

# CELESTE

Funds Management

## Celeste Australian Small Companies Fund

Monthly update 30 November 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	-2.0	+16.1	+3.3	+6.3	+4.8
Performance (relative to Index)	-0.8	+2.6	-2.6	+3.1	+5.0
S&P/ASX Small Ords Acc Index	-1.2	+13.5	+5.9	+3.2	-0.2
S&P/ASX Small Inds Acc Index	-1.1	+6.1	+7.3	+11.5	+1.9
S&P/ASX Small Res Acc Index	-1.6	+62.6	-0.6	-16.2	-6.3

Past performance is not necessarily indicative of future returns.

The Fund fell 2.0% in November, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index decreasing by 1.2%. Since inception (May 1998) the Fund's return is 13.9% pa, net of all fees, against the Index's 5.2% pa.

### Portfolio Commentary

**ISENTIA GROUP (ISD)** declined 27.6% during the month after a poor AGM update which highlighted that the King Content business, acquired in 2015, was expected to report a \$2m EBITDA loss in 1H17. While this is a disappointing outcome, the core ISD business continues to perform in-line with management expectations. We view the current ISD price as a material discount to the underlying value of the core media intelligence business, dragged back by resolvable issues in the content marketing area. Celeste increased its exposure in ISD during November.

**SUNLAND GROUP (SDG)** was flat for the month after announcing earnings guidance for FY17 of \$35m NPAT, up 11% on FY16. The flagship Abian development will likely contribute to this result and over the settlement period should convert pre-sale commitments into cash. The company also announced a franked dividend expectation of 10c per share for CY17, which represents a yield of 6.6% and an increase over the 8c per share paid in CY16.

**NICK SCALI (NCK)** increased by 8.6% during the month after announcing updated earnings expectations for 1H17 with profit growth expected to be in the range of 30-35%. This is significantly higher than prior market expectations of low double-digit growth. This is further notable due to the slower new store openings that occurred in FY16 (2), compared to the current ramp of new stores planned over FY17 (5-6 expected) which typically have a greater impact to earnings growth in subsequent periods.

**MONASH IVF GROUP (MVF)** declined by 7.6% over the month despite announcing at their AGM that the company would deliver NPAT growth in 1H17 of 7%. The company cited good cost control in what has been a challenging 1Q17 IVF cycle environment with total MVF cycle volumes down 2.6%. Fresh IVF cycle volumes declined by 5.1% with frozen cycles increasing by 0.6%. MVF remains well placed to participate in the continuous drift in conception age and demand for reproductive services.

### Portfolio Top 5 Holdings

Stock	% of Fund
1 REECE LIMITED	6.6
2 BREVILLE GROUP	5.1
3 REGIS HEALTHCARE	4.9
4 WPP AUNZ	4.7
5 IMF BENTHAM	4.5

### Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+2.5	+10.0	+5.6
USA – S&P 500	+3.4	+5.7	+6.8
USA – NASDAQ Composite	+2.6	+4.2	+9.5
Europe – FTSE (UK)	-2.5	+6.7	+0.7
Europe – DAX (Germany)	-0.2	-6.5	+4.2
Asia – Nikkei (Japan)	+5.1	-7.3	+5.3
Asia – Shanghai Composite (China)	+4.8	-5.7	+13.5

### Monthly Commentary

The November 8<sup>th</sup> election of Donald Trump to President of the United States, and the Republican Party securing control of the U.S. Senate and House of Representatives, was the major news event of the month. The immediate reaction to the election result saw equity markets move higher and bond markets sell off. With President-elect Trump pledging significant tax cuts and infrastructure spending of over \$500b in the next decade, inflation expectations around the globe have increased and the US 10 year bond moved dramatically from 1.8% to 2.4% in November.

