

Celeste Australian Small Companies Fund

Monthly update 29 February 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	-7.0	+11.5	+6.2	+8.5	+6.4	+6.5
Performance (relative to Index)	+1.7	+9.9	-2.1	+1.1	+2.0	+2.2
S&P/ASX Small Ords Acc Index	-8.7	+1.6	+8.3	+7.4	+4.4	+4.3
S&P/ASX Small Inds Acc Index	-8.4	+5.7	+9.5	+7.7	+8.2	+5.6
S&P/ASX Small Res Acc Index	-9.7	-13.0	+3.9	+6.3	-5.9	+0.7

Past performance is not necessarily indicative of future returns.

The Fund fell 7.0% in February, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index decreasing by 8.7%. Since inception (May 1998) the Fund's return is 12.9% pa, net of all fees, against the Index's 5.6% pa.

Portfolio Commentary

Invocare (IVC) rose 8.1% over the month on the back of a strong 1H20 result. The "protect & grow" capital upgrade program has begun to show clear signs that it is driving increased volume and revenue in the recently renovated facilities. While the program is not anticipated to be entirely complete until FY21, it has highlighted the significant upside that will flow through IVC's results as the business gains traction and grows market share. We think that returns generated by IVC over the next 3 years will trend upwards, driving cash flow growth and a higher share price.

Money3 Corporation (MNY) reported a robust 1H20 result. Loan originations in Australia grew 25% on the prior corresponding period, while New Zealand loan originations are up 50% post the acquisition of Go Finance. Importantly, cash collections were strong, which saw bad-debt experience tracking below guidance, resulting in cash conversion of around 100%. We believe MNY has significant growth opportunities ahead, which are likely to be augmented by lower funding costs post refinancing.

Reece (REH) +3.3% produced a strong interim result with total sales up 9%. Despite a challenging operational backdrop in Australia, REH had a commendable result with flat sales and EBITDA off 4%. In the USA, REH grew sales 19%, but importantly saw like on like sales lift 9%. Given the multi decade growth opportunity available in the USA, and the robustness of their AU/NZ operation, we remain positively disposed to Reece Group.

Breville Group (BRG) rose 5.3% in February after delivering a very strong interim result. BRG achieved double digit revenue growth in North America, Europe and Australia/NZ, and in each of the food categories in which it sells small electrical appliances: beverage; food preparation; and cooking. We anticipate that BRG will continue to grow sales and earnings strongly into the medium term.

AMA Group (AMA) reported an extremely weak 1H20 result. Despite numerous acquisitions in FY19 and 1H20, which should have contributed to earnings, margins declined precipitously. With AMA's balance sheet now heavily geared, and increased risk around AMA's execution and pricing power, we exited our position.

Portfolio Top 5 Holdings

Stock	% of Fund
1 IMF BENTHAM	6.1
2 CITY CHIC COLLECTIVE	4.5
3 STEADFAST GROUP	4.4
4 IRESS	4.2
5 AP EAGERS	4.1

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	-8.1	+8.2	+8.5
USA – S&P 500	-8.4	+6.1	+7.7
USA – NASDAQ Composite	-6.4	+13.7	+13.7
Europe – FTSE (UK)	-9.9	-7.2	-3.3
Europe – DAX (Germany)	-8.4	+3.3	+0.1
Asia – Nikkei (Japan)	-8.9	-1.1	+3.4
Asia – Shanghai Composite (China)	-3.2	-2.1	-3.9

Monthly Commentary

Fear and loathing gripped investors in February as all risk assets were repriced, with equities falling precipitously and bond yields collapsing. Coronavirus (COVID-19) wariness quickly moved from cautiousness to across the board selling with extreme levels of daily volatility. Whilst COVID-19 infection rates in China have peaked, and are in decline, at the time of writing, infection rates across the globe continue to grow, with the virus now found in 108 countries around the world.

