

Celeste Australian Small Companies Fund

Monthly update 31 July 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	+1.1	+16.0	+7.3	+7.1	+3.0
Performance (relative to Index)	+0.8	+17.1	+1.7	+1.3	+4.7
S&P/ASX Small Ords Acc Index	+0.3	-1.1	+5.6	+5.8	-1.7
S&P/ASX Small Inds Acc Index	-0.2	-0.6	+7.7	+11.0	+0.7
S&P/ASX Small Res Acc Index	+2.9	-2.7	-3.3	-9.7	-8.8

Past performance is not necessarily indicative of future returns.

The Fund rose 1.1% in July, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index increasing by 0.3%. Since inception (May 1998) the Fund's return is 13.9% pa, net of all fees, against the Index's 5.3% pa.

Portfolio Commentary

Royal Wolf (RWH) rose 40.8% on the back of a takeover offer from majority shareholder, General Finance Corp of the USA. The \$1.83 offer is via a \$1.8035 capital payment and a 2.65c fully franked dividend. The offer represents a 41% premium to the pre bid closing price for Royal Wolf and is considered fair value for the company.

Pioneer Credit (PNC) rose 9.2% in July after increasing FY17 profit guidance from \$10.5m to \$10.7m, and guiding for a FY18 profit increase of 49% to \$16m. Further, PNC announced that they had already contracted 95% of their FY18 \$70m debt purchase target. We believe PNC is a very well run small company with a strong history in the purchase and management of retail debt ledgers.

Monash IVF (MVF) declined by 10.7% in July after it announced it had settled a dispute with a departing IVF Specialist. The MVF non-compete clause with the Specialist has been maintained until Sept. 2018 and as such, the IVF cycle impact of the departure will not be felt until FY19. This non-compete period allows MVF some 13 months to manage patient transition, whilst adjusting costs. We think MVF has been oversold on poor short term news flow and we remain attracted to its 'intellectual property', returns and valuation.

Speedcast (SDA) declined by 9.7% in July following the acquisition of Ultisat for an initial US\$65m, with a further US\$35m subject to earn-outs. This expands SDA's offering with additional benefits from cost synergies. Whilst the size of the two recent acquisitions is meaningful, and will take time to integrate, SDA has a history of successfully executing on acquisitions. SDA also provided an update on Harris CapRock, noting integration is running ahead of schedule.

AMA Group (AMA) increased 5.2% during the month after it provided an update on the roll-out of its greenfield rapid repair centres, whilst also announcing a number of smaller bolt-on panel repair acquisitions.

Portfolio Top 5 Holdings

Stock	% of Fund
1 IMF BENTHAM	5.1
2 AMA GROUP	5.0
3 CLEANAWAY WASTE MANAGEMENT	4.6
4 REGIS HEALTHCARE	4.4
5 STEADFAST GROUP	4.3

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+0.2	+6.6	+5.3
USA – S&P 500	+1.9	+13.7	+8.6
USA – NASDAQ Composite	+3.4	+23.0	+13.3
Europe – FTSE (UK)	+0.8	+9.6	+3.1
Europe – DAX (Germany)	-1.7	+17.2	+8.8
Asia – Nikkei (Japan)	-0.5	+20.3	+8.5
Asia – Shanghai Composite (China)	+2.5	+9.9	+14.1

Monthly Commentary

Equity market performance around the globe was generally quite strong in July led by the USA and China.

The days of negative bond yields seen in 2016 in many countries are gone with all major bond markets now offering positive yields. The economic mood has decidedly changed; best articulated by the President of the European Central Bank who stated: "deflationary forces have been replaced by reflationary ones." All major economies are seeing GDP growth pick up, albeit anaemic and from a relatively low base. Another common theme globally is declining unemployment levels, now materially below those post the global financial crisis.

The Eurozone posted growth of 0.6% in the second quarter of 2017, putting annual growth at 2.1% for the Eurozone bloc of 19 countries. The Eurozone unemployment rate dropped to 9.1% in June 2017, the lowest level seen since Feb. 2009. In Spain the unemployment rate fell to 17.2%, having been over 26% in mid-2013.

In the US, monetary policy remains staunchly accommodative whilst inflation remains stubbornly below the Federal Reserve's (Fed.) target rate of 2%. Whilst the Fed. expects that rates will rise over time it notes, "...economic conditions will evolve in a manner that will warrant gradual increases in the federal funds rate.... the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run..." Quantitative easing in the US has run its course and this will be unwound progressively in the medium term. US GDP picked up in Q2 to an annualised 2.6%.

In China, Q2 GDP rose to 6.9%, year on year, well above the government's annual target of 6.5%. China's av. per capita disposable income grew at 8.8% year on year to US\$1,913 in H1 of 2017. In 2017 the av. rural resident's per capita disposable income grew 7.4%, whilst that of urban residents grew 6.5%.

The Reserve Bank of Australia (RBA) left interest rates unchanged at 1.5%, at its recent board meeting. The RBA noted an improvement in the global economic backdrop, whilst wage growth and core inflation remain subdued in most countries. The RBA continues to forecast solid GDP growth in Australia of around 3% in the next couple of years. Inflation remains below where the RBA is comfortable at under 2%.

For the FY 2017 reporting season we retain a cautious disposition as an anaemic domestic economy, a subdued consumer, and unrelenting cost pressures provide meaningful earnings headwinds. At Celeste we remain process consistent and alert to the opportunities that constantly present themselves in the small companies sector.

CELESTE

Funds Management

Fund at a Glance

Fund Information

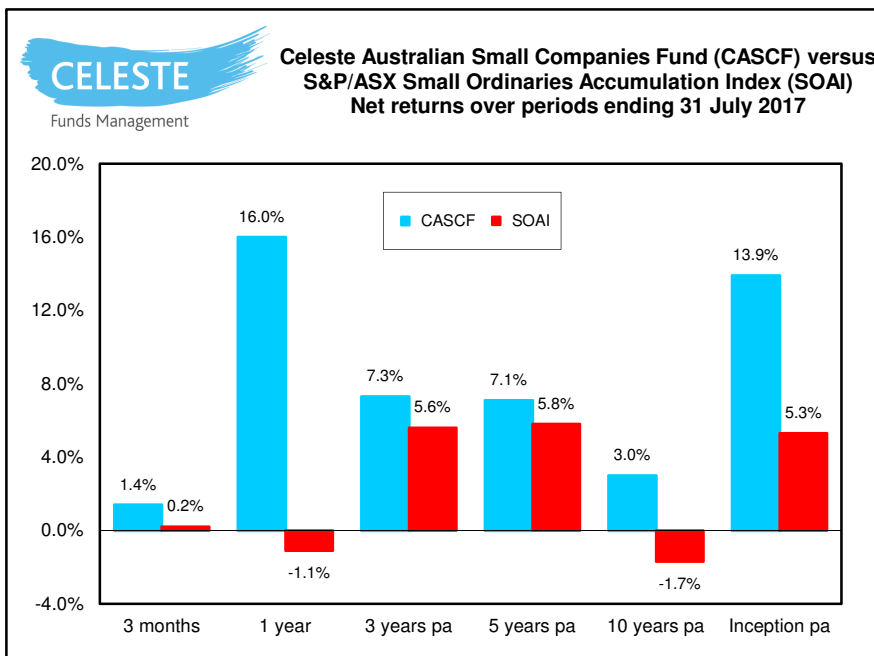
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 31.07.2017	\$3.2590
Unit price (application) as at 31.07.2017	\$3.2787
Fund Size as at 31.07.2017	\$58m
Minimum investment	\$25,000
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



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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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