

Celeste Australian Small Companies Fund

Monthly update 30 September 2016

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	+3.4	+28.4	+3.9	+8.2	+6.6
Performance (relative to Index)	+1.9	-0.8	-3.2	+2.9	+5.2
S&P/ASX Small Ords Acc Index	+1.5	+29.2	+7.1	+5.3	+1.4
S&P/ASX Small Inds Acc Index	+0.7	+22.1	+9.5	+13.5	+3.4
S&P/ASX Small Res Acc Index	+5.2	+73.9	-3.0	-14.5	-4.3

Past performance is not necessarily indicative of future returns.

The Fund rose 3.4% in September, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index increasing by 1.5%. Since inception (May 1998) the Fund's return is 14.4% pa, net of all fees, against the Index's 5.6% pa.

Portfolio Commentary

SAI Global (SAI) rose 35.6% after receiving a cash takeover offer at \$4.75 per share. The offer from Baring Asia Private Equity Fund VI implies a fully diluted market capitalisation for SAI of \$1.1bn, an enterprise value of \$1.2bn and a trailing FY/16 EV/EBITDA multiple of 9.4x. The 1% break fee may leave the door slightly ajar for other potential suitors given SAI Directors have recommended shareholders vote in favour of the scheme.

IMF Bentham (IMF) rose 12.9% over the month on the back on numerous funding announcements. IMF finalised a class action against Kagara Ltd and funded a further \$44m claim against an unnamed US defendant. IMF also proposed to fund class actions against UGL, Hastie Groups' auditors Deloitte and the ATO on property GST claims. At Sept. end IMF finalised the Rivercity case, booking \$40m in gross revenue and \$29m in pre-tax profit.

Western Areas (WSA) rose 15.7% in the month as the Philippines' government moved to suspend the operations of 16 nickel miners for alleged environmental violations. The closures, if effected, account for 8% of global nickel supply.

Regis Healthcare (REG) declined 4.3% over the month on the back of proposed government funding changes for the sector. REG has a strong pipeline of new facilities that are set to deliver additional aged care places supporting further revenue and earnings growth beyond 2020. We remain comfortable with the positioning of REG, its management team and the long term opportunity in the aged care sector. Celeste took the opportunity to add to its REG shareholding during Sept.

GDH Holdings was up 6% in Sept. and announced the purchase of NZ auto accessory distributor, Griffiths Equipment Ltd.

Cleanaway Waste Management (CWY) appointed ex Adelaide Brighton Cement CEO Mark Chelley as Chairman, post the retirement of Martin Hudson

Portfolio Top 5 Holdings

Stock	% of Fund
1 REECE LIMITED	5.9
2 REGIS HEALTHCARE	5.0
3 AMA GROUP	4.9
4 BREVILLE GROUP	4.7
5 IMF BENTHAM	4.5

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+0.4	+14.0	+6.4
USA – S&P 500	-0.1	+12.9	+8.8
USA – NASDAQ Composite	+1.9	+15.0	+12.1
Europe – FTSE (UK)	+1.7	+13.8	+2.2
Europe – DAX (Germany)	-0.8	+8.8	+6.9
Asia – Nikkei (Japan)	-2.6	-5.4	+4.4
Asia – Shanghai Composite (China)	-2.6	-1.6	+11.4

Monthly Commentary

The Small Ords Index rose 1.5% in September. Investor yield concern saw defensives sell off, whilst energy stocks rallied as OPEC discussed an oil production cap. In Australia Q2 GDP was 0.5%, up some 3.3% year on year (YOY), the fastest rate of growth in 4 years. The GDP figure saw growth dominated by government spending and net exports. Consumption data was the weakest seen since Q1 of 2013, and nominal unit labour costs were down 0.4% YOY, indicating minimal inflation pressure.

