

CELESTE

Funds Management

Celeste Australian Small Companies Fund

Monthly update 30 September 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	+2.8	+7.6	+9.3	+6.6	+3.9
Performance (relative to Index)	+1.5	+4.6	+1.2	+1.5	+5.3
S&P/ASX Small Ords Acc Index	+1.3	+3.0	+8.1	+5.1	-1.4
S&P/ASX Small Inds Acc Index	+1.0	+1.9	+8.6	+10.9	+1.2
S&P/ASX Small Res Acc Index	+2.4	+8.1	+5.5	-10.9	-8.6

Past performance is not necessarily indicative of future returns.

The Fund rose 2.8% in September, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index increasing by 1.3%. Since inception (May 1998) the Fund's return is 14.0% pa, net of all fees, against the Index's 5.4% pa.

Portfolio Commentary

MACA Ltd (MLD) rose 14.1% in September. During the month MLD raised \$60m, via a placement of 33.4m shares, at \$1.80. The \$1.80 price compares to a month end price of \$2.14. Interestingly the raising of \$60m, adds to MLD's cash position, which at June 30th was \$64.2m. The MLD raising positions the company well to capitalise on a number of opportunities in the contract mining space, expected to be awarded during FY 2018.

Monadelphous Ltd (MND) was up 4.9% in the month. During September MND announced that it had been awarded \$220m in contracts. The work to be undertaken includes maintenance services for Rio Tinto and Woodside, with construction work also won with Santos and for Rio Tinto's Mongolian Mine Oyu Tolgoi.

Corporate activity continues in the Australian & New Zealand (ANZ) life insurance market. In September CBA sold their ANZ life business to pan-Asian Life company AIA for \$3.8bn. ANZ Bank's Wealth & Life business has received final bids, with US based MetLife touted as the most likely buyer at around \$4bn. Suncorp have been reported as undertaking a corporate process for a \$1bn sale of their life assets. These impending sales follow Macquarie's life insurance sale to Swiss based Zurich and NAB's sale of 80% of their life business to Nippon Life. Ownership change in the ANZ life market from local companies to larger global players bodes well for the sensible pricing of risk and more sustainable profits and returns. We continue to believe that **Clearview (CVW)** as the small nimble incumbent will be able to navigate these changes and generate strong growth and returns.

GUD Holdings (GUD) declined 6.5% during the month on little news, having retraced ~20% from recent highs. We remain positive on GUD's ongoing portfolio management, re-allocation of capital into the higher-returning auto aftermarket division. Given the iconic brands in the GUD portfolio, and the ability to generate consistent sales growth, we see the potential for further investment in the auto aftermarket division in future periods.

Portfolio Top 5 Holdings

Stock	% of Fund
1 IMF BENTHAM	5.2
2 AMA GROUP	5.2
3 RELIANCE WORLDWIDE CORPORATION	4.7
4 CLEANAWAY WASTE MANAGEMENT	4.7
5 BREVILLE GROUP	4.6

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+0.1	+8.5	+7.3
USA – S&P 500	+1.9	+16.2	+8.5
USA – NASDAQ Composite	+1.0	+22.3	+13.1
Europe – FTSE (UK)	-0.8	+6.9	+3.6
Europe – DAX (Germany)	+6.4	+22.1	+10.6
Asia – Nikkei (Japan)	+3.6	+23.7	+8.0
Asia – Shanghai Composite (China)	-0.4	+11.5	+12.3

Monthly Commentary

Equity markets were generally stronger in September, in part reacting to improving global growth expectations. The German market rose as Angela Merkel and her CDU/CSU coalition won a fourth term in office. Brexit fears continued to depress the UK market, Asian markets were generally firmer though China weakened a little.

