

Celeste Australian Small Companies Fund

Monthly update 30 September 2019

Performance Statistics (Net of fees)

	1 mth %	1 yr %	3 yrs %	5 yrs %	10 yrs %
			p.a.	p.a.	p.a.
Celeste Aust. Small Co. Fund	+5.4	+8.2	+8.0	+8.8	+7.2
Performance (relative to Index)	+2.8	+4.3	-0.8	-0.8	+2.7
S&P/ASX Small Ords Acc Index	+2.6	+3.9	+8.8	+9.6	+4.5
S&P/ASX Small Inds Acc Index	+3.3	+6.9	+9.1	+10.3	+8.3
S&P/ASX Small Res Acc Index	0.0	-6.1	+7.7	+6.3	-5.4

Past performance is not necessarily indicative of future returns.

The Fund rose 5.4% in September, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index increasing by 2.6%. Since inception (May 1998) the Fund's return is 13.5% pa, net of all fees, against the Index's 6.0% pa.

Portfolio Commentary

City Chic Collective (CCX) increased 16.5% during the month. CCX announced a potential acquisition of the online business of Avenue, a plus-size retailer in the US, which had gone into Chapter 11 bankruptcy proceedings. Filings suggest that Avenue has a meaningful level of online sales which are likely able to be ported over to CCX online platforms and operating structure, with the failure of Avenue ostensibly due to challenging conditions in their physical retail stores.

Reece (REH) rose 8.8% in September. During the month REH announced the acquisition of Southern California based plumbing products wholesaler, Todd Pipe & Supply (Todd Pipe). The acquisition is consistent with the Reece US strategy and in line with the Morsco acquisition of May 2018. The Todd Pipe acquisition complements the Morsco network in Southern California, moving the number of locations to 23, with a total national branch network of 181 sites. The Todd Pipe management team join Morsco post acquisition, and will play an important role in growing its presence in the attractive, high growth, Southern California market.

IMF Bentham (IMF) rose 22.6% in the month of September, on the back of a number of case wins and settlements. IMF announced a significant judgement in an on balance sheet case. Subject to any appeal, IMF expects to recognise a net profit before tax and after capitalised overheads of c\$28m, which represents a ROIC of 13.7x.

AMA Group (AMA) declined 10.3% during the month on little news. The share price weakness was likely attributable to a sell-down from the former CEO and Executive Chairman as well as anticipation of a potential capital raising to fund potential acquisitions. On the last day of the month, AMA went into a trading halt and subsequently announced a \$215m equity raising to buy Capital SMART which is the second largest smash repair business in Australia. This makes the combined business by far the dominant operator in the sector and reduces the risk of private equity competing aggressively for acquisitions and large scale contracts with insurers.

Portfolio Top 5 Holdings

Stock	% of Fund
1 INVOCARE	5.2
2 IMF BENTHAM	4.7
3 CITY CHIC COLLECTIVE	4.0
4 MONADELPHOUS GROUP	3.7
5 WPP AUNZ	3.5

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+2.1	+12.1	+11.7
USA – S&P 500	+1.7	+2.2	+11.1
USA – NASDAQ Composite	+0.5	-0.6	+14.6
Europe – FTSE (UK)	+2.8	-1.4	+2.4
Europe – DAX (Germany)	+4.1	+1.5	+5.7
Asia – Nikkei (Japan)	+5.1	-9.8	+9.8
Asia – Shanghai Composite (China)	+0.7	+3.0	-1.1

Monthly Commentary

Global markets rallied in September, with developed markets up 2.4% month on month (mom) in local currency terms, and emerging markets rising 1.5% mom.

The major event of the month was the Sep 14 drone and missile attack on two Saudi oil facilities which took 5.7mb/d, +50% of Saudi Arabia's total oil production offline for a week. Brent Crude oil futures prices rose 15%, the biggest one-day jump in over 30 years. In bulk commodities iron ore rose and both thermal and hard coking coal fell. Gold declined to \$1,485/oz on the back of rising bond yields.

