

Celeste Australian Small Companies Fund

Monthly update 31 January 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	-2.0	+29.9	+5.6	+6.8	+3.8
Performance (relative to Index)	+0.4	+13.5	-0.8	+4.0	+4.5
S&P/ASX Small Ords Acc Index	-2.4	+16.4	+6.4	+2.8	-0.7
S&P/ASX Small Inds Acc Index	-3.8	+7.7	+7.6	+10.8	+1.2
S&P/ASX Small Res Acc Index	+2.9	+72.1	+0.4	-15.8	-6.0

Past performance is not necessarily indicative of future returns.

The Fund fell 2.0% in January, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index decreasing by 2.4%. Since inception (May 1998) the Fund's return is 14.0% pa, net of all fees, against the Index's 5.2% pa.

Portfolio Commentary

Data #3 (DTL) rose 17.3% during the month after pre-announcing a 1H17 result that was towards the higher end of guidance. The company expects that profit before tax will be \$8m compared to \$6.1m in the prior year, representing growth of c.30%.

RCR Tomlinson (RCR) rose 5.8% in the month, after announcing a number of contract wins in January 2017. In the last 5 weeks of 2016 RCR has announced contract wins worth almost \$400m, compared to total revenues of \$375m in H2 of FY 2016. RCR have now lifted their order book to \$1.1b, compared with \$900m at June 30th 2016, and \$712m at December 31st 2015. We remain positively disposed to RCR and believe that the company is well placed to grow revenues and earnings in the medium term.

Sunland (SDG) increased 3.9% in January after pre-announcing the 1H17 result and reiterating guidance for the full year. The Company has also renewed its share buy-back and has been active on market, acquiring \$7.5m of shares. While there are well-publicised risks to the broader apartment sector, SDG continues to trade at a meaningful discount to stated NTA. We expect the completion and settlement of the flagship Abian development to deliver significant cash inflows which increases the possibility of additional capital returns to shareholders via share buy-backs or a special dividend.

Huon (HUO) increased 18.3% over the month as domestic wholesale salmon prices continued to rise. Global salmon supply remains well below global demand and the company looks likely to see a significant increase in profitability in FY17 over FY16.

Monash IVF (MVF) declined by 19.0% over the month after a competitor announced significant weakness in their cycle volumes. MVF has guided to a 1H17 result that is up 7% on last year. Competition in low cost IVF seems to be increasing but the company seems well placed to navigate these market changes.

Portfolio Top 5 Holdings

Stock	% of Fund
1 REECE LIMITED	6.6
2 REGIS HEALTHCARE	5.3
3 BREVILLE GROUP	4.8
4 IMF BENTHAM	4.7
5 DATA #3	4.6

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	-0.8	+17.1	+7.5
USA – S&P 500	+1.8	+17.5	+8.5
USA – NASDAQ Composite	+4.3	+21.7	+11.0
Europe – FTSE (UK)	-0.6	+16.7	+2.9
Europe – DAX (Germany)	+0.5	+17.7	+7.4
Asia – Nikkei (Japan)	-0.4	+8.7	+8.5
Asia – Shanghai Composite (China)	+1.8	+15.4	+15.8

Monthly Commentary

The US economy is in good shape with the labour market strong. The unemployment rate is 4.7%, a level considered by many economists as the "natural rate" of unemployment. The national unemployment rate does however mask the regional differences in the diverse US economy. Inflation remains very low. President Trump has promised to lift GDP growth to 4%, through tax cuts and infrastructure spending. The risk of a trade war developing, as the new President puts America first, has increased the risks to global economic growth. It is generally expected that we will continue to see monetary policy tighten over 2017 as continued economic growth and low unemployment lead to upward pressure on inflation.

Retail sales in China, a key indicator of consumption, grew 10.4% year on year in 2016, ending the year on a strong note. Retail sales contributed significantly to China's economic growth as the country shifts from an export driven economy to a consumer society. Consumption contributed 64.6% of China's economic expansion in 2016. The reversal of China's one child policy has seen an increase of 7.9% to 18m in the number of births in 2016. GDP growth rose marginally in the fourth quarter of 2016 to record a 6.7% year on year growth. While GDP growth has moderated from the 10% plus growth rates commonly seen pre 2010 the Chinese economy remains healthy.

