

Celeste Australian Small Companies Fund

Monthly update 31 March 2020

Performance Statistics (Total Returns 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	-27.0	-19.4	-4.8	+2.3	+2.5	+4.5
Performance (relative to Index)	-4.6	+1.6	-3.5	-0.2	+1.4	+1.8
S&P/ASX Small Ords Acc Index	-22.4	-21.0	-1.3	+2.5	+1.1	+2.7
S&P/ASX Small Inds Acc Index	-23.3	-19.3	-1.2	+2.3	+5.0	+3.8
S&P/ASX Small Res Acc Index	-18.4	-27.6	-1.8	+3.8	-9.0	-0.5

Past performance is not indicative of future returns. Total returns shown for the Celeste Australian Small Companies Fund has been calculated using exit prices after taking into account all of the Fund's ongoing fees and assuming reinvestment of distributions. No allowance has been made for entry fees or taxation.

The Fund fell 27.0%¹ in March, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index decreasing by 22.4%. Since inception (May 1998) the Fund's return is 11.3% pa¹, net of all fees, against the Index's 4.4% pa.

Portfolio Commentary

Integrated Research (IRI) fell 7.1% in March. IRI provides vital monitoring software to: ensure the processing of electronic transactions; and to enable remote communications. We anticipate the significant jump in remote working solutions that has occurred as part of the isolation phase of the Covid-19 protocol will underwrite higher demand for IRI's software solution into the future. IRI remains well placed in a post Covid world.

In March, **Graincorp (GNC)** demerged its global malt business into a separately listed entity, **United Malt Group (UMG)**. GNC continues to enjoy excellent rainfall in key wheat growing regions with forward crop estimates for 2020 subject to positive revision. UMG remains well placed for growth based on astute capital investment over the last 2 years, expanding capacity to service burgeoning demand from whisky and craft beer producers.

Eclix Group (ECX) fell 53.1% in March. The dramatic fall in the share price was driven by concerns over the company's balance sheet and the residual value of its fleet vehicles. We added to our ECX position in March, as management's self-help initiatives: cost out; debt reduction; and divestment of non-core assets; remain on track. Importantly ECX's debt facilities, which fund its fleet/lease operations, were refinanced in Dec 2019 to Oct. 2022 & July 2025.

Retail stocks were sold off in March as the impact of Covid-19 on consumer demand patterns weighed on investor sentiment. Celeste added to its exposure in **Baby Bunting**, **City Chic** and **Breville Group** in March as we felt the share price decline reflected investor panic rather than company specific investment fundamentals.

Money3 Corporation (MNY) declined 54.5% during the month. As a financier of primarily second hand vehicles, the market sold MNY off heavily over concerns that the looming spike in unemployment would limit the company's ability to lend and collect cash to and from their customers. We continue to hold our position in the stock, as we expect MNY's pre-existing loan extension practices will ensure robust cash collections in the short term. MNY's balance sheet remains conservatively geared and its current finance facilities extend until 2022.

Portfolio Top 5 Holdings

Stock	% of Fund
1 IMF BENTHAM	7.5
2 IRESS	4.7
3 BREVILLE GROUP	4.7
4 STEADFAST GROUP	4.4
5 CITY CHIC COLLECTIVE	4.0

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	-20.9	-15.0	-0.7
USA – S&P 500	-12.5	-8.8	+3.0
USA – NASDAQ Composite	-10.1	-0.4	+9.2
Europe – FTSE (UK)	-13.6	-22.1	-8.2
Europe – DAX (Germany)	-16.4	-13.8	-6.9
Asia – Nikkei (Japan)	-10.5	-10.8	0.0
Asia – Shanghai Composite (China)	-4.5	-11.0	-5.1

Source: IRESS

Monthly Commentary

The Coronavirus (Covid-19) pandemic gripped investors in March with equities & bonds sold off aggressively as panic set in. At month end Covid-19 was found in 196 countries, compared with 108 at the start of March. The spread of the virus led to the global economy being put on pause, with nations locking down activity, travel being restricted and social distancing becoming the norm.

The monetary response to Covid-19 was both swift and dramatic. Central Banks around the world moved uniformly to flood credit markets with liquidity, and cut interest rates aggressively.

