

Celeste Australian Small Companies Fund

Monthly update 31 October 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	+0.9	+12.5	+10.5	+6.5	+3.4
Performance (relative to Index)	-5.1	-2.1	0.0	+0.4	+4.7
S&P/ASX Small Ords Acc Index	+6.0	+14.6	+10.5	+6.1	-1.3
S&P/ASX Small Inds Acc Index	+5.9	+13.9	+10.2	+11.5	+1.4
S&P/ASX Small Res Acc Index	+6.5	+18.1	+11.0	-9.4	-8.8

Past performance is not necessarily indicative of future returns.

The Fund rose 0.9% in October, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index increasing by 6.0%. Since inception (May 1998) the Fund's return is 14.0% pa, net of all fees, against the Index's 5.7% pa.

Portfolio Commentary

A number of portfolio positions rose in October after holding their Annual General Meetings. **Nick Scali** (+5.9%) noted that they expected their H1 FY18 profit to be up 10%-15%, with 8 to 10 new store openings planned for FY18. **Reece** (+5.0%) announced that their first quarter sales and profits were up some 8% year on year, compared to sales growth of 6.1% in FY17. **GDH Holdings** (+9.5%) noted that in their first quarter, trading was solid and that EBIT of \$90m to \$94m was anticipated in FY18, an increase of some 8% year on year. **Cleanaway Waste Management** (+9.1%) noted expected growth in earnings, year on year, despite a challenging domestic backdrop in the industrial and manufacturing sectors. We anticipate that the combination of modest sales growth and cost reduction seen at Cleanaway over the last 2 years will continue to drive growth in earnings in FY18.

Pioneer Credit (PNC) held their AGM in Oct. and reiterated their FY18 guidance of \$16m profit after tax, on the back of strong growth in purchased debt ledgers. PNC continues to seek new ways to rehabilitate its 180,000 customers and this is providing growth in the payment arrangement book and in other financial products. The medium term outlook remains very positive for Pioneer Credit.

WPP AUNZ (WPP) declined 16.4% over the month, driven by a weaker than expected market update. EPS growth in FY17 is now expected to be in the range of 2-4% versus "mid-single-digit growth" previously forecast. The lower growth rate is due to the cancellation of projects within WPP's Research & Production areas, as customers cut back on spending, particularly WPP's clients in consumer facing end markets. Outside of these areas, WPP's core advertising, media & digital businesses continue to perform well and we have used the recent share price fall to add to our WPP position.

Isentia (ISD) declined 44.4% in October after downgrading FY18 earnings expectations in the range of 25-33%. Some of the issues facing ISD appear structural in nature and non-transitory, with ISD's cost base being reset after being cut to unsustainable levels in FY17. We exited our ISD position entirely during the month.

Portfolio Top 5 Holdings

Stock	% of Fund
1 IMF BENTHAM	5.9
2 CLEANAWAY WASTE MANAGEMENT	5.1
3 AMA GROUP	5.0
4 STEADFAST GROUP	4.3
5 CLEARVIEW WEALTH	4.2

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+4.1	+15.5	+7.3
USA – S&P 500	+2.2	+21.1	+8.5
USA – NASDAQ Composite	+3.6	+29.6	+13.3
Europe – FTSE (UK)	+1.6	+7.7	+4.6
Europe – DAX (Germany)	+3.1	+24.0	+12.4
Asia – Nikkei (Japan)	+8.1	+26.3	+10.3
Asia – Shanghai Composite (China)	+1.3	+9.4	+11.9

Monthly Commentary

Global and domestic equity markets were stronger in October led by a one month return of over 8% in Japan. The yearly gains in global stock markets are impressive with Europe, Japan and the US all recording returns of over 20%. The UK is the laggard, returning a still respectable 7.7%, despite Brexit fears. Synchronised GDP growth in global economies and continued subdued inflation have fuelled positive sentiment towards equities.

