

CELESTE

Funds Management

Celeste Australian Small Companies Fund

Monthly update 31 March 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	+1.3	+30.2	+6.7	+5.2	+4.2
Performance (relative to Index)	-1.4	+16.5	+0.3	+2.9	+5.0
S&P/ASX Small Ords Acc Index	+2.7	+13.7	+6.4	+2.3	-0.8
S&P/ASX Small Inds Acc Index	+4.2	+9.5	+8.0	+9.4	+1.4
S&P/ASX Small Res Acc Index	-3.2	+35.2	-0.5	-16.0	-7.4

Past performance is not necessarily indicative of future returns.

The Fund rose 1.3% in March, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index increasing by 2.7%. Since inception (May 1998) the Fund's return is 14.1% pa, net of all fees, against the Index's 5.3% pa.

Portfolio Commentary

The Reject Shop (TRS) increased 10.4% in March. Celeste initiated a position in TRS after its price decline in February. TRS fell following the release of its 1H17 result which disappointed the market due to softer than expected 'Like on Like' sales growth of negative 0.5%. TRS sales fell, dragged down by difficult trading, particularly in WA. We are positive on the prospects of a better FY18 at TRS, set to benefit from warehouse cost savings, new store contributions, the potential for improved merchandising and more conducive external conditions translating into a sales turnaround.

WPP AUNZ (WPP) rose 7.6% in March as the quality of its calendar 2016 result was further positively assessed by the market. We remain positively disposed to WPP as it is well placed to grow in 2017, is on a modest multiple and offers an attractive franked yield.

RCR Tomlinson (RCR) fell 2.8% in the month and announced 2 major wins in the renewable energy space. RCR is to build 2 Solar Farms, in Manildra Qld & Gannawarra Vic., with a total contract value of \$165m. RCR is also preferred contractor status on another 6 renewable projects, expected to convert to contracts by June 30th.

Specialty Fashion Group (SFH) declined 15.2% during the month, reversing the prior month's gain. After announcing the receipt of a bid proposal for 70c in early Feb, SFH announced that the bidder's (Al Alfia) funding had been restricted in probate due to the unforeseen death of the father of the sole shareholder of Al Alfia. The SFH share price is currently at the same levels as prior to the Al Alfia proposal, and implies a low probability of the deal concluding.

Lifestyle Communities (LIC) rose 5.7% in March and acquired a 190 home site in Armstrong Creek Vic for \$10m. The new site will target the south Geelong catchment and compliment LIC developments already underway in north Geelong and on the Bellarine Peninsula. Home settlements are anticipated to begin in FY20, supporting LIC revenue and earnings visibility well past FY21.

Portfolio Top 5 Holdings

Stock	% of Fund
1 WPP AUNZ	4.8
2 IMF BENTHAM	4.7
3 BREVILLE GROUP	4.5
4 REGIS HEALTHCARE	4.4
5 STEADFAST GROUP	4.3

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+3.2	+19.5	+7.6
USA – S&P 500	+0.0	+14.7	+8.1
USA – NASDAQ Composite	+1.5	+21.4	+12.1
Europe – FTSE (UK)	+0.8	+18.6	+3.5
Europe – DAX (Germany)	+4.0	+23.6	+8.8
Asia – Nikkei (Japan)	-1.1	+12.8	+8.4
Asia – Shanghai Composite (China)	-0.6	+7.3	+16.6

Monthly Commentary

Equity market performance in the month was mixed with the US, Europe and Australia performing well, whilst Asia was lower. The Trump administration's failure to abolish the 'Affordable Care Act', often referred to as 'Obamacare' rattled the markets confidence, bringing into question how a Republican controlled US Congress will govern.

The US Federal Open Markets Commission (FOMC) raised the US Federal Funds Rate for the third time since the GFC, lifting the target range 0.25% to 0.75%-1%. The Federal reserve Chair Janet Yellen said the committee judged that a "modest increase" in the rate is appropriate "in light of the economy's solid progress.". This followed on from stronger economic indicators for US jobs growth and inflation. In February the US unemployment rate edged lower to 4.7% whilst inflation increased 0.1% to 2.7%pa.