COVID-19 fear drove global bond yields lower in February, and the decline has continued into March. The US 10Y Bond was 1.89% on February 1st, but has fallen to 0.52% on March 9th, an unprecedented drop in a historic context. In Australia, the 10Y Bond, over the same period, has moved from 0.91% to 0.58%. Global growth concerns have fuelled the decline in bond yields, with economic growth forecasts being cut as consumers adjust their spending patterns to minimise virus transmission risk. Investor angst also appears on the rise as faith in the influence of Central Banks is challenged, given the residual arsenal available to Central Bankers around the world looks increasingly spent, interest rate flex is paltry, and inflation targets appear increasingly unobtainable. A 30% decline in the price of crude oil occurred early in March adding to investor anxiety. The oil price decline appears to be the outworking of Russia and Saudi Arabia being unable to agree on a cut to oil production, despite a sharp drop in crude demand due to COVID-19. The confluence of an oil supply shock, happening in tandem with a demand collapse is rare in a historic context, and may remain a weight on the oil price in the short term.

Economic data in February highlighted a fragile economic backdrop, likely to have worsened as COVID-19 has spread. The German economy was flat in Q4 of 2019, whilst the consumption tax hike effected Japanese economy fell 7.1%. The Purchasing Managers Index in China for Feb. registered its lowest ever reading at 35.7, compared to 50 in Jan. In Australia, interim reporting season had a sombre tone with earnings lower than anticipated, gearing higher than expected, leading to forecasts falling for FY20 & FY21.

Whilst COVID-19 fear is likely to remain a constant for investors in the short term, it is worth remembering the comments from the World Health Organisation (WHO), noting that China have demonstrated that the spread of the virus can be slowed, and its impact reduced. The WHO highlight universally applicable actions, such as working across society to identify those who are sick, bringing them to care, following up contacts and preparing hospitals/clinics to manage a likely surge in patient numbers.

We anticipate that COVID-19 will fan extreme levels of fear and volatility in the short term. Whilst equity market declines are painful for investors we will remain true to our investment process, taking a medium term view, adding to the portfolio when high quality companies become available at attractive prices.



Funds Management

Fund at a Glance

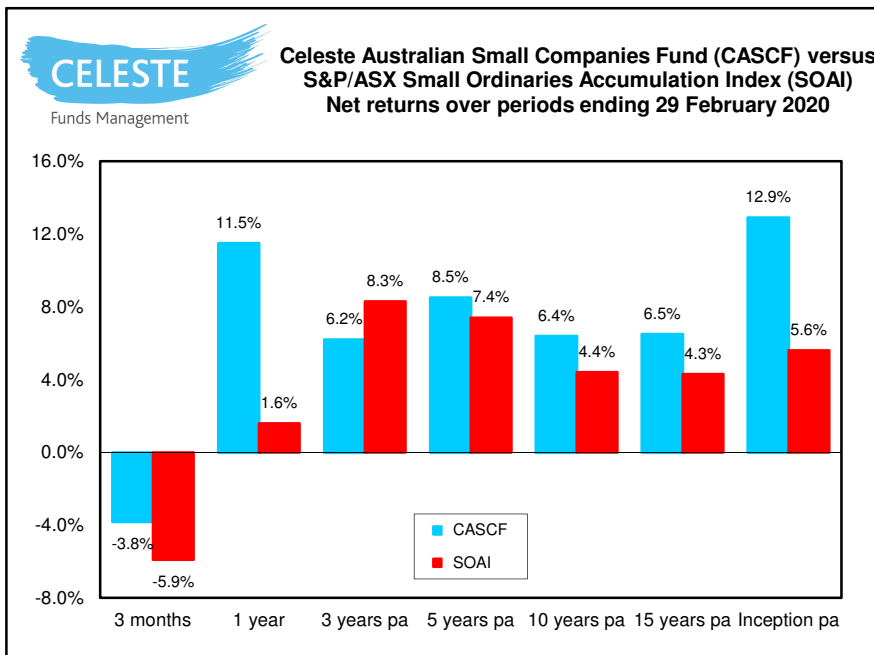
Fund Information

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 29.02.2020	\$3.5651
Unit price (application) as at 29.02.2020	\$3.5865
Fund Size as at 29.02.2020	\$67m
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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