CELESTE
Funds Management

Celeste Australian Small Companies Fund

Monthly update 31 August 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	-2.4	+1.3	+7.3	+6.7	+7.5
Performance (relative to Index)	**+1.5**	**+0.4**	**-1.1**	**-1.1**	**+2.7**
S&P/ASX Small Ords Acc Index	-3.9	+0.9	+8.4	+7.8	+4.8
S&P/ASX Small Inds Acc Index	-3.0	+3.1	+8.2	+8.9	+8.7
S&P/ASX Small Res Acc Index	-7.0	-6.2	+9.6	+3.3	-5.2

Past performance is not necessarily indicative of future returns.

The Fund fell 2.4% in August, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index decreasing by 3.9%. 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

The portfolio benefitted from a number of auto-related holdings during August**,** including **Smartgroup** (SIQ) +21.0%, **Autosports** (ASG) +20.8%, and **AP Eagers** (APE) +10.5%. Salary packing and novated leasing provider, SIQ delivered a solid result considering the weak new car market, highlighting the resilience and strong cash generation of the business model. Investors appear to be forming a view that the new car sales environment is close to bottoming. While ASG is more leveraged to a recovery in demand, APE will benefit from the significant synergies and operational opportunities stemming from a merger with Automotive Holdings (AHG), with APE's all-scrip deal going unconditional during the month.

Our two specialist retailers delivered strong results during the month, with **Baby Bunting** (BBN) rising 26.8% and **City Chic Collective** (CCX) up 18.5%. Despite their share prices having increased significantly in 2019, we believe valuations remain reasonable given they offer investors structural growth for the next few years. BBN continues to leverage its category killer position in the baby goods market, while CCX is expanding its online sales base in an under-serviced plus-size apparel segment. Ongoing execution should see both companies deliver sustained double-digit earnings growth that is less reliant on tax-cuts and broader consumer sentiment.

Monash IVF (MVF) declined 31.8% in August after announcing the departure of five referring Doctors to start their own practice. While disappointing, the share price move was exceedingly disproportionate to the earnings impact and we have increased our MVF position. We note that the Doctors in question were not contracted to the company unlike the majority of MVF Doctors, whilst other operational improvements have the potential to more than offset lost revenues.

In conjunction with the FY19 result, **Steadfast Group** (SDF) took the opportunity to tap the institutional equity market for $100m to replenish the balance sheet for future acquisition opportunities. While the result was commendable, we did not participate in the capital raising and have used subsequent share price strength to reduce the portfolio weighting.

Portfolio Top 5 Holdings

Stock	% of Fund
1 INVOCARE	6.6
2 ARB CORPORATION	4.6
3 LIFESTYLE COMMUNITIES	4.2
4 STEADFAST GROUP	4.1
5 CITY CHIC COLLECTIVE	4.0

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	-2.2	+8.6	+11.1
USA – S&P 500	-1.8	+0.9	+10.5
USA – NASDAQ Composite	-2.6	-1.8	+15.2
Europe – FTSE (UK)	-5.0	-3.0	+2.0
Europe – DAX (Germany)	-2.0	-3.4	+4.1
Asia – Nikkei (Japan)	-3.8	-9.5	+7.0
Asia – Shanghai Composite (China)	-1.6	+5.9	-2.2

Monthly Commentary

Share market volatility continued into the August reporting season, with large share price moves in response to short-term beats and misses now well and truly the norm. An ongoing challenge for small cap investors is the balance between valuation and confidence in companies delivering to expectation. News flows on trade wars and Trump tweets only add to this dynamic.

We continue to take a 3-5 year view on our investments and believe that the quality companies in our portfolio typically have levers that can help to offset external headwinds, be it tariffs or a weaker Australian economy. The most powerful of these is usually some mix of strong balance sheet, cash generation, leading brands and genuine pricing power. Weak competitive positions and fragile business models are far easier to spot during challenging operating environments than they are when the operating environment is favourable.

