

Celeste Australian Small Companies Fund

Monthly update 31 January 2020

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	+2.0	+29.9	+9.8	+11.5	+7.2	+7.0
Performance (relative to Index)	-1.4	+11.1	-2.3	+0.3	+1.9	+2.1
S&P/ASX Small Ords Acc Index	+3.4	+18.8	+12.1	+11.2	+5.3	+4.9
S&P/ASX Small Inds Acc Index	+4.1	+23.6	+13.4	+11.3	+9.2	+6.0
S&P/ASX Small Res Acc Index	+0.3	+1.9	+7.4	+10.8	-5.2	+2.0

Past performance is not necessarily indicative of future returns.

The Fund rose 2.0% in January, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index increasing by 3.4%. Since inception (May 1998) the Fund's return is 13.4% pa, net of all fees, against the Index's 6.1% pa.

Portfolio Commentary

In January, Rio Tinto awarded the EPC (engineering, procurement and construction) contract of the Western Turner Syncline (WTS) Phase 2# Mine development to Mondium, a company owned 60% by **Monadelphous** (MND), and 40% by **Lycopodium** (LYL). In January, MND rose 5.2%, whilst LYL was up 12.0%. The WTS contract award is expected to deliver revenues of \$400m+ to Mondium in calendar 2020, into 2021, and is the largest contract awarded to the company since its establishment in October 2016. The WTS contract builds on the track record of Mondium, and adds further weight to its capability in the EPC space, from conceptual early design through to final project delivery.

IMF Bentham (IMF) rose 5.6% in the month. In conjunction with the award of another significant judgement of \$84m, IMF also announced that the estimated portfolio value of its investments (excluding those relating to the recently acquired Omni Bridgeway) increased 21% during the December quarter to \$11.5b. This represents growth of over 50% compared to Dec-2019.

Perpetual (PPT) announced the acquisition of Trillium, a US based fund manager with a specialisation in ESG investment products. Founded in 1982, Trillium currently has A\$5.5b under management. Perpetual will initially pay A\$54m with an earn-out based on specific future targets being met. In our view the acquisition is an excellent strategic fit for PPT. Trillium provides a significant beachhead in the US from which PPT can leverage a new distribution team, with its ESG investment products well placed to meet growing demand.

Integrated Research (IRI) was down 9.2% post the issue of a trading update that stated 1h20 revenue would grow 4-6% but that profit would be flat. As the 1h19 profit included an unrealised gain, this is a strong profit result. Licence sales rose 4-7% with strong growth in communications revenue. Payments revenue is likely to be down in 1h20 given the cycling of the signing of the Barclays deal in the last half, but the segment should still grow year-on-year in FY20. We continue to think that IRI has a significant long term opportunity to grow revenue in both payments and communications.

Portfolio Top 5 Holdings

Stock	% of Fund
1 IMF BENTHAM	6.7
2 CITY CHIC COLLECTIVE	4.7
3 MONADELPHOUS GROUP	4.4
4 LIFESTYLE COMMUNITIES	3.8
5 AP EAGERS	3.8

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+4.7	+24.9	+12.4
USA – S&P 500	-0.2	+19.3	+12.3
USA – NASDAQ Composite	+2.0	+25.7	+17.7
Europe – FTSE (UK)	-3.4	+4.6	+0.9
Europe – DAX (Germany)	-2.0	+16.2	+4.0
Asia – Nikkei (Japan)	-1.9	+11.7	+6.8
Asia – Shanghai Composite (China)	-2.4	+15.2	-2.0

Monthly Commentary

Equity markets performance was mixed in January, the Australian All Ordinaries was particularly strong, up 4.7%, as was the NASDAQ in the US, up 2.0%. Conversely markets in Europe and Asia broadly traded down.

Domestically, while the spate of bushfires over the holiday season dominated headlines, the economic data released during January remained broadly consistent with the expectation of muted growth – the unemployment rate remained steady at 5.1%, 4th quarter CPI picked up to all of 1.8% year-on-year, which remains below the RBA's target range of 2-3%, and Nov. retail sales increased 0.9% month-on-month, driven by the pull forward of sales by Australia's increased adoption of the US concept of Black Friday Sales.

