

Celeste Australian Small Companies Fund

Monthly update 31 May 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	-1.2	+24.0	+7.1	+6.5	+3.2
Performance (relative to Index)	+0.9	+20.5	+1.1	+2.3	+5.3
S&P/ASX Small Ords Acc Index	-2.1	+3.5	+6.0	+4.2	-2.1
S&P/ASX Small Inds Acc Index	-2.8	+1.6	+7.7	+10.5	+0.4
S&P/ASX Small Res Acc Index	+1.6	+13.0	-1.2	-13.0	-9.1

Past performance is not necessarily indicative of future returns.

The Fund fell 1.2% in May, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index decreasing by 2.1%. Since inception (May 1998) the Fund's return is 13.9% pa, net of all fees, against the Index's 5.2% pa.

Portfolio Commentary

SMS Management and Technology (SMX) increased 10.6% after ASG Group, recently acquired by Nomura Research Institute, tabled a non-binding expression of interest to acquire SMX for \$1.80. Should the offer become formal it would be superior to the existing DWS proposal and likely to lead to a counter-offer.

GUD Holdings (GUD), -3.4%, announced the divestment of the Dexion business for \$7.5m. While the proceeds are lower than the c.\$15m market expectation, the sale removes the potential for future liabilities and any further cash drain from restructuring charges. We expect GUD to continue to focus its efforts and capital on the auto-aftermarket space, an area where the company excels.

AMA Group (AMA), declined 8.0% in May after acquiring an 18% interest in Automotive Solutions Group (4WD) at 30cps, and bidding for the balance of the company. 4WD listed in Dec 2016 at \$1.00 with activities complementary to AMA's bull-bar division, ECB.

The **retail sector** continued to be heavily sold-off in May on concerns over poor consumer sentiment and Amazon's planned entry into Australia. Celeste holds shares in Nick Scali (NCK) -10.4%, The Reject Shop (TRS) -12.5%, and Specialty Fashion (SFH) -26.9%. Given the nature of the respective product offerings and analysis of international peers, the Amazon threat is considered most pertinent to SFH. We remain conscious of high household gearing, however we will continue to hold specific retailers where the potential valuation upside is commensurate with the risk.

Reliance Worldwide (RWC) rose 8.2% in May. RWC acquired the US based Holdrite, a manufacturer and distributor of pipe support solutions. Holdrite, established in 1982, achieves some 95% of its sales in the USA / Canada, and is forecast to be EPS accretive for RWC in year one. Holdrite sells products that deliver time effective solutions to contractors and the trade, consistent with RWC's core plumbing fittings offering. We remain positively disposed to RWC.

Portfolio Top 5 Holdings

Stock	% of Fund
1 IMF BENTHAM	5.3
2 CLEANAWAY WASTE MANAGEMENT	4.7
3 STEADFAST GROUP	4.7
4 BREVILLE GROUP	4.5
5 RELIANCE WORLDWIDE	4.2

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	-2.6	+10.2	+6.2
USA – S&P 500	+1.2	+15.0	+7.8
USA – NASDAQ Composite	+2.5	+25.3	+13.5
Europe – FTSE (UK)	+4.4	+20.7	+3.2
Europe – DAX (Germany)	+1.4	+22.9	+8.3
Asia – Nikkei (Japan)	+2.4	+14.0	+10.3
Asia – Shanghai Composite (China)	-1.2	+6.9	+15.2

Monthly Commentary

Equity market performance over May was strong in the US, UK, Germany & Japan, whilst Australian & Chinese markets were lower.

The US labour market added 211,000 jobs in April pushing the unemployment rate down to 4.4%. The economy is now running at full employment based on a 5% cut off rate. Unemployment is now below pre-GFC levels and the lowest rate since May 2007. Wage growth remains anaemic with per annum increases hovering around 2%. Sustained low unemployment rates are likely to result in higher wage growth over time. Inflation data was soft but this has been seen as a pause rather than a retracement with expectations that the rate will trend towards the US Federal Reserve's 2% target.

