

Celeste Australian Small Companies Fund

Monthly update 30 November 2017

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	+0.6	+15.5	+13.3	+7.3	+3.5
Performance (relative to Index)	-3.3	-5.0	-0.1	-0.1	+4.1
S&P/ASX Small Ords Acc Index	+3.9	+20.5	+13.4	+7.4	-0.6
S&P/ASX Small Inds Acc Index	+2.8	+18.4	+12.0	+12.3	+2.0
S&P/ASX Small Res Acc Index	+8.1	+29.7	+18.8	-6.9	-7.7

Past performance is not necessarily indicative of future returns.

The Fund rose 0.6% in November, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index increasing by 3.9%. Since inception (May 1998) the Fund's return is 14.0% pa, net of all fees, against the Index's 5.9% pa.

Portfolio Commentary

Monadelphous (MND) rose 10.3% in November. MND held its AGM late in November, and noted that challenging conditions in the Australian resource & energy markets had stabilised and appeared to be improving. MND forecast a 30%+ lift in 1H18 sales, and noted that it was well placed to deliver sustainable growth.

Lifestyle Communities (LIC) rose 11.7% on the back of AGM commentary that sales for the FY18 year were already 119 homes with a further 21 existing homes resold. LIC's pre-sales in the new developments of Ocean Grove & Bittern continue to perform well and will result in faster development programs. LIC remains a high quality affordable retirement residential land developer focused on good resident outcomes & long term shareholder wealth creation.

Monash IVF (MVF) fell by 22.8% on the back of AGM guidance of a weaker than anticipated 1H18 result. Low cost IVF providers have been growing strongly and MVF has lost some market share as a consequence. Forward appointment data is supportive of positive cycle growth in 2H18.

The Reject Shop (TRS) increased 13.1% in November. TRS provided a trading update at its AGM in late Oct. which highlighted LFL% in 1Q18 as being down 2.1% on the pcp. The majority of this is attributable to a weak start to the year as TRS traded through the residual inventory that contributed to a difficult 2H17. The trajectory since this period has been positive as an improved merchandise offering flows through the store network. We continue to view the current TRS share price as capitalising a low-point in earnings with progress on a range of initiatives having been overshadowed.

MACA (MLD) fell 20.8% in the month. Whilst MLD's mining contracting business is performing to expectation the 60% owned Interquip, has had some poor contract performance in H1. We expect that changes within the operating structure of Interquip will lessen the potential for poor contract performance in the future, and look forward to MLD growing its contract mining order book in FY18.

Portfolio Top 5 Holdings

Stock	% of Fund
1 IMF BENTHAM	6.1
2 AMA GROUP	5.2
3 CLEANAWAY WASTE MANAGEMENT	5.0
4 REECE	4.7
5 STEADFAST GROUP	4.6

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+1.9	+14.8	+9.2
USA – S&P 500	+2.8	+20.4	+8.6
USA – NASDAQ Composite	+2.2	+29.1	+12.8
Europe – FTSE (UK)	-2.2	+8.0	+2.9
Europe – DAX (Germany)	-1.6	+22.4	+9.3
Asia – Nikkei (Japan)	+3.2	+24.1	+9.2
Asia – Shanghai Composite (China)	-2.2	+2.1	+7.3

Monthly Commentary

Global markets were mixed in November with Australia, the USA and Japan stronger whilst the UK, Europe and China were weaker. The US market was driven higher by a better than expected US reporting season, and the growing expectation that the Trump tax reform agenda would be delivered by year-end. Japanese equities continued to perform strongly. The Japanese market is experiencing a wave of foreign investment pushing the Nikkei 225 index to levels not seen in 25 years. Eurozone equities underperformed despite strong economic data emanating from the region. A stronger Euro and political uncertainty in Germany following inconclusive elections weighed on the market.

