

Celeste Australian Small Companies Fund

Monthly update 30 April 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	-0.1	+24.8	+6.8	+5.1	+3.8
Performance (relative to Index)	+0.1	+14.8	+0.0	+2.7	+5.1
S&P/ASX Small Ords Acc Index	-0.2	+10.0	+6.8	+2.4	-1.3
S&P/ASX Small Inds Acc Index	+0.6	+9.6	+8.7	+9.6	+1.1
S&P/ASX Small Res Acc Index	-3.5	+12.1	-1.3	-16.2	-8.4

Past performance is not necessarily indicative of future returns.

The Fund fell 0.1% in April, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index decreasing by 0.2%. Since inception (May 1998) the Fund's return is 14.0% pa, net of all fees, against the Index's 5.3% pa.

Portfolio Commentary

The Reject Shop (TRS) declined 48.7% in April after providing a trading update of a \$5m loss in 2H17, including one-offs. We recently established a position based on improving earnings in FY18. The update means that 2H17 will be worse than our expectations. Despite a difficult trading environment, we view a meaningful part of the current problem to be attributable to internal issues, particularly merchandising mix. FY18 will start to see supply chain cost savings and no FX headwinds. With improved merchandising this should see a materially improved profit result.

Pioneer Credit (PNC) announced a 1:20 rights issue to raise \$20m. The raising was undertaken to fund a \$14m investment in new client debt ledgers (PDL) and a further \$5m investment in existing client forward debt flow. FY17 PDL purchases are now likely to be close to \$72m, well up on the \$42.3m invested in PDL in FY16. FY18 contracted forward PDL purchases are already \$38m and this growing visibility is supportive of strong revenue and earnings growth over the medium term.

Speedcast International (SDA) increased 9.2% in April. SDA held an investor day updating divisional plans and the progress made on integrating the recently acquired Harris Caprock. This was a significant and transformative acquisition for SDA which formally completed in January. The update provided comfort that the initial cost synergies and operational changes are on target.

ARB Corporation (ARB) rose 6.3% in the month. ARB participated in the annual NSW Caravan, Camping and Holiday Super show at Rose Hill Sydney during the month. The event is the largest of its type held in Australia, with over 300 exhibitors and over 55,000 attendees over 6 days. At the 2017 show ARB 4WD product was well represented, with up to 40 ARB sales people on hand. There was little competitor presence evident. We remain positive on the growth prospects for ARB, and on its ability to leverage its intellectual property into a global market.

Portfolio Top 5 Holdings

Stock	% of Fund
1 IMF BENTHAM	5.0
2 BREVILLE GROUP	4.5
3 STEADFAST GROUP	4.5
4 CLEANAWAY WASTE MANAGEMENT	4.5
5 WPP AUNZ	4.4

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+0.8	+16.6	+7.4
USA – S&P 500	+0.9	+15.4	+8.2
USA – NASDAQ Composite	+2.3	+26.6	+13.7
Europe – FTSE (UK)	-1.6	+15.4	+2.0
Europe – DAX (Germany)	+1.0	+23.9	+9.0
Asia – Nikkei (Japan)	+1.5	+15.2	+10.3
Asia – Shanghai Composite (China)	-2.1	+7.4	+15.9

Monthly Commentary

Equity market performance in the month was mixed with the US, Europe, Japan and Australia performing well, whilst China was lower.

In contrast to the weaker Chinese equity market, economic news was strong. China's economy grew by 6.9% in the first quarter of 2017, higher than its targeted level of 6.5%. February retail sales were also strong, jumping by 10.9% compared to the previous quarter.

Globally the big political news came out of France, where the centrist Emmanuel Macron and far right nationalist Marine Le Pen advanced through to the second round of the French Presidential election. For the first time in modern French political history both establishment parties were eliminated in the first round.

In commodities the big story for the month was the sharp fall in iron ore prices which at one point plunged from US\$81/t to US\$62/t before recovering slightly to US\$67.50/t. Iron Ore prices had been recovering strongly off the December 2016 low of US\$41/t. Coking coal prices surged 46% during the month after Cyclone Debbie in Queensland resulted in supply disruptions.

April saw US unemployment fall to its lowest level in almost a decade. The unemployment rate fell from 4.7% in February to just 4.5% in March. In the US the generally accepted view is that at somewhere around 5% the economy is at "full" employment. Labour shortages and hence higher wage rates should follow with knock on effects to inflation and interest rates.

European unemployment fell, dropping to near an eight year low of 9.5% in February. The headline figure masked large discrepancies in the various member's unemployment rates with the Czech Republic (3.4%) and Germany (3.9%) boasting the lowest unemployment rates while Greece (23.1%) and Spain (18%) the highest. France, the second biggest economy in Europe, remains stuck at 10%. In the UK 1Q growth fell to 0.3% on Brexit concerns.

In Australia, the Reserve Bank of Australia has again left the cash rate unchanged at a historically low level of 1.5%. The cash rate has remained unchanged since August 2016. There was good news on the employment front with jobs growth in March surging +1.2% year on year although the unemployment rate remained unchanged at 5.9%. This builds on the growth in jobs that has averaged 23,000 per month over the last 6 months.

At Celeste we continue to apply our investment process, sensitive to the investment opportunities that emerge to investors with discipline and patience.

CELESTE

Funds Management

Fund at a Glance

Fund Information

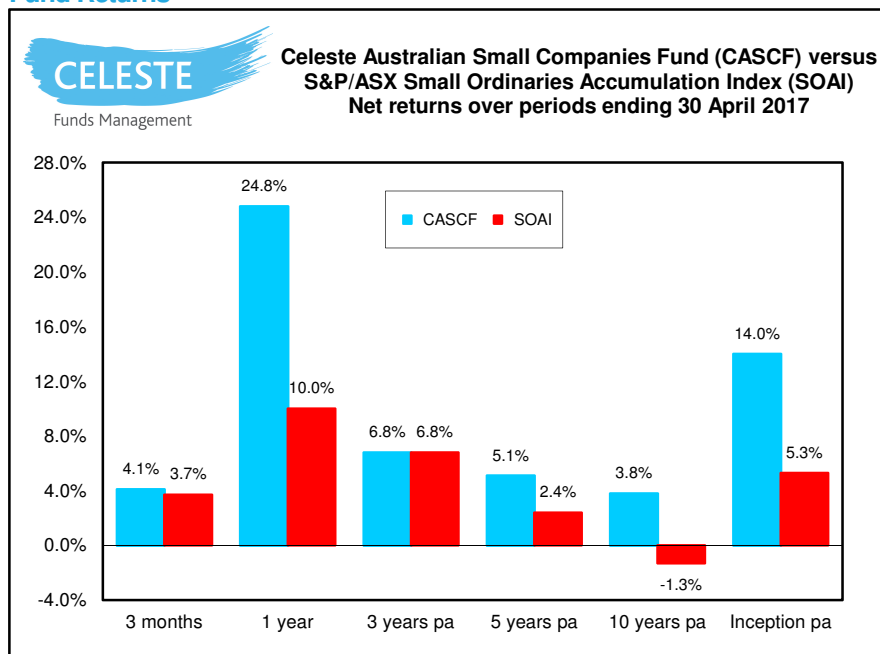
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 30.04.2017	\$3.2567
Unit price (application) as at 30.04.2017	\$3.2764
Fund Size as at 30.04.2017	\$58m
Minimum investment	\$25,000
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



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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