In the UK, the Brexit debacle continues with UK MPs voting to back a bill blocking a 31 October no-deal Brexit initiative. If a deal is not agreed between the UK and EU before 19 October, the UK PM will be legally obliged to seek the EU for a Brexit delay. Economic uncertainty remains which forced the UK Chancellor to announce a £13.8bn extra public expenditure package, the largest increase in more than 15 years.

The ECB announced a further stimulus package, cutting deposit rates by 10bps to -0.5% and introduced tiered deposits. Confirming that rates would "remain at the present or lower levels" the bank reintroduced a \$20bn Euro a month QE program.

In the US, the Federal Reserve cut interest rates by 25bps for the second time this year reducing its benchmark rate to 1.75% - 2.00%. Global bond yields rose sharply in the first half of September but then drifted lower. Overall, US 10 year yields rose 19bps to 1.69% on better than expected US August retail sales and consumer sentiment which seemingly runs counter to the Fed rate reduction. That said, manufacturing ISM at 49.1 missed expectations, Non-farm payrolls +130k also missed with the unemployment rate holding steady at 3.7%. August core CPI was 0.3% mom with yoy rising slightly to 2.4%.

In Australia dwelling prices rose 0.9% mom in Sep, improving the yoy price decline to -3.9%. Sydney & Melbourne led the way, both +1.7% mom. Q2 GDP held steady at +0.5% quarter on quarter (qoq) while the year on year (yoy) number continued to soften to +1.4%. The Q2 current account lifted to a \$5.8bn surplus, the first surplus since 1975. July retail sales missed expectations at -0.1% mom, employment in August beat expectations, rising 34.7k, albeit the unemployment rate ticked up 0.1% to 5.3%. Australian 10 year bonds outperformed amid the global sell off, with yields rising 7bps to 0.95%. 10 year Australian bond yields are now 74bps below 10 year US yields.

We retain a cautious disposition into the end of the calendar year, with pockets of extended valuation and a domestic economy needing to navigate flaccid economic 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.



Funds Management

Fund at a Glance

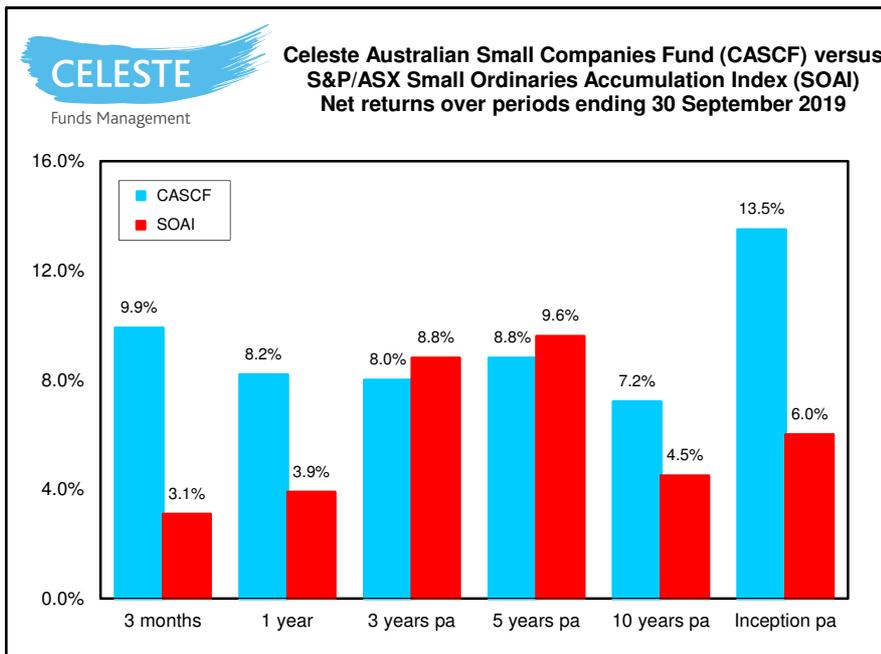
Fund Information

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 30.09.2019	\$3.7719
Unit price (application) as at 30.09.2019	\$3.7946
Fund Size as at 30.09.2019	\$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

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.

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

www.celestefunds.com.au

ABN 78 098 628 605