

CELESTE

Funds Management

Celeste Australian Small Companies Fund

Monthly update 31 December 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	+3.2	+13.0	+14.8	+6.5	+4.0
Performance (relative to Index)	+0.0	-7.0	+0.4	-0.9	+4.0
S&P/ASX Small Ords Acc Index	+3.2	+20.0	+14.4	+7.4	+0.0
S&P/ASX Small Inds Acc Index	+1.6	+15.7	+12.2	+11.5	+2.6
S&P/ASX Small Res Acc Index	+8.9	+37.9	+23.3	-5.0	-7.0

Past performance is not necessarily indicative of future returns.

The Fund rose 3.2% in December, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index increasing by 3.2%. Since inception (May 1998) the Fund's return is 14.1% pa, net of all fees, against the Index's 6.0% pa.

Portfolio Commentary

Netwealth Group (NWL) continued its strong performance in Dec., up 36.6%. Industry Funds Under Administration (FUA) data for the Sept. '17 quarter released by Strategic Insight in mid-Dec. revealed NWL had grown FUA 52% year-on-year, for the quarter, with a 21% share of fund flows versus NWL's overall market share of 1.8%.

AMA Group (AMA) increased 7.2% in the month. During Dec., AMA moved to a 90% shareholding in Automotive Solutions Group (4WD) and moved to compulsorily acquire the remaining shares on issue. While 4WD has had a very challenged listed life, parts of the business are very familiar to AMA. Management at AMA have a history of strong operational execution and are confident of improving the performance of 4WD. We remain attracted to the medium term prospects for AMA.

Cleanaway Waste Management (CWY) rose 3.5% during the month after acquiring Tox Free Solutions (TOX) for \$671m. Whilst the acquisition price for TOX is optically full, CWY have a strong performance track record. CWY will benefit from stated synergies / operational improvements, and will also see a lessening of capital expenditure due to assets and licences acquired from TOX. We anticipate that the consolidation may lead to some moderation in aggressive price competition in certain segments of the market.

Data #3 (DTL) declined 5.2% in Dec. after providing a trading update that 1H18 would be materially down on 1H17. Management continue to view FY18 expectations of profit growth as achievable with most of the issue attributed to timing of revenue recognition slipping into 2H18 and a particularly strong previous corresponding half. Whilst we have significantly reduced the size of our DTL position in 2017, we continue to view the business as one of the better run IT services providers with a long track record of navigating corporate spend cycles and sectoral change.

Portfolio Top 5 Holdings

Stock	% of Fund
1 CLEANAWAY WASTE MANAGEMENT	6.3
2 IMF BENTHAM	5.8
3 REECE	5.4
4 AMA GROUP	5.2
5 STEADFAST GROUP	4.8

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+2.0	+12.5	+9.2
USA – S&P 500	+1.0	+19.4	+9.1
USA – NASDAQ Composite	+0.4	+28.2	+13.4
Europe – FTSE (UK)	+4.9	+7.6	+5.4
Europe – DAX (Germany)	-0.8	+12.5	+9.6
Asia – Nikkei (Japan)	+0.2	+19.1	+9.3
Asia – Shanghai Composite (China)	-0.3	+6.6	+0.7

Monthly Commentary

Equity markets around the globe finished the year off on a buoyant note, continuing the trend seen during 2017. With GDP growth revisions in advanced economies generally positive, and with monetary policy remaining accommodative, investors' sensitivity to risk assets remains inordinately subdued, across the risk spectrum.

In Australia, Q3 GDP rose 0.6%, quarter on quarter, with the annual rate rising to 2.8%. The Reserve Bank of Australia (RBA) minutes for Dec. noted labour market strength as "...full time employment had risen sharply and was growing at around the fastest pace in a decade...". The RBA left the cash rate unchanged at 1.5%.

