

CELESTE

Funds Management

Celeste Australian Small Companies Fund

Monthly update 31 January 2018

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	+1.3	+16.9	+15.0	+5.6	+5.8
Performance (relative to Index)	+1.8	-5.5	+1.2	-0.8	+4.3
S&P/ASX Small Ords Acc Index	-0.5	+22.4	+13.8	+6.4	+1.5
S&P/ASX Small Inds Acc Index	-0.4	+19.8	+11.9	+10.0	+4.4
S&P/ASX Small Res Acc Index	-0.9	+32.7	+21.4	-5.0	-6.0

Past performance is not necessarily indicative of future returns.

The Fund rose 1.3% in January, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index falling by 0.5%. 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

AMA Group (AMA) increased 5.8% during the month. AMA responded to media reports of an indicative non-binding offer for the panels division from Blackstone Private Equity. The indicative \$530m proposal is on an enterprise value basis. We are not surprised that Private Equity firms are interested in AMA given its dominant market position, the prospect for continued value-accretive acquisitions and greenfield site roll-out. We will assess any proposal for AMA on their merits should a binding offer for the company be formally tendered.

GUD Holdings (GUD) closed flat for the month. GUD reported its 1H18 result on 31/01 which continued to highlight strong performance in the automotive division and the benefit that has accrued to shareholders from refocusing the Company from being a disparate industrials conglomerate. We continue to be attracted to the potential for GUD to grow faster than the market expects, whether from further Merger & Acquisition activity or consistently high organic growth. While we are generally cautious of acquisitive companies, GUD is an example of where acquisitions make robust strategic sense and where the underlying businesses display strong organic growth in their own right. The automotive division now represents ~90% of group EBIT and is growing total sales at 14% p.a., with organic growth sitting at a very healthy 8% p.a.

Lifestyle Communities (LIC) announced that after 8 years, the current CFO was to resign in order to pursue other career opportunities. We do note that the high performance culture and development program continues to be driven and managed by the CEO, James Kelly. Further LIC announced that it had settled 150 homes in 1H18, well ahead of the full year FY18 guidance of 260 to 290. The significant cash flow stream that LIC will generate over the next 5 years remains significantly undervalued by the market.

Portfolio Top 5 Holdings

Stock	% of Fund
1 IMF BENTHAM	5.9
2 CLEANAWAY WASTE MANAGEMENT	5.7
3 AMA GROUP	5.5
4 REECE	5.2
5 MONADELPHOUS GROUP	4.9

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	-0.3	+13.0	+8.0
USA – S&P 500	+5.6	+23.9	+12.3
USA – NASDAQ Composite	+7.4	+32.0	+16.9
Europe – FTSE (UK)	-2.0	+6.1	+3.7
Europe – DAX (Germany)	+2.1	+14.3	+7.2
Asia – Nikkei (Japan)	+1.5	+21.3	+9.3
Asia – Shanghai Composite (China)	+5.3	+10.2	+2.7

Monthly Commentary

Equity investors greeted January in a healthy frame of mind, buoyed by positive global growth revisions. Global equity markets posted solid January gains, though the Australian market underperformed its global peers. In Australia, bond yield sensitive sectors were a millstone and materially underperformed the broader market. At month end, some investor fixed interest angst was evident as the US 10 year bond reached 2.7%, a level last seen in April 2014.

On the economic front, news flow from Australia was generally positive in December. Employment growth in December was 3.3%, year on year, about double the rate needed to keep the 5.5% unemployment rate steady. In 2017 around three-quarters of all jobs created were on a full time basis, and the December participation rate of 65.7%, is the highest level seen since late in 2010. Residential building approvals in November rose 11.7%, month on month, to an annualised level of 253,000 starts. Retail sales in November rose 1.2%, month on month, with a significant portion of the increase attributed to the launch of the new iPhone X. Q4 CPI came in at +0.6%, quarter on quarter, or +1.9% year on year, slightly lower than the Reserve Bank of Australia's (RBA) target of 2% - 3%.

Growth in the Chinese economy in 2017 was 6.9%, above the annual growth target of 6.5%, and the first time in 7 years where the rate of growth, year on year, has accelerated. The country's overall trade volume grew 14.2% year on year, ending two consecutive years of decline. Outbound shipments from China rose 10.8% year on year, whilst imports grew 18.7%. Stimulated by domestic demand for manufacturing, food consumption and commodity investment, year on year Chinese imports of iron ore grew 5%, crude oil was up 10.1%, whilst soybeans tonnages rose 13.9%. Interestingly smartphone shipments in China fell 4% in 2017, the first year on year decline ever seen, with 459m handsets sold in the year.

The US unemployment rate in December was 4.1%, the lowest it has been since August 2000. Wages growth, on an annual basis, continues to creep up in the US with November +2.4%, December +2.5%, and January +2.9%.

Eurostat noted that the 19 nation Eurozone bloc grew 2.5% in 2017, the strongest growth seen since 2007. The European Central Bank lifted its growth forecast for the Eurozone in December, and is now forecasting 2.3% growth in 2018, from a previous estimate of 1.8%, whilst the 2019 forecast is now 1.9%, from a previous 1.7%.

We believe investors should retain a cautious stance in 2018 as lofty valuations and yield curve adjustment weigh on investors' minds. At Celeste we continue to focus on our investment process, and acknowledge that periods of equity market volatility may provide attractive opportunities to add to core portfolio positions.

Fund at a Glance

Fund Information

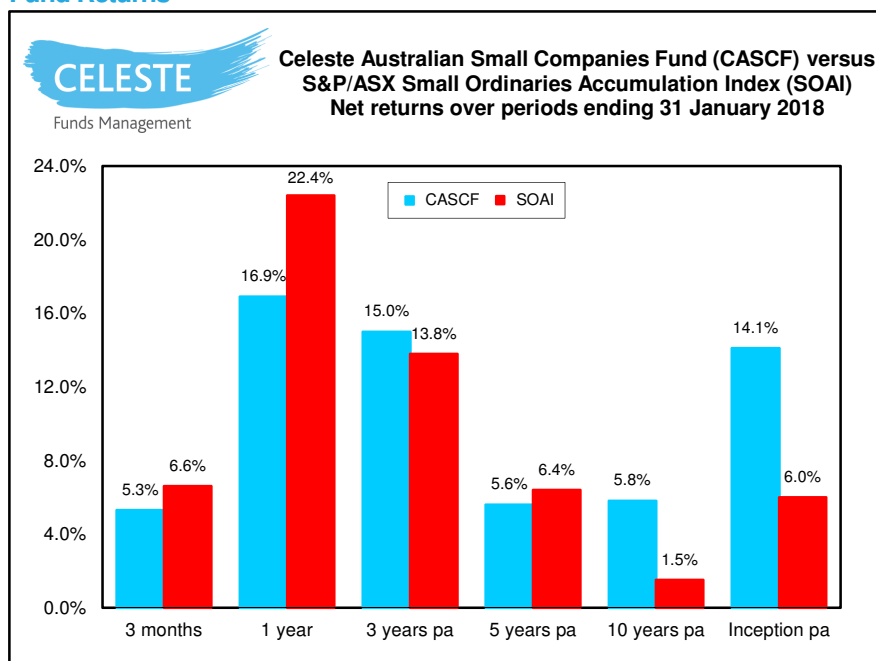
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 31.01.2018	\$3.5909
Unit price (application) as at 31.01.2018	\$3.5694
Fund Size as at 31.01.2018	\$62m
Minimum investment	\$25,000
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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