

Celeste Australian Small Companies Fund

Monthly update 31 December 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	+1.4	+30.6	+8.3	+11.3	+6.8	+6.9
Performance (relative to Index)	+1.7	+9.2	-1.7	+0.7	+2.7	+1.9
S&P/ASX Small Ords Acc Index	-0.3	+21.4	+10.0	+10.6	+4.1	+5.0
S&P/ASX Small Inds Acc Index	-1.4	+24.5	+10.4	+10.5	+8.2	+6.0
S&P/ASX Small Res Acc Index	+4.4	+9.8	+8.4	+11.6	-6.4	+2.4

Past performance is not necessarily indicative of future returns.

The Fund rose +1.4% in December, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index falling by -0.3%. 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

During December, **IMF Bentham** (IMF) rose +27.7% due to a combination of the stock re-listing post judgement being awarded in favour of the plaintiff in the Wivenhoe Dam class action; refinancing of \$72m secured unlisted notes to CY26 at 5.65%; and additional case wins taking successful case completions in 1H20 to \$299m in expected income.

Codan (CDA) rose +13.2% in December driven by an increase in earnings guidance for 1H20. On the back of strong business conditions in November and December, 1H20 profit is expected to now be in the order of \$30m, this represents a +36% increase over the pcp. It was only in October that the company stated it expected 1H20 profit would be in the region of \$26m.

AMA (AMA) declined -27.8% during the month following a weaker than expected trading update. While the Company reported that it was pleased with the recent acquisition of Capital SMART and synergies are being delivered earlier than expected, volumes and mix in the panel repair division have been lower. We believe that some of the issues experienced are cyclical in nature due to the extremely dry weather conditions and the weak new car sales environment. Longer-term success in consolidating its position as the clear market leader will likely see strong returns to shareholders.

Smartgroup (SIQ) fell -23.3% in December after announcing that a \$4m impact to FY20 profit from lost insurance sales commissions. Insurance products for new/used vehicles have been under heightened regulatory pressure and the underwriting partner has likely been forced to adjust these products and the associated commission to SIQ. While impacting FY20 earnings by less than 5%, the annualised contribution is closer ~10% and the market has responded negatively to a number of surprise announcements in recent months following the sell-down by a major shareholder and CEO departure. Fundamentally, the novated leasing/salary packaging sector offers attractive returns, having delivered meaningful long-term growth and operators will look to mitigate lost revenue from efficiency gains, new revenue streams and growth in volumes.

Portfolio Top 5 Holdings

Stock	% of Fund
1 IMF BENTHAM	6.6
2 AP EAGERS	4.5
3 MONADELPHOUS GROUP	4.3
4 LIFESTYLE COMMUNITIES	3.9
5 CITY CHIC COLLECTIVE	3.9

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	-1.9	+24.1	+10.4
USA – S&P 500	+2.9	+28.9	+13.0
USA – NASDAQ Composite	+3.5	+35.2	+18.6
Europe – FTSE (UK)	+2.7	+12.1	+1.8
Europe – DAX (Germany)	+0.1	+25.5	+4.9
Asia – Nikkei (Japan)	+1.6	+18.2	+7.4
Asia – Shanghai Composite (China)	+6.2	+22.3	-0.6

Monthly Commentary

Equity markets around the world rallied in December with emerging markets +5.8%, outperforming developed markets +2.3%, driven by US\$ weakness. The Australian All Ordinaries remained a laggard versus peers not only in December at -1.9% but also in annual terms at +24.1%.

In Australia, economic data released in the month continued to reinforce a slowing economy. Residential building approvals hit a 7 year mom low at -8.1%. Approvals are -23.6% yoy with neither houses nor other /multi showing signs of resilience. The November ANZ job ad series was weak, -1.7% mom but more concerning was the -12.6% yoy. The worst trend since 2013 and a precursor to an increasing unemployment rate.