In China, the annual 'Central Economic Work Conference' (CEWC) was held in Dec., following on from the 19th Party Congress in Oct. The CEWC noted "three tough battles" for China in the next 3 years: poverty reduction, curbing risk and environmental protection. China also noted that it had spent US\$123b on railway projects in 2017, with total mileage of railways in operation at 127,000 km, and some 20% being high speed rail. This figure compares with the USA's rail network of 294,000km, a country with a comparable land mass to China but less than 25% of the population.

In December, the Bank of Japan (BOJ) noted that "...advanced economies are projected to continue to grow steadily, and a recovery in emerging economies is likely to take hold...". The BOJ also noted that "...while uncertainties regarding the global economic outlook have been easing, it is likely that commodity-related fixed investment, which has been curtailed over the last few years, will start increasing...".

The US Senate passed a proposal to overhaul the US tax system, cutting the corporate tax rate from 35% to 21%, adding over US\$1.4 trillion to the US budget deficit over 10 years. Whilst the tax cuts may provide a short term 'sugar hit' to US economic growth, it will also lead to a bigger budget deficit and a need for greater US Government borrowings. To attract additional funding it is likely that US interest rates will need to rise, and given the importance of the USA to the global economy it appears inevitable that this rate rise contagion will reverberate around the world. The non-partisan Joint Committee on Taxation forecasts that the US tax overhaul could lead to incremental GDP growth of 0.7%, compared to a no-change scenario. It may also be that given this additional economic growth forecast, in an economy that is at notional full employment, the US Federal Reserve's inflation expectations will rise, leading to faster and more frequent rate increases in the USA in 2018.

We maintain a cautious mindset into 2018 and will only add to the portfolio when risk & reward traits appear appropriately compelling. Celeste would like to take the opportunity to wish its clients a happy, healthy and prosperous 2018.

Fund at a Glance

Fund Information

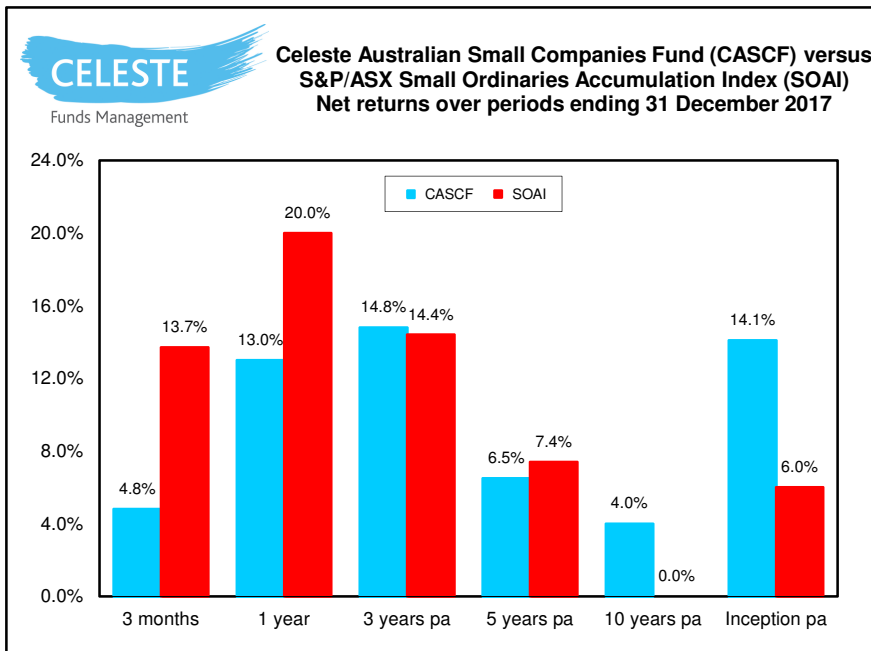
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 31.12.2017 [ex-distribution]	\$3.5219
Unit price (application) as at 31.12.2017 [ex-distribution]	\$3.5431
Fund Size as at 31.12.2017 [ex-distribution]	\$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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