

CELESTE

Funds Management

Celeste Australian Small Companies Fund

Monthly update 31 August 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	+1.5	+8.3	+6.7	+6.5	+3.7
Performance (relative to Index)	-1.2	+5.1	+1.0	+0.8	+4.8
S&P/ASX Small Ords Acc Index	+2.7	+3.2	+5.7	+5.7	-1.1
S&P/ASX Small Inds Acc Index	+1.7	+1.6	+7.0	+10.7	+1.2
S&P/ASX Small Res Acc Index	+7.1	+11.0	-0.2	-8.8	-7.6

Past performance is not necessarily indicative of future returns.

The Fund rose 1.5% in August, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index increasing by 2.7%. Since inception (May 1998) the Fund's return is 13.9% pa, net of all fees, against the Index's 5.4% pa.

Portfolio Commentary

Reliance Worldwide (RWC) rose 9.0% in the month. RWC manufactures and distributes 'behind the wall' plumbing products, specifically related to the supply and control of water flows. RWC had a strong FY17 with sales growth of 12.6% and EBITDA up 21.8%. RWC generates over 70% of sales outside of Australia and in FY17 grew sales and EBITDA in the Americas an impressive 19.3% and 27.7% respectively. RWC's founding shareholder, the Munz family, reduced their shareholding in RWC from 30% to 10% in August with Celeste participating in the sell down.

Autosports Group (ASG) rose 4.4% during the month after reporting a solid maiden full year result. ASG beat prospectus forecasts despite a tough new car sales environment at the start of calendar 2017. We continue to be attracted to the maturing profile of dealerships in ASG providing organic earnings growth from increases in back-end revenues and the reduced reliance on finance and insurance commissions that are subject to regulatory reviews. ASG has also recently acquired two BMW operations in Melbourne that we expect to be highly accretive over time.

Lifestyle Communities (LIC) reported FY17 revenue, NPAT & dividend up 32%, 34% & 40% respectively. The company increased home sale guidance and acquired another development site in Victoria underwriting settlement growth well into 2021.

Positive performance in August came from **MACA** +14.0%, **Lycopodium** +11.9% and **RCR Tomlinson**, +6.1%. These companies delivered strong FY17 results benefiting from their exposure to infrastructure, renewables and mining sector capital expenditure. RCR announced a \$90m raising with their FY17 result to fund growth within the transport, rail and renewable energy markets. In the year to June 30th 2017 RCR's order book grew 40%, to \$1.4b, whilst preferred contractor exposure rose 200% to \$1.6b. In FY17 RCR saw sales up 35% to \$1.3b, generating EBITDA of \$55.3m and net profit of \$25.7m. We remain attracted to the track record of RCR's management, to the company's strategic position and earnings trajectory.

Portfolio Top 5 Holdings

Stock	% of Fund
1 IMF BENTHAM	5.0
2 RELIANCE WORLDWIDE CORPORATION	5.0
3 CLEANAWAY WASTE MANAGEMENT	5.0
4 AMA GROUP	4.9
5 BREVILLE GROUP	4.7

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+0.8	+8.9	+5.4
USA – S&P 500	+0.1	+13.9	+7.3
USA – NASDAQ Composite	+1.3	+23.3	+12.0
Europe – FTSE (UK)	+0.8	+9.6	+2.9
Europe – DAX (Germany)	-0.5	+13.8	+8.4
Asia – Nikkei (Japan)	-1.4	+16.3	+8.4
Asia – Shanghai Composite (China)	+2.7	+8.9	+14.9

Monthly Commentary

Equity markets were lacklustre in August, generating modestly positive results. Investors were, in part, spooked by rising geopolitical tension on the Korean peninsula.

In Australia, the FY17 reporting season highlighted a domestic operating environment that remains challenging with sales growth elusive and competitive conditions intense. Reporting season led to no perceptible change in investor mindset or subdued disposition, as the grinding low growth macro-economic backdrop, pervasive in recent years, continues to colour listed company commentary.

