

Celeste Australian Small Companies Fund

Monthly update 31 May 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	+2.9	+18.1	+14.9	+8.6	+7.1
Performance (relative to Index)	-0.8	-7.3	+3.3	-1.1	+5.8
S&P/ASX Small Ords Acc Index	+3.7	+25.4	+11.6	+9.7	+1.3
S&P/ASX Small Inds Acc Index	+3.8	+19.6	+9.7	+10.6	+5.3
S&P/ASX Small Res Acc Index	+3.3	+49.0	+18.3	+5.4	-7.7

Past performance is not necessarily indicative of future returns.

The Fund rose 2.9% in May, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index increasing by 3.7%. Since inception (May 1998) the Fund's return is 14.1% pa, net of all fees, against the Index's 6.1% pa.

Portfolio Commentary

Reliance Worldwide Corporation (RWC) rose 25.4% in May after announcing the acquisition of UK based plumbing fittings manufacturer, John Guest Holdings (JGH). JGH is an excellent strategic fit with RWC and manufactures a suite of complimentary plumbing fitting products. The acquisition will see RWC products sold via JGH's distribution channels in the UK and Europe, whilst JGH products can be leveraged through RWC's well established North American and Asia Pacific sales network. The A\$1.22b purchase price reflects a post cost synergy EBITDA multiple of 10.3X, and was funded via a \$1.1b capital raising at \$4.15 per share. RWC anticipates that the JGH acquisition will lead to EPS accretion of +20%.

Reece Group (REH) rose 13.4% in May after announcing the A\$1.91b acquisition of US based plumbing products distributor Morsco Inc. The acquisition was funded by debt and a \$560m equity raising with REH major shareholder, the Wilson family, subscribing for \$300m. The Morsco acquisition provides REH with an attractive entry point into the US 'sun belt region', with REH post acquisition revenues now over \$4.8b. Celeste believes that Morsco provides Reece with an attractive long term growth opportunity, in a market that is currently highly fragmented but that will consolidate over time.

Netwealth Group (NWL) rose 25.7% in May. On the back of testimony provided at the Banking Royal Commission, it is expected that the flow of funds under administration to independent platforms from the aligned/legacy providers will accelerate. NWL currently has 2% market share however is taking c20% share of net new flows.

Specialty Fashion Group (SFH) increased 80.8% during the month after the Company announced the sale of its mature brands to Noni B for \$31m. This is a good outcome for shareholders as the retained City Chic business has grown strongly over a number of years. City Chic operates in the plus-sized fashion segment of the market which has been growing solidly despite the challenges across the broader apparel sector.

Portfolio Top 5 Holdings

Stock	% of Fund
1 REECE	6.3
2 RELIANCE WORLDWIDE CORPORATION	5.6
3 STEADFAST GROUP	5.1
4 IMF BENTHAM	4.8
5 AMA GROUP	4.7

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+1.4	+10.8	+6.4
USA – S&P 500	+2.2	+12.2	+8.7
USA – NASDAQ Composite	+5.3	+20.1	+13.6
Europe – FTSE (UK)	+2.2	+2.1	+3.2
Europe – DAX (Germany)	-0.1	-0.1	+3.4
Asia – Nikkei (Japan)	-1.2	+13.0	+2.6
Asia – Shanghai Composite (China)	+0.4	-0.7	-12.4

Monthly Commentary

Most equity markets rose in May, the US continuing what has been a strong 12 months. The Small Ordinaries Accumulation Index was up 3.7% and strongly outperformed the All Ordinaries Accumulation Index. The small industrial and small resources performance was largely in sync in May with both in the 3%-4% range. This is in stark contrast to recent months where the small resources have significantly outperformed its small industrial peer.

The major Banks & Insurance stocks continue to face extreme scrutiny from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. Poor documentation and lending practices seem likely to ensure that the pendulum swings back towards more stringent documentation and income / expense checking in future lending. This will most likely serve to act as a handbrake on future credit growth.

The pre-election Federal Budget announced phased tax relief over a decade, increased infrastructure spending, and changes to assist older Australians in PBS, home care packages and pension work bonuses. With an increased focus on the black economy & tobacco excise crackdown the budget is forecast to return to surplus in 2020. Australian dwelling prices fell 0.1% in April taking the 12 month growth to just 0.2%, the weakest since 2012. Residential building approvals declined 5% month on month to an annualised 224,000 run rate. Non-residential approvals declined 4% to be down almost 20% yoy. GDP rose 0.8% in the quarter, an annualised clip of 2.7%.

In Japan, real GDP contracted 0.6% in 1Q 2018 negating the growth in the 4Q 2017 to leave annualised GDP growth at just 0.9%. Personal consumption remains weak, as does corporate capex.

The ongoing US-China trade dispute continued over May with agreements falling short of the US demand for a \$200bn reduction in the Chinese bilateral trade surplus. Chinese credit growth rose 11.1% halting several months of declining growth rates. Chinese CPI remained unchanged in April at 2% versus the government target of 3%. This benign rate does give the PBoC room to ease credit conditions to assist the 6.5% target growth rate for 2018.

In Italy, the President effectively blocked two populist parties from forming a government and now the country looks likely to return to the polls in what may possibly be a pseudo referendum on exiting the European Union. Italian 10 year bond yields rose 99bp in May to close at 2.77%. Euro inflation rose to 1.9% yoy with the ECB on track to end QE this year and start raising rates next year.

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

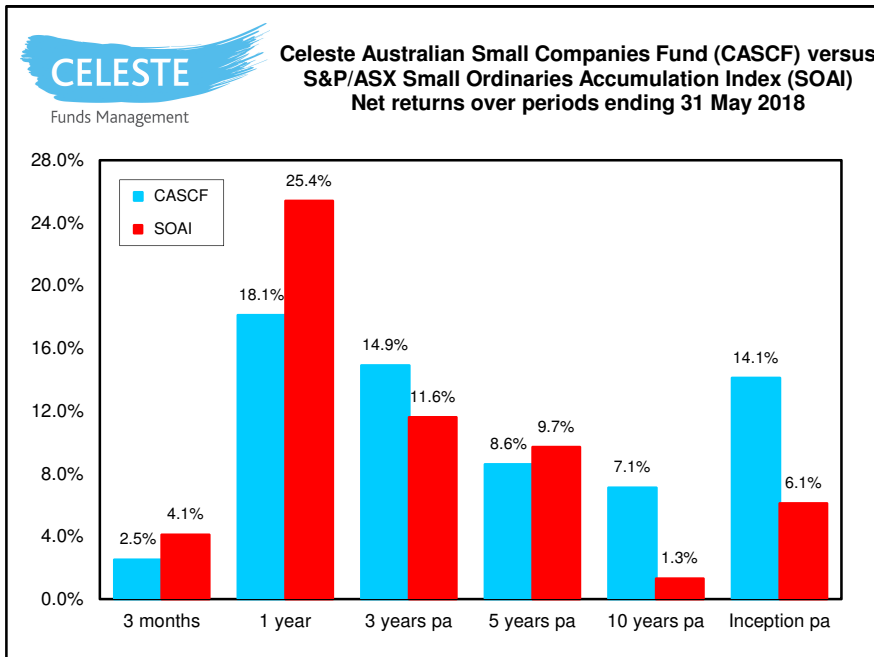
Fund Information

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 31.05.2018	\$3.7094
Unit price (application) as at 31.05.2018	\$3.7317
Fund Size as at 31.05.2018	\$65m
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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