The Reserve Bank of Australia (RBA) continued its policy of leaving the cash rate unchanged at 1.50%. The RBA is forecasting solid GDP growth of around 3% pa over the next few years. Labour conditions have tightened, business conditions are positive and capacity utilisation has increased. Increased public infrastructure investment is also supporting the economy. The RBA remains concerned about low wages growth, high household debt levels and how this weighs on the consumer and underlying economic demand. Retail sales data in October grew 1.8%, and 2.8% for the year. The reasonable figures masked regional differences with NSW, VIC, SA and Tasmania strong whilst QLD & WA were weak.

In the US the Trump Tax reform agenda moved forward with the US Senate voting for an overhaul of the tax system. Should the Republican Tax Bill be legislated the tax rate for companies will move from 35% to 20%, a move that will add \$1.4 trillion to the US federal deficit over the next 10 years.

The growth of China's industrial output, retail sales and fixed asset investment slowed in October missing market expectations and signalling GDO easing in the fourth quarter. Value added industrial output grew 6.2% year on year in October, 0.6% slower than in September. Retail sales jumped 10%, 0.3% slower than in September.

According to the European Commission the Eurozone economy is on track to grow at its fastest pace in a decade this year, with real GDP growth forecast at 2.2%. The Eurozone, as a whole, is expected to beat expectations with robust growth of 2.3% this year. This stronger than expected result has fuelled the market over the last year. The Bank of England raised rates by 25 basis points to 0.50% - the first rate hike in 10 years.

At Celeste we remain process consistent and alert to the opportunity that volatile markets periodically present. We will look to add to the portfolio in a process consistent manner should risk and reward be appropriately skewed, and when valuation is compelling.

Fund at a Glance

Fund Information

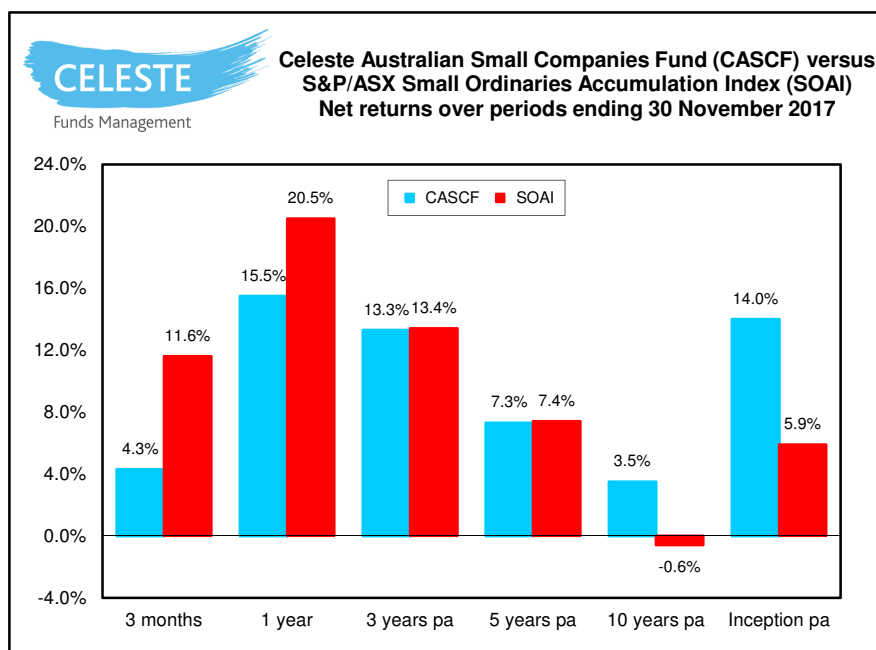
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 30.11.2017	\$3.4505
Unit price (application) as at 30.11.2017	\$3.4714
Fund Size as at 30.11.2017	\$60m
Minimum investment	\$25,000
Minimum additional investment	\$1,000
Minimum balance	\$15,000
Minimum investment: monthly investment plan	\$500
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*	1.20% p.a.
Performance fee**	20% of return above benchmark
OGFM***	1.20% 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 1.20% p.a. for the duration of the PDS.

Fund Returns



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Distribution History

Total distribution year ended	Cents Per Unit	Annual Yield %*
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
June 17	6.87	2.6

* 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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