The Chinese National People's Congress announced a growth target for the Chinese economy in 2017 of around 6.5%, which is lower than the pace recorded for 2016. Like many countries in the world, monetary stimulus by the Peoples Bank of China has increased financial risks to longer term growth. Recognising this, the Bank signalled a reduction in monetary stimulus. As in Australia, additional measures have been put in place to curb rapid housing price growth in some cities.

In contrast to the situation in China and the US, monetary policy in Japan remains highly accommodative with the Bank of Japan (BOJ) setting a negative interest rate of minus 0.1% for the current accounts held by financial institutions at the bank. It is also continuing to buy Japanese Government Bonds (JGB) so that the 10 year JGB yields remain around zero percent. The BOJ expects that Japan's inflation rate will increase from 0% to slightly positive, reflecting developments in energy prices. Thereafter it is expected to increase to 2% as the output gap improves and medium to long-term inflation expectations rise. The BOJ's inflation outlook appears questionable given Japan is beset by a shrinking and ageing population, whose spending patterns tend to be deflationary, and with migration policy, a very difficult area to broach politically.

In Australia, the Australian Prudential Regulatory Authority (APRA) has announced stage 2 of its plans to ensure sound mortgage lending and take some of the heat out of the Sydney and Melbourne market. Measures included restricting Interest only loans to below 30% of mortgage flow at each bank compared to 40% currently.

At Celeste we continue to apply our investment process, sensitive to the investment opportunities that emerge to investors with discipline and patience.

CELESTE

Funds Management

Fund at a Glance

Fund Information

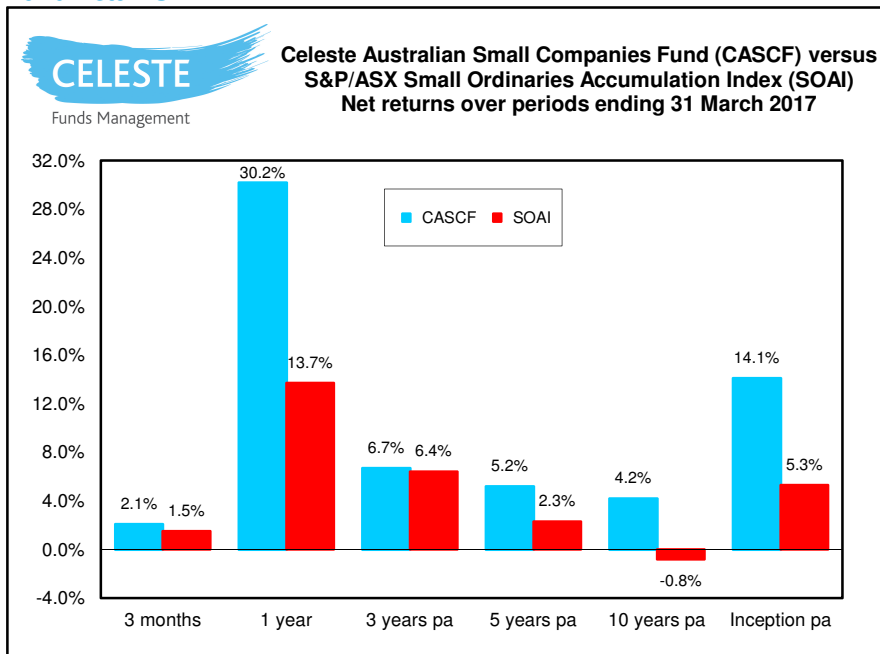
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 31.03.2017	\$3.2605
Unit price (application) as at 31.03.2017	\$3.2802
Fund Size as at 31.03.2017	\$58m
Minimum investment	\$25,000
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*	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 1.20% 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

Past performance is not necessarily indicative of future returns

* 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