

Celeste Australian Small Companies Fund

Monthly update 28 February 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	+2.9	+34.5	+5.4	+5.9	+4.2
Performance (relative to Index)	+1.6	+17.7	+0.3	+4.1	+4.9
S&P/ASX Small Ords Acc Index	+1.3	+16.8	+5.1	+1.8	-0.7
S&P/ASX Small Inds Acc Index	+1.7	+11.4	+6.6	+9.4	+1.3
S&P/ASX Small Res Acc Index	-0.2	+43.8	-1.5	-16.4	-6.4

Past performance is not necessarily indicative of future returns.

The Fund rose 2.9% in February, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index increasing by 1.3%. Since inception (May 1998) the Fund's return is 14.1% pa, net of all fees, against the Index's 5.2% pa.

Portfolio Commentary

Breville Group (BRG) rose 16.7% in February after announcing a strong interim result. BRG's global small electrical appliance business saw sales grow 8% with EBIT up 12%. BRG's H1 cash generation was strong with inventories reduced by \$23m, working capital down \$16m and period end net cash of \$33m. We remain optimistic as to BRG's sales trajectory, as the company broadens its product offering into an increasingly receptive global market.

Lycopodium (LYL) was up 18.3% in the month after upgrading revenue and profit guidance for FY17. LYL noted in its interim that activity levels were healthy and that a number of significant projects were currently being undertaken. We anticipate that the demand for LYL's engineering consultancy services will grow in the medium term, as will earnings and dividends to shareholders.

MACA Limited (MLD) rose 17.3% in February with its FY17 interim showing revenue growth of 16% and EBITDA up 22%. MLD finished the half with an order book of some \$1.2b and net cash on hand of \$61m. MLD's current valuation metrics are not demanding and there is considerable potential for MLD to further re-rate over 2017.

SMS Management and Technology (SMX) and **Specialty Fashion Group (SFH)** were both the subject of take-over bids during the month, increasing 12.2% and 19.1% respectively. We will assess both bids on their merits and act accordingly.

Isentia (ISD) declined 41.0% in the month after a disappointing 1H17 result and trading update which downgraded guidance for the year. While the King Content outlook has been lowered, the more significant issue relates to the core media monitoring business in ANZ which has faced materially higher copyright payments to publishers and has been unable to offset this through planned price increases and new product releases.

Portfolio Top 5 Holdings

Stock	% of Fund
1 BREVILLE GROUP	5.5
2 REECE LIMITED	5.2
3 IMF BENTHAM	5.1
4 WPP AUNZ	4.6
5 REGIS HEALTHCARE	4.6

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+2.1	+21.3	+6.5
USA – S&P 500	+3.7	+22.3	+8.3
USA – NASDAQ Composite	+3.8	+27.8	+10.4
Europe – FTSE (UK)	+2.3	+19.1	+2.2
Europe – DAX (Germany)	+2.7	+24.7	+6.9
Asia – Nikkei (Japan)	+0.4	+19.3	+8.8
Asia – Shanghai Composite (China)	+2.6	+20.6	+16.4

Monthly Commentary

Equity markets around the world performed well in February despite the move towards higher interest rates, globally, gaining traction.

Australia's interim reporting season saw further evidence of anaemic revenue growth across the listed company spectrum, and an ongoing focus on cost reduction initiatives. Corporates noted input cost pressure, as China-sourced items experience cost escalation, and the tailwind benefits of lower commodity prices appears to have run their course. Companies with debt moved to lock in rates on offer, or moved to extend their debt duration profiles, further highlighting a likely bottoming in interest rates.

The US Federal Reserve kept its main lending rate near zero for seven years before raising it in December 2015, and again in December 2016. The Federal Funds rate now stands at 0.75%. Speaking to congress, US Federal Reserve chair, Janet Yellen, said it may be "appropriate" for the central bank to raise interest rates at one of its upcoming meetings. The labour market in the US is slowly tightening with total non-farm payroll employment increasing by 227,000 in Jan. and the unemployment rate little changed at 4.8%.

In Europe, Greek debt crisis concerns re-surfaced during the month. The Greek economy shrank in the final quarter of 2016 and the country is in the throes of difficult bailout talks with international creditors. Eurozone growth was revised down to 0.4% for the fourth quarter whilst inflation is beginning to rise with consumer prices up by 1.8% in February, from 1.1% in January. This is the highest rate of inflation recorded in the Eurozone since February 2013.

China's manufacturing sector grew for the sixth month in a row in January, with the 'Purchasing Managers Index' coming in at 51.3, and any reading above 50 indicating expansion within the sector. The January CPI in China came in at 2.5%, year on year, with prices in cities up 2.6%, and in rural areas up 2.2%.

Gross Domestic Product, in Australia, rose 1.1% in the December quarter following on from a negative 0.5% in the September quarter. Overall, the economy grew by a respectable 2.4% in the 12 months to December 2016. The National Australia Bank's survey of business conditions spiked +16.2 in January 2017, the highest survey result seen since October 2007.

Australian 'capital city house prices' grew strongly in February rising at the strongest annual rate seen in almost seven years. Interest rate cuts, investor demand, a favourable tax system all conspired to see prices grow by an average of 11.7% in the year to February 2017.

At Celeste we remain vigilant in seeking out investment opportunities, risk averse, cognisant of valuation and investment process execution.

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Funds Management

Fund at a Glance

Fund Information

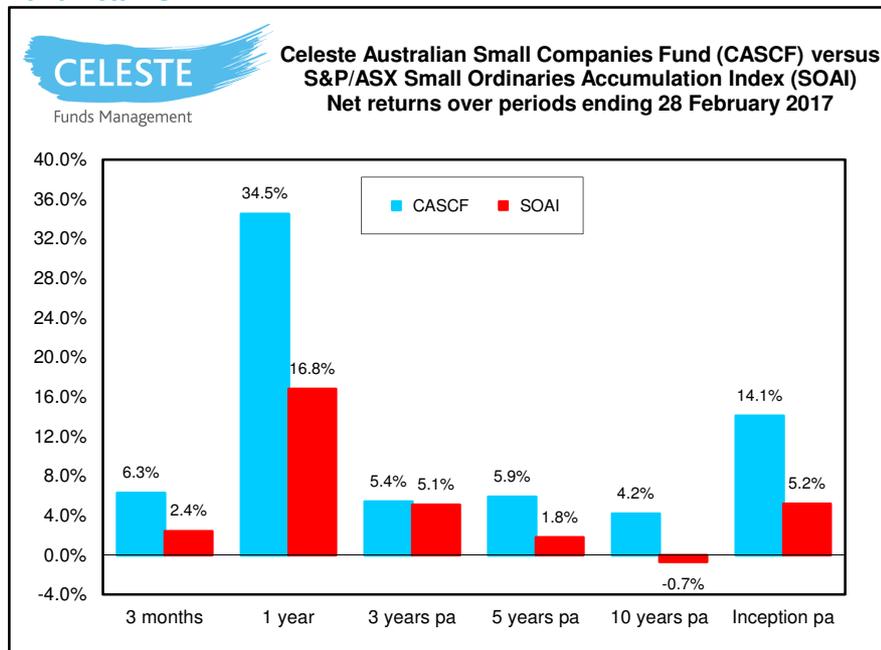
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 28.02.2017	\$3.2184
Unit price (application) as at 28.02.2017	\$3.2379
Fund Size as at 28.02.2017	\$59m
Minimum investment	\$25,000
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*	1.20% p.a.
Performance fee**	20% of return above benchmark
OGFM***	1.20% 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

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