RBA December meeting minutes retain the easing bias with a proposed reassessment of the economic outlook in February 2020. The bank bias to "further easing if necessary" may be in response to what has been weak October retail sales, flat mom and only +2.1% yoy. Car sales weakened for a record 20th month in a row, now -9.8% yoy with the 4th quarter -4% qoq. Housing finance approvals for owner occupiers rebounded in October, +2.2% mom and +5.7% yoy. Investor refinancing kicked up slightly in October but remains -9.7% yoy. NSW and Qld growth was strong, SA and WA remain weak. Business credit remains anaemic with -0.1% mom delivering a +2.7% yoy growth rate. Personal credit contracted the most since 2009, -0.6% mom and -4.7% yoy.

In the US, President Trump joined Andrew Johnson (1868) and Bill Clinton (1998) as sitting presidents to be impeached. A Republican controlled Senate is unlikely to see the charges amount to much more than news copy and airway filler. US jobs jumped in November with 266,000 new jobs added pushing the already low unemployment rate down to 3.5%. The participation rate was little changed at 63.2%. Average hourly earnings were +3.1% yoy. The US Fed voted unanimously to retain the cash rate at 1.50%-1.75%, a level deemed appropriate to support sustained expansion of economic activity.

Chinese total exports in November were -1.1% yoy, with those to the US -23% yoy. The US export result is the worst since February and maintains a complete year of monthly declines. Markets are focused on a phase one trade deal between the US & China but given the last 18 months the deal might be easy to announce but tougher to close.

We maintain a cautious disposition into 2020 as valuations remain stretched on yield relativities and earnings growth looks meagre. 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

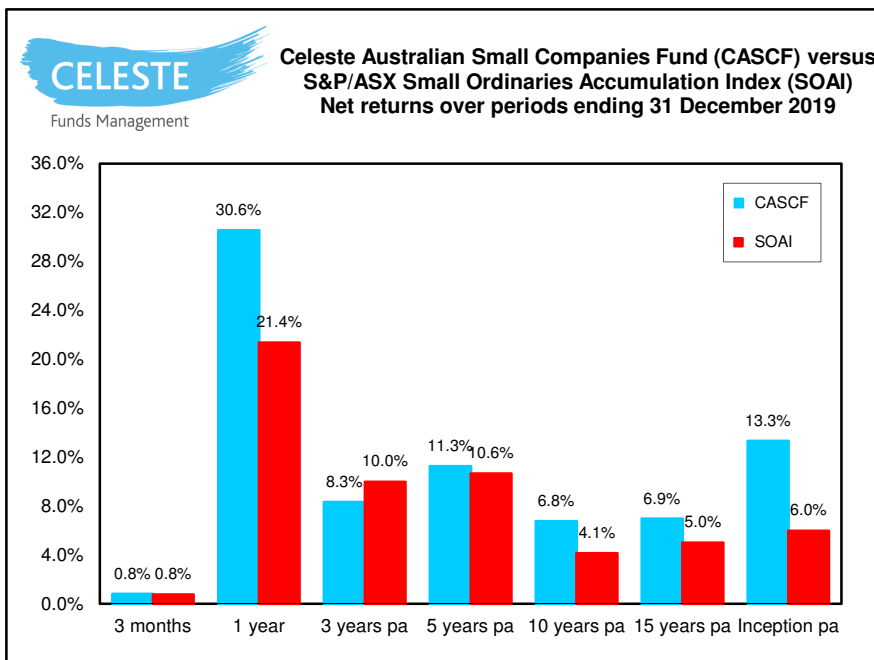
Fund Information

Primary Investments	Shares in listed Australian smaller companies
Investment objective	Exceed Small Ordinaries Accumulation Index over rolling 5 year periods
Unit price (redemption) as at 31.12.2019 [ex-distribution]	3.7577
Unit price (application) as at 31.12.2019 [ex-distribution]	3.7804
Fund Size as at 31.12.2019 [ex-distribution]	\$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*	1.10% 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

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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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