempt from national security export controls, exacerbating an already problematic situation for global electronics supply chains.

We retain a cautious disposition into FY 2019 reporting season, as valuations are stretched, the domestic economic backdrop remains frail, and earnings growth is anaemic. Celeste will be opportunistic in the short term, with a focus on longer term returns and a desire to add to the portfolio in a process consistent manner.



Funds Management

Fund at a Glance

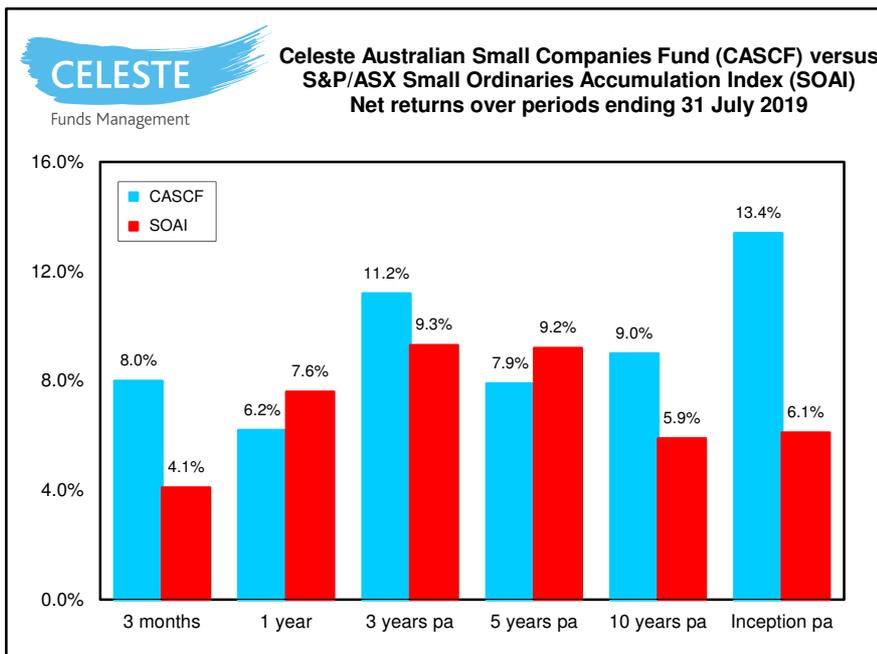
Fund Information

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 31.07.2019	\$3.6642
Unit price (application) as at 31.07.2019	\$3.6862
Fund Size as at 31.07.2019	\$82m
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 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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