

Celeste Australian Small Companies Fund

Monthly update 30 November 2019

Performance Statistics (Net of fees)

	1 mth %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	10 yrs % p.a.	15 yrs % p.a.
Celeste Aust. Small Co. Fund	-0.5	+22.3	+9.8	+10.7	+6.7	+6.9
Performance (relative to Index)	-2.1	+5.7	-1.6	-0.1	+2.1	+1.9
S&P/ASX Small Ords Acc Index	1.6	+16.6	+11.4	+10.8	+4.6	+5.0
S&P/ASX Small Inds Acc Index	2.8	+21.4	+12.4	+11.0	+8.8	+6.1
S&P/ASX Small Res Acc Index	-3.7	-0.1	+7.7	+10.1	-6.4	+1.8

Past performance is not necessarily indicative of future returns.

The Fund fell 0.5% in November, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index increasing by 1.6%. Since inception (May 1998) the Fund's return is 13.3% pa, net of all fees, against the Index's 6.0% pa.

Portfolio Commentary

Salmat (SLM) rose 31.7% during the month. SLM announced the sale of its Marketing Solutions business to competitor IVE Group, for \$25m. The sale leaves SLM with a meaningful net cash position and ownership of a Philippines based 'business process outsourcing' company, MicroSourcing. While the Marketing Solutions business has faced headwinds for a number of years, most notably from falling catalogue circulation and escalating competitive intensity, MicroSourcing has grown earnings meaningfully since FY14. We expect that during FY20 MicroSourcing will be sold, at an attractive price, and SLM will return all proceeds to shareholders with sensitivity to tax and franking credit utilisation.

MACA (MLD) +21.1% and **Monadelphous (MND)** +6.6% both announced new contract wins in November. MND announced that it had been awarded a new contract to undertake maintenance work at RIO's Pilbara Iron Ore operations, expected to generate revenues of \$100m+ over 5 years. MLD was awarded a 5 year open pit mining contract at the Ravensthorpe Nickel mine in WA, expected to be worth some \$480m over the life of the contract. The Ravensthorpe Mine is operated by Canadian listed miner First Quantum Minerals and the contract award takes MLD's work in hand to \$2.5b.

IMF Bentham (IMF) was suspended from trading on 29th November pending the release of the NSW Supreme Court judgement in the Wivenhoe Dam class action. The judgement found that engineers whose job it was to manage Wivenhoe and Somerset dams had failed in their duty of care in the 2011 Brisbane floods. The judgement cited the engineers did not factor in 'biblical' rainfall forecasts in responding to the flood, despite being obliged to follow the dam manual, a document they themselves had drafted only 18 months earlier. This Wivenhoe case is held on balance sheet for IMF and is part funded by Elliott Management. It is expected that IMF will seek, on behalf of the plaintiffs, to discuss settlement prior to February 2020. The income impact for IMF will be significant and has been estimated in the region of \$100m - \$130m, compared to a market capitalisation for IMF of \$871m on Nov. 29th. On relisting, post initial assessment of the judgement, the IMF price rose c10%.

Portfolio Top 5 Holdings

Stock	% of Fund
1 IMF BENTHAM	5.6
2 MONADELPHOUS GROUP	4.5
3 AP EAGERS	4.4
4 CITY CHIC COLLECTIVE	4.4
5 WPP AUNZ	4.1

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+3.1	+25.9	+12.6
USA – S&P 500	+3.4	+13.8	+12.6
USA – NASDAQ Composite	+4.5	+18.2	+17.6
Europe – FTSE (UK)	+1.4	+5.2	+2.7
Europe – DAX (Germany)	+2.9	+17.6	+7.5
Asia – Nikkei (Japan)	+1.6	+4.2	+8.4
Asia – Shanghai Composite (China)	-1.9	+11.0	-4.0

Monthly Commentary

Equity markets around the world rose in early November as optimism that the US/China trade dispute was close to resolution grew. By month end the ebb and flow of the US/China trade dispute re-emerged as the preparedness of the US to roll back tariffs became problematic and a bone of contention.