In Australia, the Reserve Bank (RBA) cut rates twice in March, to a record low of 0.25%. The RBA also announced that it would be providing subsidised funding to banks, at a 0.25% cost, equivalent to 3% of their credit outstanding, to assist lending to 'Small & Medium Enterprises'. In the US, the Federal Reserve (FED) cut rates twice in the month, with the aggregate move from 1.5%-1.75% to 0.0-0.25%. The FED also announced that it would purchase an unlimited amount of Treasury Bonds and Mortgage Backed Securities, effectively moving its quantitative easing appetite to a position with no limit. The oil price hit a 17 year low in the month, of \$22.74 per barrel as the Covid-19 slow down combined with no adjustment in OPEC output weighed on sentiment.

In March, the Australian Federal Government introduced 3 stimulus packages, with an aggregate dollar value of over \$210b. In the US, a \$2 trillion stimulus package was passed unanimously by Congress, providing a payment of \$1,200 per adult, and \$500 per child, to counter the anticipated fall in incomes as unemployment grows. US jobless claims, that had been tracking around 350,000 per month, grew to 3.3m and 6.6m in the last two weeks of March.

A number of other nations around the world, including Australia, the UK, South Korea, Denmark, Holland and New Zealand, established a wage subsidy system, to keep people employed, and subsidise a portion of wages for employers. In Australia, the 'JobKeeper' stimulus package was a \$130b initiative to provide \$750 per week, to eligible employees if their employer has seen a 30% reduction in revenues. We expect the JobKeeper initiative will lead to some improvement in consumer sentiment in the short term, as well as providing some buffer to a potential spike in unemployment.

We expect volatility to remain elevated in equity markets, as Covid-19 infection rates rise, and the end to the global economic lockdown remains unknown. We take some modest comfort from the unprecedented monetary and fiscal stimulus being injected into the global economy, and hope this will provide a basis for recovery in the medium term. Whilst we retain a cautious disposition in the short term, we will look to temper our anxiety, be opportunistic, and add to our portfolio weighting in exceptional companies when pricing reflects panic, rather than intrinsic investment fundamentals.

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Funds Management

Fund at a Glance

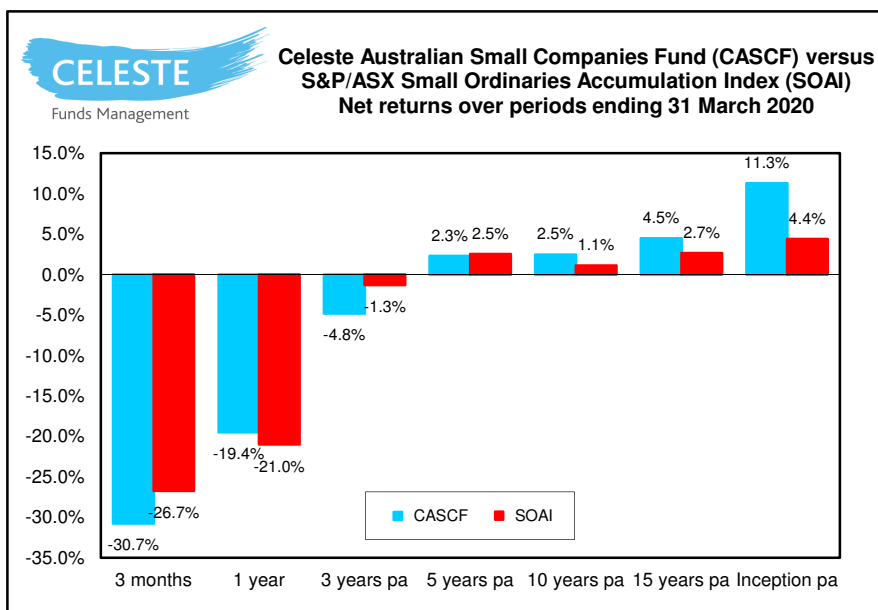
Fund Information

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 31.03.2020	\$2.6029
Unit price (application) as at 31.03.2020	\$2.6185
Fund Size as at 31.03.2020	\$49m
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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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 www.celestefunds.com.au. 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.

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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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