At the time of writing, the RBA left the overnight cash rate at 0.75% at its February meeting. Governor Lowe cited that while the RBA is prepared to ease monetary policy further, the outlook for the global economy remains reasonable notwithstanding the potential impact of the spread of the coronavirus and, domestically, the RBA wishes to assess the impact on the Australian economy of the rate cuts it made in 2019.

Globally, January was dominated by a number of geo-political events, from escalating tension between the US and Iran, the signing of Phase One of a trade deal between the US and China, the outbreak of the Coronavirus from the Chinese province of Hubei, the UK officially leaving the European Union, ongoing evidence in the US President impeachment trial and the build-up to the US Presidential election. In totality, these events further raise uncertainty levels and are arguably more important developments for the global economy than the reported statistics for most economies in January.

In the US, the most interesting data point was the yield on the Ten Year Treasury Note, which declined c40bps over the month to 1.5% from 1.9%. At the time of writing, the yield has rallied c10bps to 1.6%, which is in line with yield on the 3 month Treasury Note. This suggests to us the bond market is much more concerned by the potential impact of the aforementioned events on the outlook for the global economy than equity markets.

In China, December economic data released in January was broadly positive, with industrial production growth lifting to 6.9% and CPI flat at 4.5%. The outbreak of the Coronavirus is of significant concern for the Chinese domestic economy and global supply chains. This has seen the Chinese government inject 1.7t Yuan (US\$242b) into the financial system in the past week.

We maintain a cautious disposition into 2020 as valuations remain stretched and earnings growth looks meagre. Risks to a global economic recovery have only increased recently, adding weight to the case for a cautionary stance. We anticipate that volatility will further elevate in the short term and will look to apply our investment process judiciously should risk/reward traits become compelling.



Funds Management

Fund at a Glance

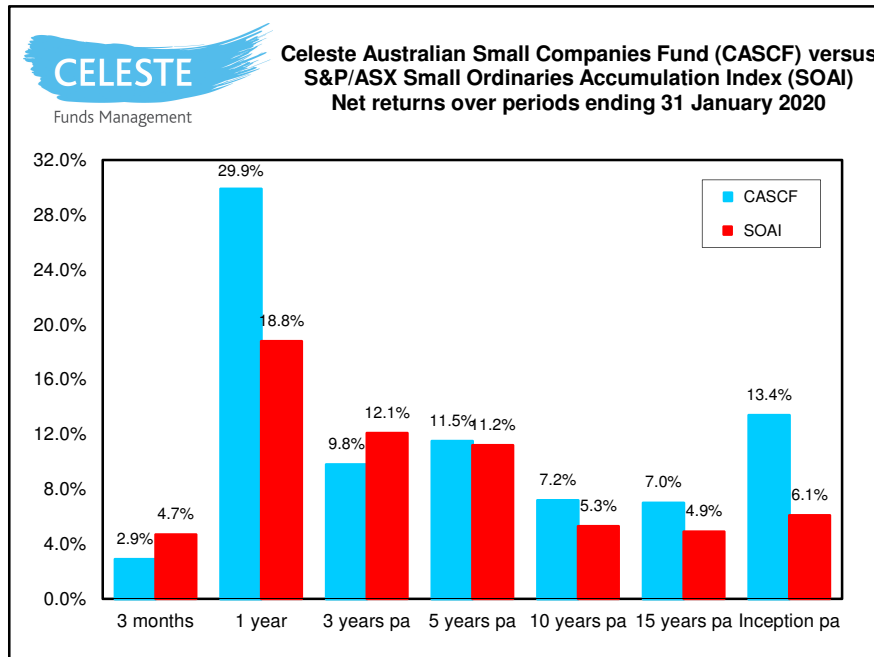
Fund Information

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 31.01.2020	3.8336
Unit price (application) as at 31.01.2020	3.8567
Fund Size as at 31.01.2020	\$72m
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



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