

Celeste Australian Small Companies Fund

Monthly update 30 April 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	+1.1	+13.4	+14.3	+7.0	+6.8
Performance (relative to Index)	-1.7	-5.0	+3.2	-1.0	+5.5
S&P/ASX Small Ords Acc Index	+2.8	+18.4	+11.1	+8.0	+1.3
S&P/ASX Small Inds Acc Index	+1.5	+11.9	+9.3	+9.0	+4.8
S&P/ASX Small Res Acc Index	+6.9	+46.7	+17.4	+3.5	-7.0

Past performance is not necessarily indicative of future returns.

The Fund rose 1.1% in April, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index increasing by 2.8%. Since inception (May 1998) the Fund's return is 14.0% pa, net of all fees, against the Index's 5.9% pa.

Portfolio Commentary

AMA Group declined 10.6% after the Company announced a demerger and sale proposal of the Panel business to Private Equity for 86c/share. The residual business would trade as a separate listed entity and includes several aftermarket parts businesses and procurement services. The lukewarm market response to-date reflects the limited disclosure around the procurement business opportunity and the apparent lack of a control premium for the fast growing panels division. We will assess the proposal as more information becomes available, including an independent export report.

GWA Group rose 14.6% in April. We initiated a position in GWA earlier in the year given an attractive valuation and the opportunity for the business to continue to rationalise its portfolio to concentrate on the higher quality Bathrooms & Kitchens division. An investor day held during the month highlighted the strong progress that has been made to date and the opportunities the Company has to improve market share in its key branded products of Caroma, Dorf and Clark.

During the month **Clearview Wealth (CVW)** announced the termination of the cooperation agreement with 15% shareholder Sony Life. The stock declined 9.2%. Sony chose not to bid ahead of the 26th April option exercise date and so management moved to ensure new potential suitors were not prevented from bidding for CVW due to operational links with Sony. Sony has been delayed due to regulatory hurdles in Japan. CVW's core business of offering independent, unaligned financial & insurance advice remains extremely well positioned to grow at the expense of the major financial advice companies over the medium term.

Steadfast Group (SDF) gained 9.6% over the course of April, more than recovering the stock's underperformance post the 1H18 result. We continue to expect SDF will deliver compound double digit earnings growth over the next three years driven by in-house technology initiatives (Insight and the Steadfast Client Trading Platform) augmented by a continuation of increasing insurance premium rates.

Portfolio Top 5 Holdings

Stock	% of Fund
1 REECE	54
2 STEADFAST GROUP	52
3 AMA GROUP	49
4 IMF BENTHAM	46
5 MONADELPHOUS GROUP	44

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+3.5	+6.4	+6.2
USA – S&P 500	+0.3	+11.1	+8.3
USA – NASDAQ Composite	0.0	+16.8	+12.7
Europe – FTSE (UK)	+6.4	+4.2	+2.6
Europe – DAX (Germany)	+4.3	+1.4	+3.3
Asia – Nikkei (Japan)	+4.7	+17.0	+4.8
Asia – Shanghai Composite (China)	-2.7	-2.3	-11.5

Monthly Commentary

Equity markets rose in April, supported by stronger energy and resources sectors, to mostly recover declines from March. The Small Industrials Accumulation Index was up 1.5% compared to the Small Resources which ended the month up 6.9%. The Brent oil price ended the month at US\$75, now having gained ~22% over the past 6 months.

Locally, AMP fell 19% after it came under the spotlight after the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry unveiled serious allegations of misconduct and poor governance.

The RBA once again left the cash rate unchanged at 1.5%, having now been at this level for 21 months, the longest period ever without change. Core inflation levels remain relatively low, however we continue to see headline unemployment decline and the outlook for GDP growth improving. Despite relatively strong business conditions and historically cheap credit, price growth has continued to be weak particularly in food (+0.5% over 12 months), household appliances (-2.5%) and clothing and footwear (-3.5%).

With housing price growth in Sydney and Melbourne having slowed, APRA announced the easing of the investor loan growth cap of 10% that was introduced in 2014. Banks are required to have improved lending standards and with investor loan growth running materially below this limit, the cap is viewed as having served its purpose. While commentary in the media during the period of very strong price growth often focussed on the affordability issue and supply/demand, we see a strong link over time between house prices and capacity to borrow. An extended period of cheaper credit led to an expansion of household credit (primarily mortgages) with lower rates effectively being 'capitalised' into house prices over time, particularly in capital cities where employment is stronger.

In the US, the Federal Open Market Committee (FOMC) left the Federal Funds rate unchanged after lifting the range 25bps in the prior month. The FOMC outlook continued to point to further, gradual, increases over time. The current asset price expansion in the US is nearing the 2nd longest in history, from trough to peak. In Europe, the European Commission announced a proposal to increase the size of the budget over a 7 year period post Brexit. If approved, this will increase the level of spending as a percent of Gross National Income (GNI) while wearing the loss of Britain's net contribution.

As broad-based asset price growth continues, we believe that investors should remain cautious. At Celeste we continue to favour our investment process of selective bottom-up analysis which we expect to provide downside capital protection in periods of equity market volatility.

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Funds Management

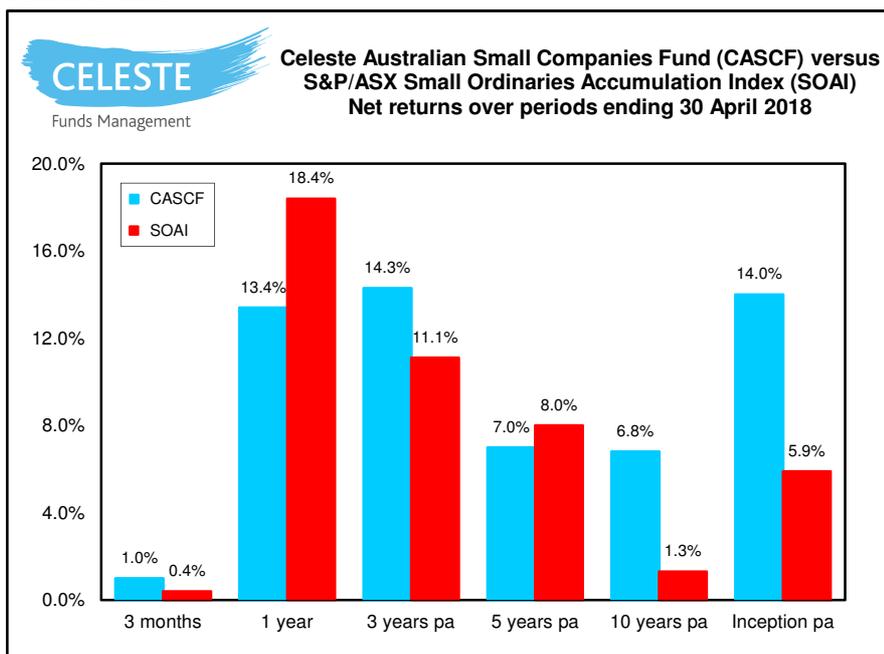
Fund Information

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 30.04.2018	\$3.6042
Unit price (application) as at 30.04.2018	\$3.6259
Fund Size as at 30.04.2018	\$63m
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



Past performance is not necessarily indicative of future returns

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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