

### Celeste Australian Small Companies Fund

Monthly update 31 October 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	-0.1	+20.0	+9.2	+9.4	+6.9
Performance (relative to Index)	+0.4	+5.6	-1.2	-0.2	+2.3
S&P/ASX Small Ords Acc Index	-0.5	+14.4	+10.4	+9.6	+4.6
S&P/ASX Small Inds Acc Index	-0.5	+19.0	+10.9	+9.9	+8.4
S&P/ASX Small Res Acc Index	-0.5	-0.5	+8.5	+8.1	-5.3

Past performance is not necessarily indicative of future returns.

The Fund fell 0.1% in October, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index decreasing by 0.5%. Since inception (May 1998) the Fund's return is 13.4% pa, net of all fees, against the Index's 6.0% pa.

#### Portfolio Commentary

**Steadfast** (SDF) provided a positive trading update at its AGM in October. Via a combination of strong trading conditions and a greater than expected acceptance of IBNA members for the SDF acquisition (100% vs 80%), management indicated FY20 earnings are tracking towards the high-end of the previously stated EBITA range of \$215-225m. Given SDF's better than average earnings certainty and the tailwind from increases in insurance premiums, we expect the market to continue to rate SDF's cashflows highly.

**Codan** rose 11.9% in October with AGM commentary positive, guiding to net earnings growth of 16% in H1 of FY20. Codan noted that its Communications Division would post H1 sales of \$60m, up significantly year on year, whilst the Minelab Metals Detection business is, "off to a strong start in FY20 ...".

**IMF Benthams** (IMF) declined 7.4% in October. IMF announced the acquisition of Omni Bridgeway, a leading funder of litigation, arbitration and enforcement proceedings focusing on civil law jurisdictions primarily in Continental Europe and Central Asia. The acquisition price of up to A\$141m was in part funded by a fully underwritten ~A\$139 million equity raising. The acquisition provides a strong beachhead in Continental Europe and broadens IMF's offering and capability into enforcement, which will open up additional merit based litigation funding opportunities.

**ARB** declined 3.8% in October. At its AGM, ARB provided updated expectations for 1H20 profit to be below last year largely due to adverse FX movements on imported product and the lag from price rises being put through to offset these currency movements. ARB's medium term remains positive, benefiting from a recent acquisition in NZ and from a growing OEM relationship with Ford in the US.

**Reece** fell 3.0% in October after reporting Q1 sales growth of 4.9% at its AGM. In Q1, the Reece AU/NZ business grew sales a commendable 0.8%, whilst its US business Morsco saw constant currency sales growth of 9.5%. Reece management report that the performance of its transformative US acquisition of July 2018, Morsco, is on track, with the business providing an attractive platform for long term growth.

#### Portfolio Top 5 Holdings

Stock	% of Fund
1 IMF BENTHAM	5.3
2 CITY CHIC COLLECTIVE	4.3
3 INVOCARE	4.2
4 MONADELPHOUS GROUP	4.1
5 WPP AUNZ	4.1

#### Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	-0.4	+19.4	+12.4
USA – S&P 500	+2.0	+12.0	+12.6
USA – NASDAQ Composite	+3.7	+13.5	+16.9
Europe – FTSE (UK)	-2.2	+1.7	+1.4
Europe – DAX (Germany)	+3.5	+12.4	+6.5
Asia – Nikkei (Japan)	+5.4	+4.6	+9.6
Asia – Shanghai Composite (China)	+0.8	+12.5	-1.9

#### Monthly Commentary

October saw both developed and emerging equity markets buoyant, whilst bonds continued to edge higher. Annual General Meeting season in Australia continued to highlight that corporations are still beset by an anaemic revenue environment, with modest pricing power and little scope for further cost adjustment. Outlook statements were generally sobering, providing little basis for optimism, and fanning a cautious disposition towards FY20.

In Australia, October 1<sup>st</sup> saw the Reserve Bank of Australia (RBA) cut the cash rate by 25bps, to 0.75%, the third time this year that the rate has been cut. Q3 headline inflation came in at 0.5%, with the year on year figure at 1.7%, below the RBA's target rate of 2% - 3%, as has been the case for 19 of the last 20 quarters. Retail sales grew 2.6% in August, year on year, below the 12 months average of 2.9%, suggesting July's \$7.6b of income tax cuts are not being spent as yet. Whilst the jury on recent tax cuts is out, their impact, thus far appears to be inconclusive, outside of the property market.