In Australia, economic data released in the month suggested a weakening in growth and slowing in activity. Retail sales in Q3 fell 0.1%, with year on year tracking down 0.2%. The subdued retail backdrop is despite lower interest rates and the benefit of the Coalitions May election promised tax cuts. The unemployment rate rose to 5.3% in October, from 5.2% in September, whilst private capex in Q3 fell 0.2% quarter on quarter, with the year on year figure now down 1.3%.

The Reserve Bank of Australia's (RBA) Nov. statement on Monetary Policy downgraded forecasts for wages, inflation and growth. The RBA now expects inflation to stay below the target range of 2% - 3% throughout its two year forecast period, noting that wages growth shows little sign of picking up and that faster wages growth would be needed for inflation targets to be met. The RBA also noted that whilst the economy is "... gradually coming out of a softer patch ..." the GDP growth forecast for 2019 was being cut to 1.75% from 2%.

The manufacturing sector in China grew in November with the smaller company focused Caixin-Markit purchasing managers index (PMI) at 51.8 in the month, from 51.7 in October. China's official PMI, which includes larger state owned enterprises, returned to growth in November with a reading of 50.2, from 49.3 in October. In the year to October, power generation in China grew 4% year on year, whilst over the same period, 'fixed asset investment' grew 5.2%, with the combined value of projects 44.2b yuan, or US\$6.3b.

In the US, the October unemployment rate was 3.6%, from 3.5% in September, with average hourly earnings growing at 3% in the year to October. Inflationary pressures in the US remain muted with October CPI +0.2%, and year on year inflation tracking at 2.3%

In November, Germany narrowly avoided recession growing at a miserly 0.1% in Q3, after contracting in the previous three months. Whilst recent global trade conflict has left the export centric German economy with some challenges, an unemployment rate of 3.1% is amongst the lowest in the developed world and Germany's per capita GDP is highest amongst the G7 nations.

We maintain a cautious disposition into 2020 as equity market valuations remain driven by yield relativities, with little weighting given to likely sombre earnings growth. A slowing global economic backdrop, ongoing trade tensions and an election in the US in 2020 all add weight to the case for a cautionary stance. We anticipate that volatility will remain elevated in the short term and will look to apply our investment process judiciously should risk and reward traits become compelling.



Funds Management

Fund at a Glance

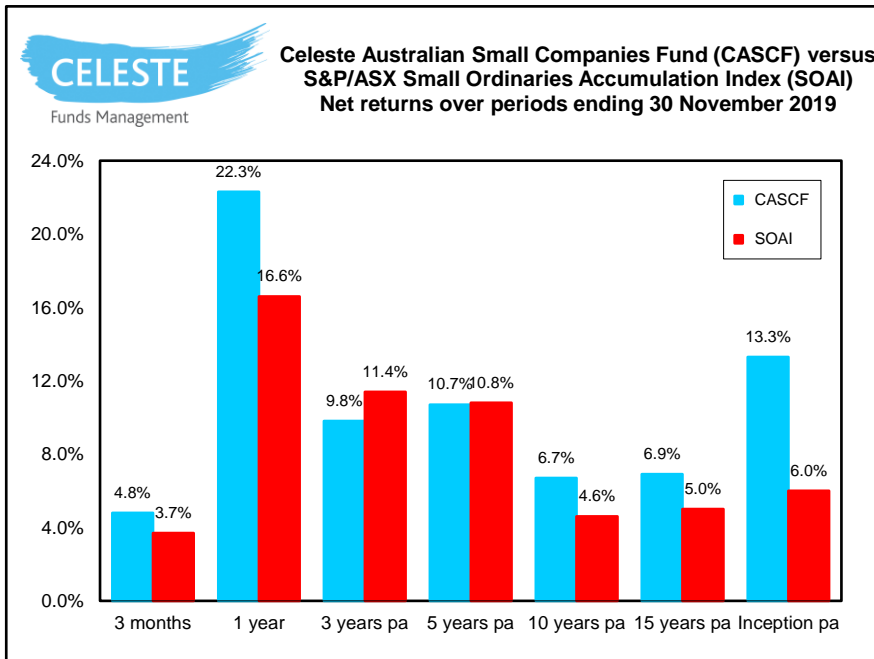
Fund Information

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 30.11.2019	\$3.7488
Unit price (application) as at 30.11.2019	\$3.7714
Fund Size as at 30.11.2019	\$70m
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. [reducing to 1.10% p.a. from 6 December 2019]
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.

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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