In Europe the British economy held up better than expected post the Brexit vote with GDP up 0.6% in December 2016 quarter on quarter. The complexities of Brexit are beginning to reveal themselves and it will be interesting how the current government deals with them.

Contrasting retail sales in China with those in Australia is a sobering experience. Whilst Chinese retail sales were up 10.4% in 2016, in Australia, November retail sales rose just 0.4%. We await the key Christmas period sales numbers which are due out shortly. The Australian economy seems to be steady with unemployment flat in December at 5.7% and inflation benign at 1.5%. The housing sector looks to be coming off its high peaks with Q3 2016 commencements falling 2.8% quarter on quarter. Prices for Australia's key commodities remained firm with iron ore prices rising from \$79/t to \$83/t, gold rose, whilst thermal coal prices fell. The Australian dollar firmed over January from USD \$0.72 to \$0.76.

We expect that fixed interest markets will continue to be sold off around the world and bond yields will rise. The era of zero or indeed negative interest rates is coming to a close and there is a firmer focus on risk. Investment markets are at an inflexion point and will present many opportunities. At Celeste we remain focussed on seeking out investment opportunities whilst being mindful of risk.

CELESTE

Funds Management

Fund at a Glance

Fund Information

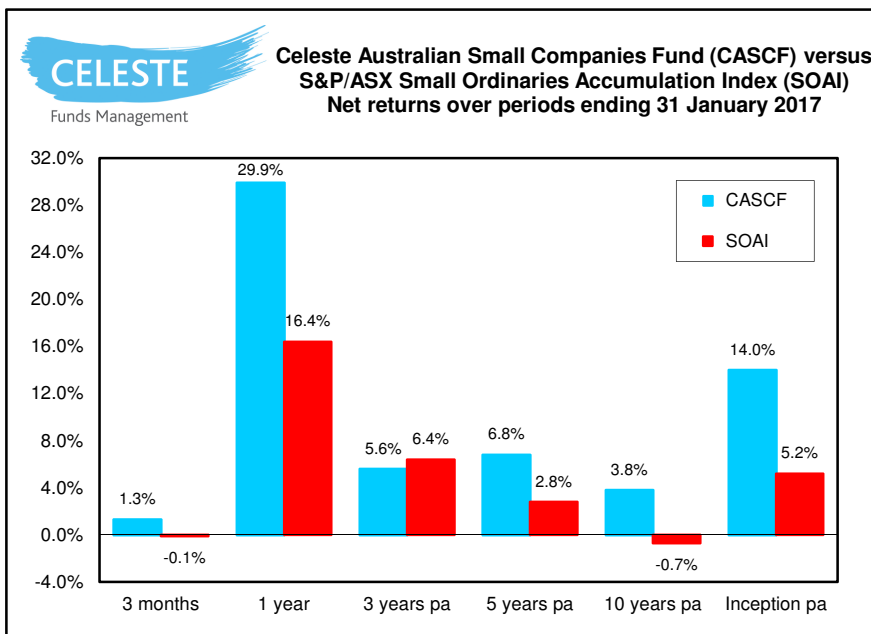
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 31.01.2017	\$3.1292
Unit price (application) as at 31.01.2017	\$3.1481
Fund Size as at 31.01.2017	\$58m
Minimum investment	\$25,000
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*	0.95% [increasing to 1.20% on 15 February 2017]
Performance fee**	20% of return above benchmark
OGFM***	0.95% p.a. [increasing to 1.20% p.a. on 15 February 2017]

* 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 0.95% p.a. for the duration of the PDS.

Fund Returns



Distribution History

Total distribution year ended	Cents Per Unit	Annual Yield %*
June 07	34.32	12.3
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

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* 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

Celeste Funds Management Limited

Level 14, 15 Castlereagh Street, Sydney NSW 2000. GPO Box 4266, Sydney NSW 2001

T 02 9216 1800 F 02 9216 1899 E contact@celestefunds.com.au
www.celestefunds.com.au

ABN 78 098 628 605