

Celeste Australian Small Companies Fund

Monthly update 31 March 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	-1.5	+12.0	+13.3	+5.9	+6.8
Performance (relative to Index)	+0.8	-3.0	+2.6	-0.5	+5.4
S&P/ASX Small Ords Acc Index	-2.3	+15.0	+10.7	+6.4	+1.4
S&P/ASX Small Inds Acc Index	-1.7	+10.9	+8.7	+8.8	+4.8
S&P/ASX Small Res Acc Index	-4.1	+32.3	+18.9	-2.4	-7.1

Past performance is not necessarily indicative of future returns.

The Fund fell 1.5% in March, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index decreasing by 2.3%. Since inception (May 1998) the Fund's return is 14.0% pa, net of all fees, against the Index's 5.8% pa.

Portfolio Commentary

Reece (REH) rose 6.8% in March. Reece announced the acquisition of Heatcraft's New Zealand refrigeration service business, augmenting its existing position in NZ. The refrigeration / HVAC business provides parts to trades that service temperature controlled environments with Reece a major trans-Tasman sector participant.

Clearview Wealth (CVW) declined 10.8% in March. Speculation continues to swirl around a possible bid by 14.9% shareholder Sony Financial. The Parliamentary Joint Committee released their report into the Life Insurance Industry and the recommendations were extremely supportive of the CVW business model. Key recommendations included open access approved product lists (APL's), a review of historic payments for APL access and full disclosure of affiliated products on channel owned APL's.

Regis Healthcare (REG) declined 10.2% during the month. The Company announced that the Federal Court of Australia had decided that the Asset Refurbishment Charge (ARC) is not allowed under the Aged Care Act. Given Regis had already provisioned for the entirety of this fee, there is no impact to our revenue or earnings expectation. Ultimately, the industry will need to find other ways to move towards an increasing portion of user pays, as recommended in the Tune review, whether this is an ARC type fee or via some other payment structure.

Salmat (SLM) rose 44.6% in March after announcing the divestment of its 'Call Centre' business for \$53m to Private Equity group, Five V Capital. The Salmat Call Centre business has been a poor performer in recent years with sustainable profitability elusive. We view the divestment of the Call Centre business as very positive for Salmat with the company well placed to distribute excess capital, tax effectively, to shareholders in 2018.

In March, **RCR Tomlinson (RCR)** announced that it had been awarded a facilities management contract by BAE Systems. The \$93m contract is for a term of 5 yrs, with an option for a further 5 yrs.

Portfolio Top 5 Holdings

Stock	% of Fund
1 AMA GROUP	5.5
2 REECE	5.5
3 CLEANAWAY WASTE MANAGEMENT	5.4
4 IMF BENTHAM	4.8
5 STEADFAST GROUP	4.7

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	-3.5	+3.6	+4.4
USA – S&P 500	-2.7	+11.8	+8.5
USA – NASDAQ Composite	-2.9	+19.5	+13.0
Europe – FTSE (UK)	-2.4	-3.6	+1.4
Europe – DAX (Germany)	-2.7	-1.8	+0.4
Asia – Nikkei (Japan)	-2.8	+13.5	+3.8
Asia – Shanghai Composite (China)	-2.8	-1.7	-5.4

Monthly Commentary

Equity markets globally were weak in March, with the Australian All Ordinaries down 3.5%. The general level of weakness was driven by increasing concern over trade tensions between the US and China. In recent weeks the US has announced a proposed 25% tariff on cUS\$50bn of imports of certain products, primarily steel and aluminium, while the Chinese Government has responded with the imposition of duties on 128 imported American products, including pork and apples. The weaker performance of the Australian market was driven by the major Australian banks (ANZ, CBA, NAB, WBC), which were down on average 6.4%, as investors reacted negatively to the beginning of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. The Australian Small Ordinaries was down 2.3%.

The Brent Oil price increased 7.3% for the month, while Gold was essentially flat, +0.3%. The US 10 year bond yield declined 12bps to 2.74%, although it remains 33bps higher than at the start of 2018.