Data on the Chinese economy during the month was positive. Retail sales in China grew 10.6% YOY in August, accelerating from the 10.2% posted in July. China's Purchasing Managers Index (PMI) came in at 50.4% in Sept., the same reading as August, highlighting expansion within the economy. Electricity consumption in China rose 8.3% in Aug. and in the first 8 months of 2016 rose 4.2% YOY. In an attempt to curb property sector exuberance the Beijing Municipal Commission of Housing & Urban Rural Development increased down payment requirements for home purchases to be no less than 35% for first time homebuyers, whilst for 2nd home purchases it need be no less than 50%. In Sept. the Bank of Japan (BOJ) announced a new policy framework with two specific objectives. Firstly the BOJ would aim to push inflation above the current 2% target, and ensure that it stays above target in a stable manner. The BOJ also committed to try and keep the yield on 10Y Bonds at around zero, and that it would purchase bonds on market to ensure "yield curve control".

In the US, 151,000 new jobs were added in Aug., with the unemployment rate staying at 4.9%. New jobs created in Aug. is in contrast to the av. monthly increase over the last year of 204,000. During Sept. the Federal Open Markets Committee (FOMC) decided to leave rates on hold, as it saw the near term risks to the economy as "roughly balanced". The minutes from the Sept meeting noted some dissent within the FOMC, as 3 voting members felt an immediate rate increase was justified, whilst in July only one member felt an increase was appropriate. In explaining his dissenting view President and CEO of the Federal Reserve of Boston, Eric S. Rosengren stated later in the month "...I am arguing for modest, gradual tightening now, out of concern that not doing so today will put the recovery's duration and sustainability at greater risk, by generating the sorts of significant imbalances that historically have led to a recession."

We expect that markets will remain volatile in the short term, driven by investor concern with global growth, interest rates and the US election. In the medium term we anticipate that accommodative monetary policy settings globally will adjust, and risk will be repriced. We will look to add to the portfolio in a process consistent manner, should attractive investment opportunities emerge, with appropriate risk and reward traits.

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Funds Management

Fund at a Glance

Fund Information

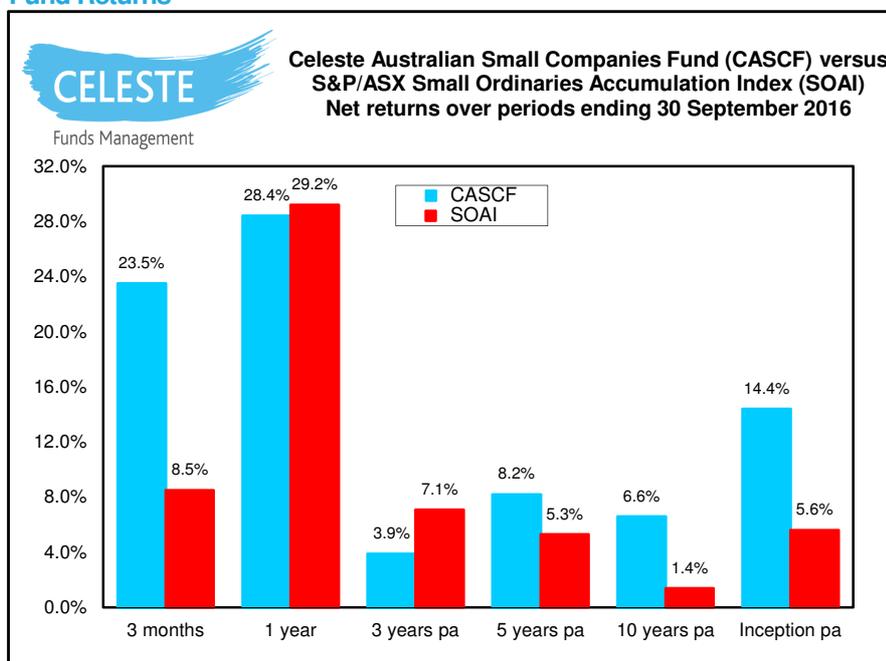
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 30.09.2016	\$3.2278
Unit price (application) as at 30.09.2016	\$3.2474
Fund Size as at 30.09.2016	\$63m
Minimum investment	\$25,000
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%
Performance fee**	20% of return above benchmark
OGFM***	0.95% 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 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.

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