Employment in Australia grew in July by 27,900 and was revised upwards in June from 14,000 to 20,000. The participation rate edged up to 65.1% and the unemployment rate fell from 5.7% to 5.6%. Wages growth in Q2 was up 0.5% on the previous quarter, with the annual growth rate of 1.9% the slowest pace of growth ever recorded by the Australian Bureau of Statistics. Residential approvals in June rose by 10.9% month on month, to an annualised level of 221,000, compared to a Q3 2016 peak of 247,000. Interestingly, the value of 'Alterations & Additions' rose strongly in June by 6.7% month on month, an increase of 8.3% year on year.

The Reserve Bank of Australia (RBA) left rates on hold in August with the cash rate at 1.5%. The RBA continues to expect that low rates will support the Australian economy, and that holding its current monetary policy position will assist sustainable growth in the economy.

In the US, Q2 GDP was revised up from 2.6% to 3.0%, the strongest growth rate achieved since Q1 of 2015. The US unemployment rate fell to 4.3% in July, from 4.4%, with 209,000 jobs added in the month. Average hourly earnings grew 0.3% in the month, annualising at a rate of 2.5%, whilst inflation rose by 2.4% over the same period.

In China, the State Council of the PRC moved to limit overseas investments by Chinese companies in areas including real estate, hotels, cinemas and sports clubs, whilst banning outright investment in gambling. The State Council of the PRC also moved to encourage investments in line with the 'Belt and Road' initiative, in infrastructure, and in new technology. In China exports rose 11.2% in the year to July, whilst imports rose 14.7%. In the year to July, industrial production in China grew 6.4% whilst credit conditions showed steady loan growth. Retail sales rose 10.4% in the year to July, compared to 11.0% growth last year.

At Celeste we remain alert to the opportunity that market volatility may present, and will look to add to the portfolio in a process consistent manner should valuation appear compelling.

Fund at a Glance

Fund Information

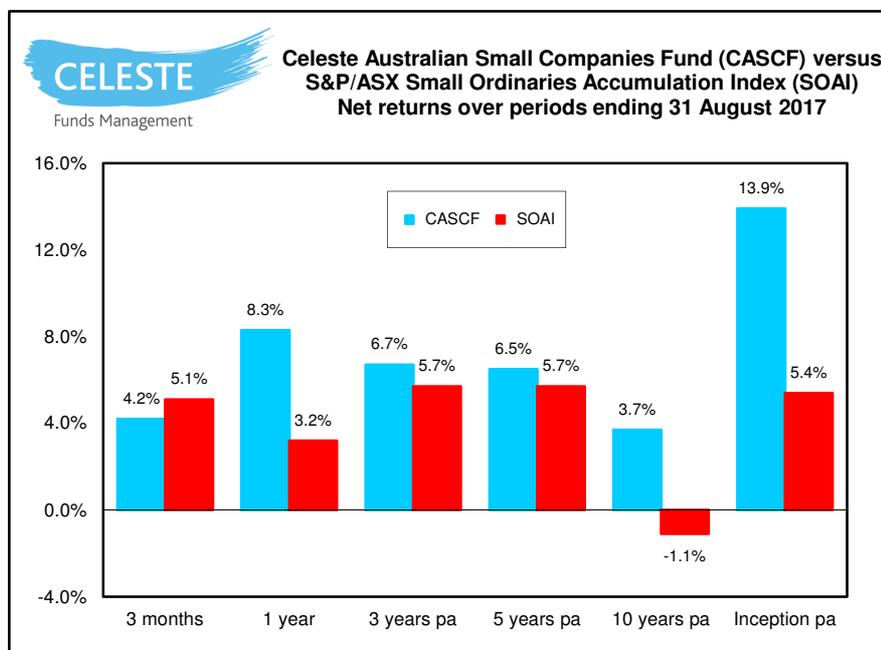
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 31.08.2017	\$3.3088
Unit price (application) as at 31.08.2017	\$3.3288
Fund Size as at 31.08.2017	\$58m
Minimum investment	\$25,000
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 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
June 17	6.87	2.6

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