

### Celeste Australian Small Companies Fund

Monthly update 31 October 2016

#### Performance Statistics (Net of fees)

	1 mth %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	10 yrs % p.a.
Celeste Aust. Small Co. Fund	-3.6	+16.4	+2.3	+6.1	+5.4
Performance (relative to Index)	+1.1	+1.5	-2.1	+3.4	+5.1
S&P/ASX Small Ords Acc Index	-4.7	+14.9	+4.4	+2.7	+0.3
S&P/ASX Small Inds Acc Index	-5.3	+9.3	+6.4	+11.0	+2.4
S&P/ASX Small Res Acc Index	-2.5	+45.9	-4.1	-16.7	-5.7

Past performance is not necessarily indicative of future returns.

The Fund fell 3.6% in October, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index decreasing by 4.7%. Since inception (May 1998) the Fund's return is 14.1% pa, net of all fees, against the Index's 5.3% pa.

#### Portfolio Commentary

**Clearview Wealth (CVW)** rose 15.1% after Sony Life acquired 14.9% of the company at \$1.48 per share. We expect that Sony will make an offer for the balance of CVW over the next year at a price above \$1.48, against an Oct. end share price of \$1.22. CVW is a very well run challenger brand in both life insurance & wealth management and the CVW strategy fits seamlessly with the historic, and current, operating ethos of Sony Life.

**Data #3 (DTL)** rose 7.9% during the month. DTL announced another strategic contract win with the QLD Dept. of Education and Training which we expect to deliver > \$12m in revenue.

**IMF Bentham (IMF)** declined by 0.8% over the month. IMF announced that strong litigation settlement activity had seen it generate \$49m in cash over the Sept. quarter, taking its cash position to > \$196m, against a market capitalisation of \$310m.

**Reece (REH)** fell 2.2% in the month. During October REH held its AGM and noted that in the Sept. quarter sales were up 5.7%, with net earnings up over 6%.

**Nick Scali (NCK)** declined 1.0% after paying a final and special dividend totalling 17c. In Oct. NCK held its AGM and provided commentary that favourable trading conditions have continued from the prior year and 1Q17 trading has seen strong same store sales growth in key markets. FY17 is expected to report healthy profit growth, as a new Distribution Centre and increased store openings allows for an acceleration in earnings growth into FY18.

Marketing and communications group, **WPP AUNZ (WPP)**, fell 25.6% in Oct. with the 'Standard Media Index' data for the month of September noting total advertising market bookings down 4.8% year on year. In late Oct., WPP announced that CFO Lukas Aviani would be stepping down due to health reasons, and in the interim WPP veteran, Chris Rollinson, would be undertaking the role.

#### Portfolio Top 5 Holdings

Stock	% of Fund
1 REECE LIMITED	6.1
2 BREVILLE GROUP	5.3
3 AMA GROUP	4.9
4 IMF BENTHAM	4.8
5 REGIS HEALTHCARE	4.8

#### Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	-2.2	+6.6	+4.3
USA – S&P 500	-1.9	+2.3	+6.6
USA – NASDAQ Composite	-2.3	+2.7	+9.8
Europe – FTSE (UK)	+0.8	+9.3	+1.1
Europe – DAX (Germany)	+1.5	-1.7	+5.7
Asia – Nikkei (Japan)	+5.9	-8.7	+6.7
Asia – Shanghai Composite (China)	+3.2	-8.3	+13.1

#### Monthly Commentary

The Australian equity market had a challenging October, as it moved in sympathy with a fragile fixed interest market. As bond rates backed up, and risk repricing moved to the fore of investor thinking, a number of global equity markets sold off. In Australia the 10 year bond yield rose 43.8bp to 2.35% in October, whilst the US 10 year bond yield rose by 23.1% to 1.83%.

The Reserve Bank of Australia (RBA) left the cash rate unchanged at 1.5% in October, the first meeting headed by new RBA Governor Phillip Lowe. The Australian September quarter CPI came in at 0.7%, quarter on quarter, or an annual 1.3%, year on year. The RBA's preferred measure of 'core' inflation came in at 1.5% year on year, substantially below the RBA's target of 2% to 3%. The RBA noted during the month that "...due to subdued labour cost growth and very low cost pressures elsewhere in the world, inflation is expected to remain low for some time...".

'Building Approvals' for August fell 1.8%, whilst on a year on year basis they are up 10.1%. One need note that whilst the August figure fell, approvals were at an annualised 249,000, following an upwardly revised 12% increase in July, to an equal record 254,000. In contrast the value of alterations and additions continues to remain anaemic, falling 1% in August, and showing growth of 1% year on year.