Chinese GDP rose 6.9% in Q1, with industrial production up 6.8%, and retail sales growing 10% in the period. During May, China reiterated its pledge to spend US\$124bn in capital works, loans and investment on the 'One Belt One Road' (OBOR) global trade project. The project, dubbed the new Silk Road, is aimed at putting in place the necessary infrastructure to promote increased trade links between Asia, Africa, Europe and the Pacific. The scale of OBOR is daunting with the rationale somewhat clouded. Commentators have suggested that the strategic rationale for OBOR is driven by China's desire to access new consumer markets, by its need to access large pools of migrant labour as its population ages, and to increase its geopolitical sphere of influence.

The Japanese economy grew at 0.5% in Q1, faster than expectation, with the annual rate of 2.2% the fastest growth for a year. The growth driven in part by stronger exports but also higher consumption and capital investment for 2020 Olympic Stadia. Germany also grew strongly in 1Q17 with annualised GDP growth at 1.7%, supported by stronger state spending on construction and capital equipment. The ECB expressed some concern around the size of the ongoing German current account surplus.

Australian banks sold off sharply, post the Budget and introduction of the A\$6.2bn bank levy. Wage growth remained subdued with 1Q17 year on year growth of only 1.9%, a record low. Retail sales slumped with 3 of the past 4 months recording month on month declines driving the year on year growth to just 2.1%. Residential approvals had a modest rebound up 4.4% month on month following a very weak -10.3% drop in March. Non-residential approvals rose 5.5%, consistent with the 4.8% year on year growth rate. Expectations for 1Q17 GDP continue to be trimmed towards a flat to c0.3% growth rate. If this does occur, it should lead to the RBA lowering their mid-17 forecasts by as much as 0.5%.

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

CELESTE

Funds Management

Fund at a Glance

Fund Information

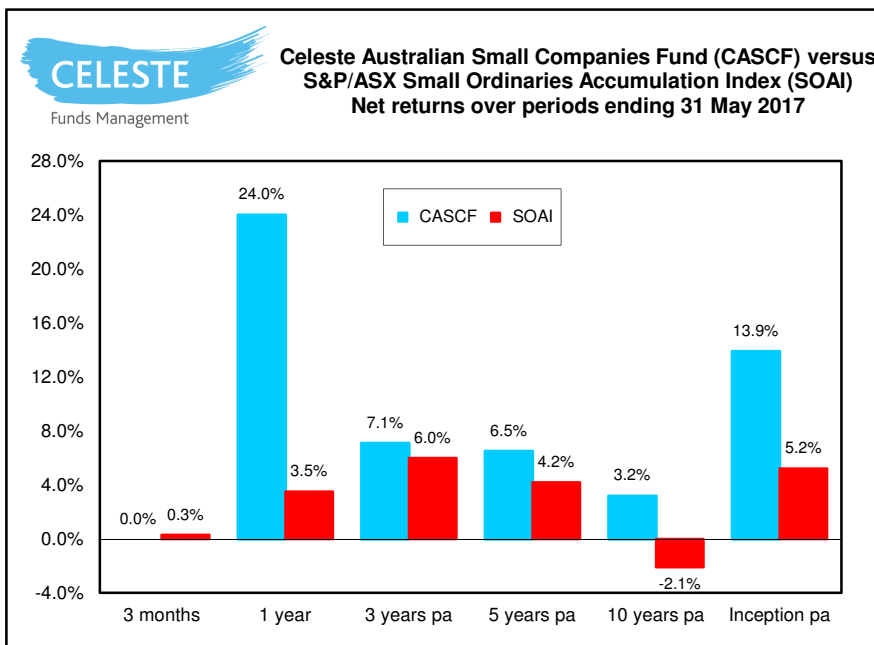
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 31.05.2017	\$3.2177
Unit price (application) as at 31.05.2017	\$3.2372
Fund Size as at 31.05.2017	\$57m
Minimum investment	\$25,000
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

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* CPU / unit price at beginning of period

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