In the US, the Federal Open Market Committee (FOMC) voted to raise its target range for the Federal Funds rate by 25bps, to 1.50-1.75%. The FOMC commented that the economic outlook has strengthened, with job gains strong in recent months. Over the next 12 months the FOMC expects inflation to move up to, and stabilise at, 2%.

In Australia, the Reserve Bank left interest rates unchanged for the 19th consecutive month at 1.5%. At the time of writing, the RBA have again left rates unchanged for April. Employment and wages remain a key focus for any potential increase in inflation. Employment data for February showed continued growth, up 3.5% year on year. Due to a spike in the participation rate, unemployment rose to 5.6%, while underutilisation (which includes underemployment) rose marginally to 13.9%. Both of these measures indicate meaningful spare capacity remains in the Australian labour market.

The European Central Bank left interest rates unchanged and stated that they expect rates "to remain at their present levels for an extended period of time".

The March manufacturing PMI in China picked up 1.2ppt to 51.5, which was ahead of consensus expectations of 50.6. The better than expected result was driven by Small and Medium Enterprises, suggesting faster improvement in private sector manufacturing activity.

We believe investors should retain a cautious stance in 2018 as lofty valuations and yield curve adjustments 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 our portfolio positions.

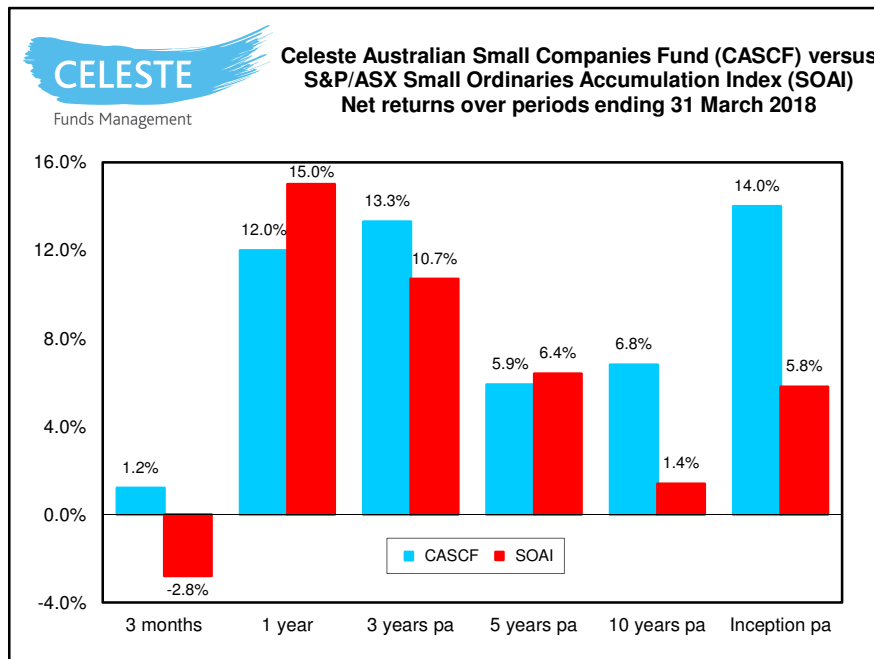
Fund Information

Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Accumulation Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 31.03.2018	\$3.5651
Unit price (application) as at 31.03.2018	\$3.5866
Fund Size as at 31.03.2018	\$62m
Minimum investment	\$25,000
Minimum additional investment	\$1,000
Minimum balance	\$15,000
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

* 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.

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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The issuer of units in Celeste Australian Small Companies Fund (ARSN: 093 539 416) is the Fund's responsible entity The Trust Company (RE Services) Limited ABN 45 003 278 831 (AFSL 235150). You should read the Product Disclosure Statement (PDS) before deciding to acquire the product. Copies of the PDS are available from Celeste Funds Management Limited (02) 9216 1800 or at www.celestefunds.com.au.

Before making any decision to make or hold any investment in the Fund you should consider the PDS in full. The information provided does not consider your investment objectives, financial situation or particular needs. You should consider your own investment objectives, financial situation and particular needs before acting upon any information provided and consider seeking advice from a financial advisor if necessary.

You should not base an investment decision simply on past performance. Past performance is not an indicator of future performance. Returns are not guaranteed and so the value of an investment may rise or fall.

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