In the US, 136,000 jobs were created in September, pushing the unemployment rate to 3.5%, a low last seen in December 1969. Average hourly earnings were up in September to an annualised 2.9%, down slightly on the 3.2% growth rate seen in August. The US Commerce Department noted GDP growth in Q3 was 1.9%, as better than expected consumer spending offset some slowing in business investment and lower public spending. Consumer spending in Q3 was up 2.9%, after surging 4.6% in Q2, in part acknowledging the fading effect of last years \$US1.5tn tax cut. During October, the US Federal Reserve cut rates by 25 bps, to 1.5% - 1.75%. Whilst 2 members of the Federal Open Markets Committee (FOMC) dissented from the rate cut decision, the FOMC statement noted it, "...will continue to monitor the implications of incoming information for the economic outlook...".

In October, a Toyota Motor finance unit issued a 20 billion yen (\$265m AUD) three year bond with a face value of 100 yen, and a coupon rate of 0.001%. With the bond being sold for 100.003 yen the interest rate is cancelled out, and hence any buyer of the bond is tying up their capital for 3 years with no effective interest received. Comments from the underwriter to the bond noted healthy demand, with the issue oversubscribed by a factor of two.

China's economy grew by 6.0%, year on year, in the third quarter, versus 6.2% in the second quarter. Retail sales in September grew by 7.8%, year on year, compared to growth of 7.5% in August. Industrial output grew 5.8% in September, compared to 4.4% in August. During the month the International Monetary Fund reduced their 2019 growth expectation for China to 6.1%, from 6.2%, due to the trade imbroglio with the USA, and slowing domestic demand.

We continue to have a cautious mindset into 2020 given equity valuations and the macro backdrop. At Celeste we will look to add to the portfolio, in a process consistent manner, when risk and reward appear appropriately priced.

# CELESTE

## Funds Management

### Fund at a Glance

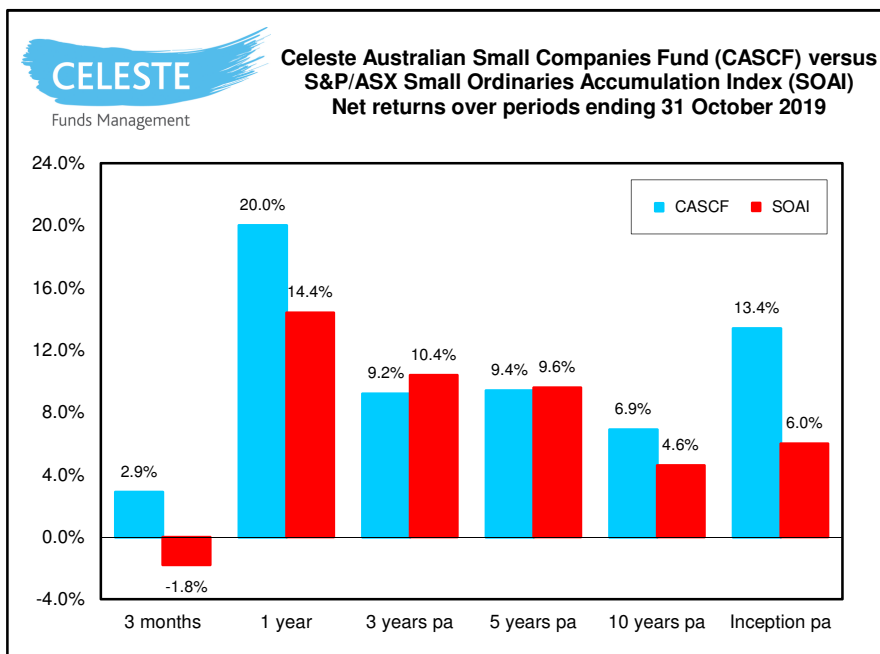
#### Fund Information

<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 31.10.2019</b>	\$3.7690
<b>Unit price (application) as at 31.10.2019</b>	\$3.7917
<b>Fund Size as at 31.10.2019</b>	\$72m
<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



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.

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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