In late October, Japanese stocks hit their highest level since 1996 after Shinzo Abe's Liberal Democratic Party (LDP) had a decisive national election victory, winning 285 of 465 Lower House Seats. Since Abe was first elected in 2012 the LDP has espoused the three arrows of 'Abenomics': monetary easing; fiscal stimulus; and structural reform. After decades of economic stagnation, the Japanese economy is now expanding with the manufacturing sector recovering, the stock market up and six straight quarters of growth.

The Australian economy was mixed over the month. The labour market continues to tighten with employment growing by 20,000 in September and the unemployment rate falling to 5.5%. Retail sales for August were poor, falling 0.6% over the month, and the weakest result seen since mid-2013. The balance of trade continued to be in surplus in September, for the fourth consecutive month, as exports rose 3% and imports remained flat.

The 19th National Congress of the Communist Party of China was held in October, with President Xi Jinping noting that it was time for China to transform itself into a "...mighty force...", and lead the world on political, economic, military and environmental issues. China reported impressive Q3 GDP growth of 6.8%, down on Q2 6.9%.

US economic data was generally positive. The US manufacturing surveys were strong in September with the ISM manufacturing index rising to a better than expected 60.8, the highest level since August 2005. Durable goods orders were also up, growing at a better than expected 2.2%. GDP grew at an annualised rate of 3% in Q3. US non-farm payroll data for September fell by 33,000, taking the unemployment rate to 4.2%, however this was materially affected by Hurricane Harvey in Texas and Irma in Florida.

Europe followed a similar pattern to the US, with the Eurozone flash manufacturing PMI for October rising to 58.6, the highest level since February 2011. Eurozone third quarter GDP growth was robust at 2.5%, whilst CPI for October rose a subdued 1.4%.

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

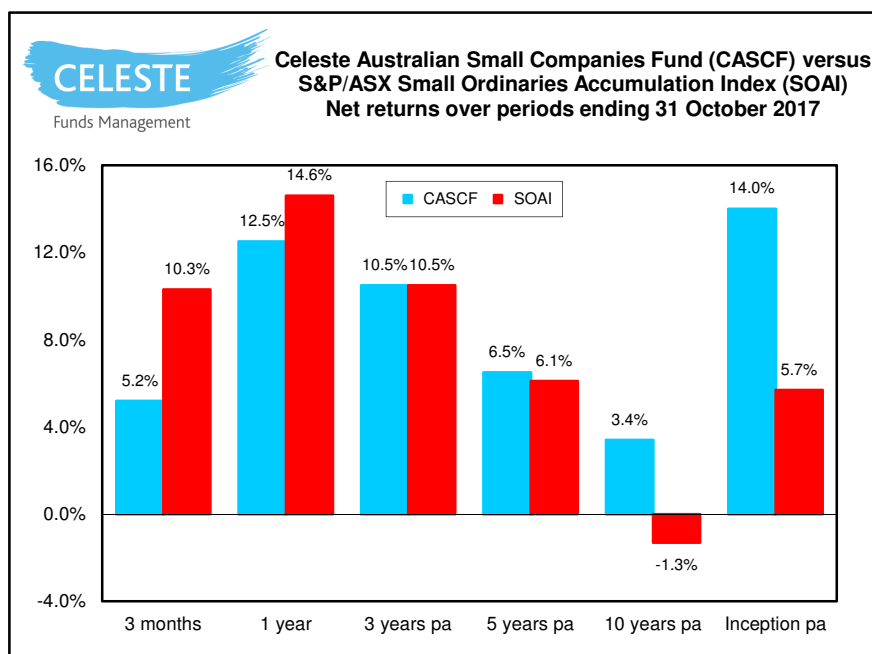
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 31.10.2017	\$3.4294
Unit price (application) as at 31.10.2017	\$3.4502
Fund Size as at 31.10.2017	\$60m
Minimum investment	\$25,000
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

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