The US Federal Reserve kept interest rates on hold during November noting that, "... the committee judges that the case for an increase in the federal funds rate has continued to strengthen but decided, for the time being, to wait for some further evidence of continued progress towards its objectives...". In the US 'real GDP growth' for Q3 was revised up to 3.2%, year on year, from a previous initial estimate of 2.9%. The Commerce Department noted that the Q3 rate of growth was the strongest seen since Q3 of 2014. The US unemployment rate for October came in at 4.9% with 160,000 non-farm payroll jobs created, compared with an average of 181,000 per month in 2016. In October 'average hourly earnings' rose 10c to \$25.92, following on from an 8c increase in September and over the course of 2016 average hourly earnings have now risen by 2.8%, year on year.

In China the 'Purchasing Manufacturers Index' for October came in at 51.2%, the strongest reading in the last 2 years whilst industrial production rose 6.1% year on year. China's national rail freight volumes grew 11.2% in October, year on year, compared to a 7% rise in September, as reported by the Ministry of Transport.

In the three months to September, Japan's economy gross domestic product rose at an annualised 2.2%, compared to 0.5% in the three months to June. The September GDP figure follows on from an August Japanese cabinet decision to pass a stimulus package worth some 28 trillion yen, or some \$275b in USD terms.

Germany, Europe's largest economy, slowed in the Sept. quarter and grew at a rate of 0.2%, half the rate seen in the June quarter.

Our expectation in the short term is that investors will increasingly focus on 'reflation' in coming months, risk will continue to be repriced and fixed interest markets around the world will continue to normalise, i.e. be sold off. With the practical limitations of monetary policy being met, the era of zero to negative interest rates is now past. Increasingly, fiscal policy will be seen as the tool of choice to stimulate growth, adding fuel to inflationary expectations.

At Celeste we remain process centric and eagerly await the opportunities that will emerge as risk is repriced in coming months.

# CELESTE

## Funds Management

### Fund at a Glance

#### Fund Information

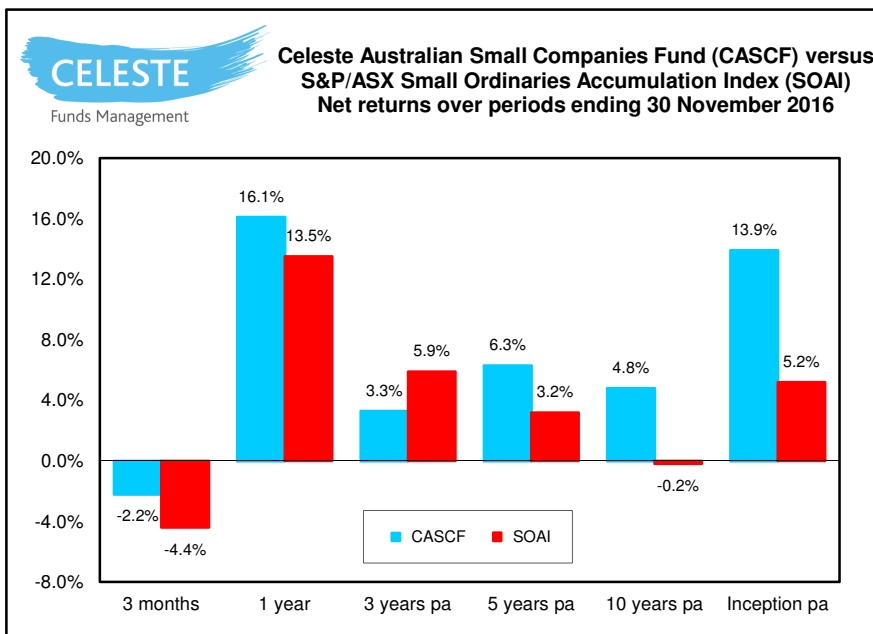
<b>Primary Investments</b>	Shares in listed Australian smaller companies
<b>Investment objective</b>	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
<b>Unit price (redemption) as at 30.11.2016</b>	\$3.0519
<b>Unit price (application) as at 30.11.2016</b>	\$3.0704
<b>Fund Size as at 30.11.2016</b>	\$57m
<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

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

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