In Australia, the economy continued to grow at a moderate pace, 0.8% in the June quarter. The Reserve Bank of Australia (RBA), left rates on hold with the official cash rate at 1.5%. Official rates have remained unchanged for 13 months. Employment continues to grow strongly up 54,000 in August and the unemployment rate is steady at 5.6%. The RBA noted that the global economy continues to improve. They noted a high level of Chinese debt as a "medium term risk". The RBA expects the economy will pick up in the next year and with a stronger economy it is likely that the next move in rates will be up. Credit growth in Australia remains robust. Housing credit increased by 0.5% over the month to bring the annual increase to 6.6%. Business credit increased by 4.5% over the year.

In the US, Q2 GDP was revised up for the second time from 2.6% to 3.1% annual growth. Higher consumer spending helped boost the figure as did State expenditure. The US is now growing at the fastest rate seen in two years. The unemployment rate remained little changed at 4.4% and has remained flat since April.

China's industrial output grew 6.7% year on year in the Jan.-Aug. period, 0.7 % higher than the growth rate over the same period last year. Retail sales grew 10.4% year on year in the Jan.-Aug. period, 0.1% higher than the same period last year. China watchers will focus on the 19th Party Congress, starting on Oct. 18th, with markets sensitive to policy statements and strategic direction.

Japan saw 2nd quarter GDP growth of 4%, making Japan the fastest growing of the G7 nations. Domestic spending accelerated as Japan prepares for the 2020 Tokyo Olympics and low levels of unemployment encouraged businesses to invest.

Real GDP in the Eurozone increased by 0.6% in the June quarter to an annual growth rate of 2.3%. Of greater significance is the pick-up in the European Commission's Economic Sentiment Indicator. It continued to rise (by 0.6pts to 111.9) reaching the highest level seen in more than ten years. Unemployment remains a structural issue in the Eurozone at 9.1%. Despite being high on a global scale, unemployment in the Eurozone is at the lowest level seen since 2009.

At Celeste we remain alert to the opportunity that volatile markets periodically present and will look to add to the portfolio in a process consistent manner should valuation appear compelling.

Fund at a Glance

Fund Information

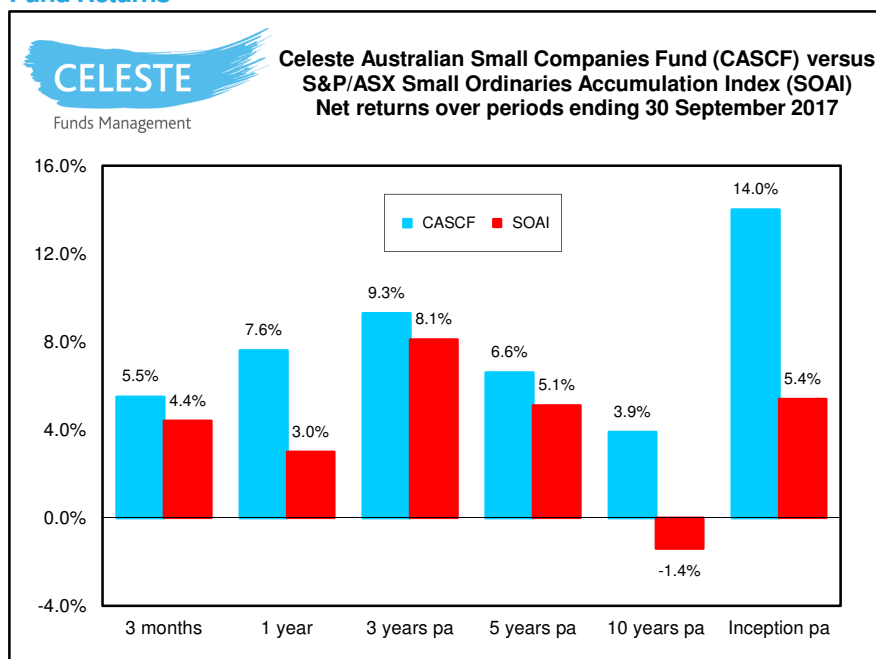
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 30.09.2017	\$3.4002
Unit price (application) as at 30.09.2017	\$3.4208
Fund Size as at 30.09.2017	\$59m
Minimum investment	\$25,000
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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