Housing-exposed companies like Realestate.com.au (REA), Reece (REH), GWA and Nick Scali (NCK) have not been immune to a challenging backdrop but have so far been able to maintain revenues and margins far better than providers of commodity-like products. Earnings for building material suppliers like Wagners (WGN), Adelaide Brighton (ABC) and CSR will eventually rebound with the market but are also far more operationally leveraged in the short-term. We witness time-and-again the increased pricing competitiveness in periods where supply exceeds demand – price is usually the last lever to pull for a company trying to maintain share and volume demand. This is consistent across industries, and applies equally to blueberries as it does cement.

Global economic data continues to be mixed across key data points. US job growth was in-line with expectations while manufacturing activity and housing starts were lower. Interest rate settings will be a key factor in driving global equity market valuations at this point in the cycle and in the near term go some way towards supporting earnings multiples that are higher than long-term averages but, for most sectors, not extreme. In a keynote speech the RBA Deputy Governor, Guy Debelle, highlighted the two key risks to the outlook for the Australian economy, being the implications of the trade and technology disputes between the US and China, and the outlook for domestic consumption. Consensus expectations are for tax cuts and lower interest rates to support household spending while wage growth remains relatively slow. With total household debt significantly higher than deposit balances we view the direction of interest rates as continuing to favour those with mortgages over those relying on passive income.

We retain a cautious disposition into the end of the calendar year, with pockets of extended valuation and a domestic economy needing to navigate the tailing off of east coast construction activity. 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.

CELESTE
Funds Management

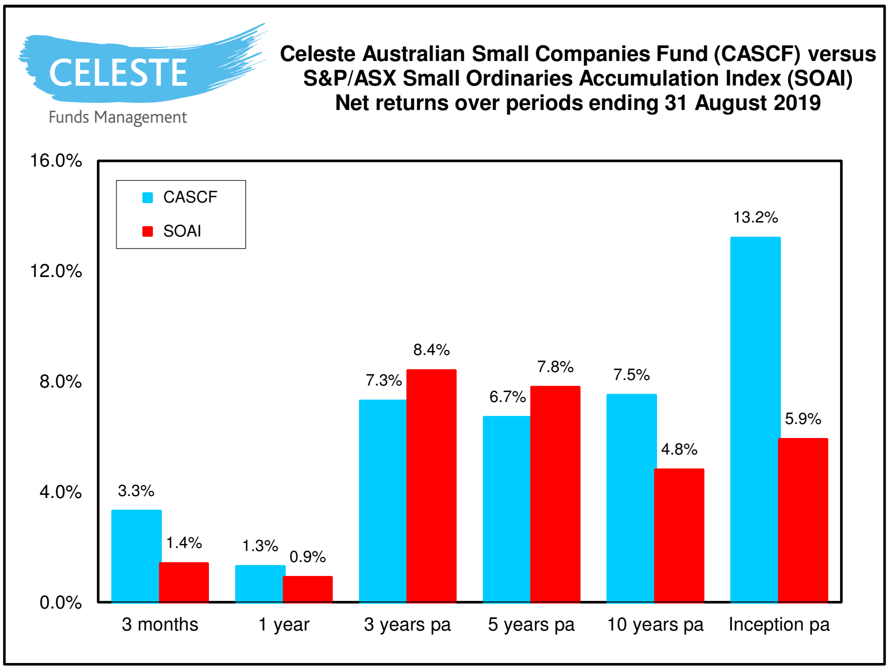
Fund at a Glance

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 31.08.2019	$3.5771
Unit price (application) as at 31.08.2019	$3.5986
Fund Size as at 31.08.2019	$79m
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*

This report is intended to provide only general securities advice. Celeste Funds Management Limited does not purport to make any recommendation that any securities transaction is appropriate to your particular investment objectives, financial situation or particular needs. Prior to making any investment decision, you should assess, or seek advice from your adviser, on whether any relevant part of this report is appropriate to your individual circumstances. Celeste Funds Management Limited believes that the information contained in this report has been obtained from sources that are accurate, but it has not checked or verified that information. Except to the extent that liability cannot be excluded, Celeste Funds Management Limited accepts no liability for any losses or damage caused by any error in or omission from this report.

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.

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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