In the September quarter, the US economy grew at an annual rate of 2.9%, the fastest pace of growth seen in the last 2 years. The American economy added 156,000 jobs in September, with the US private sector having added 15.3m jobs since February 2010. The jobs performance achieved in Sept. is the 72<sup>nd</sup> month of consecutive employment growth seen in the USA. Whilst the US unemployment rate edged higher in September, from 4.9% to 5%, the increase is due to positive change within the participation rate, effectively more people entering the jobs market looking for work.

China's GDP grew 6.7% in the third quarter, comparable with the first half of 2016, and within the annual target growth rate of 6.5% to 7%. China's power use in September continued to grow with kW hours of electricity up 6.9% year on year. Sensitivity to an overheating Chinese property market has gained momentum in recent months and as at the end of October some 22 Chinese cities had introduced cooling measures, with these cities accounting for some 43% of home sales.

In the short term we expect equity markets will remain volatile given global growth concerns, US electoral uncertainty and bond yield's backing up. At Celeste we remain opportunistic, process consistent, and sensitised to the opportunities that equity re-pricing could present.

# CELESTE

## Funds Management

### Fund at a Glance

#### Fund Information

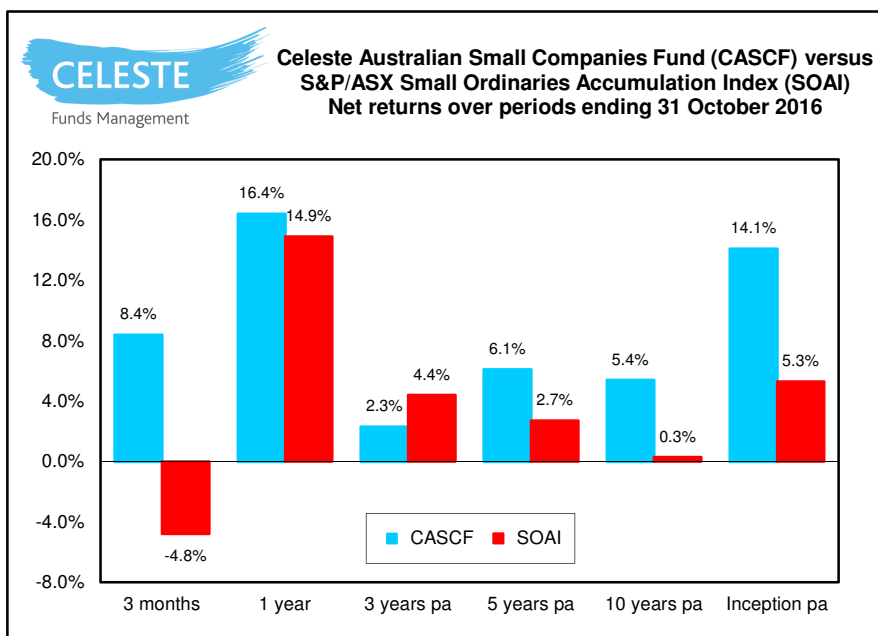
<b>Primary Investments</b>	Shares in listed Australian smaller companies
<b>Investment objective</b>	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
<b>Unit price (redemption) as at 31.10.2016</b>	\$3.1130
<b>Unit price (application) as at 31.10.2016</b>	\$3.1318
<b>Fund Size as at 31.10.2016</b>	\$60m
<b>Minimum investment</b>	\$25,000
<b>Minimum additional investment</b>	\$1,000
<b>Minimum balance</b>	\$15,000
<b>Minimum investment: monthly investment plan</b>	\$500
<b>Redemption will generally be available in</b>	7 days
<b>Distributions</b>	30 June and 31 December
<b>Entry fee*</b>	0%
<b>Exit fee*</b>	0%
<b>Buy/Sell differential*</b>	0.30%
<b>Management fee*</b>	0.95%
<b>Performance fee**</b>	20% of return above benchmark
<b>OGFM***</b>	0.95% p.a.

\* 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.

\*\*\* The Ongoing Fee Measure (OGFM) is the total amount of the ongoing Manager and Custodian Fees and aggregate Fund expenses in a Financial Year (but excluding the performance fee), divided by the average Net Asset Value of the Fund for the Financial Year expressed as a percentage. Transactional costs, such as bank charges, brokerage and stamp duties are not included in the ratio. The OGFM for the Fund will not exceed 0.95% p.a. for the duration of the PDS.

#### Fund Returns



#### Distribution History

Total distribution year ended	Cents Per Unit	Annual Yield %*
June 07	34.32	12.3
June 08	38.82	9.9
June 09	10.06	4.2
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

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\* CPU / unit price at beginning of period

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