

Celeste Australian Small Companies Fund

Monthly update 29 February 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	-0.7	-6.5	-5.5	-1.2	+4.2
Performance (relative to Index)	-1.6	-2.9	-4.1	+2.0	+3.8
S&P/ASX Small Ords Acc Index	+0.9	-3.6	-1.4	-3.2	+0.4
S&P/ASX Small Inds Acc Index	-1.6	-0.9	+5.5	+6.8	+2.6
S&P/ASX Small Res Acc Index	+19.4	-15.7	-24.3	-25.5	-6.3

Past performance is not necessarily indicative of future returns.

The Fund fell 0.7% in February, with its benchmark, the S&P/ ASX Small Ordinaries Accumulation Index increasing by 0.9%. Since inception (May 1998) the Fund's return is 13.0% pa, net of all fees, against the Index's 4.6% pa.

Portfolio Commentary

OZ Minerals (OZL) increased 37.4% in the month due to strong production data and positive FY16 guidance. Late in the month OZL announced that it will develop its SA Copper/Gold Carrapateena deposit with a high-grade mine plan allowing for limited upfront capital spend and a more attractive risk profile.

Breville Group (BRG) reported a strong interim result and rose 25.3% in the month. In North America, BRG achieved a 10.9% constant currency sales lift, with this geography accounting for >60% of earnings. BRG is uniquely placed to grow its global small electrical appliance sales and profits in the medium term.

Reece Limited (REH), the portfolio's largest active equity exposure, rose 2.2% in the month. In its 1H16 result, plumbing products distributor, REH, grew sales 8.7%, EBITDA by 16.9% and Pre Tax Profit by 19.9%. REH achieved growth above its peer base, with margins and returns in the best of breed category. REH remains attractively priced and a compelling equity investment.

RCR Tomlinson (RCR) declined by 31.9% over the month after reporting a weak interim result. The delay in project awards and job commencements has driven weaker earnings in 2016. That said, 15% growth in the order book, the best indicator of future revenues & profits, gives us confidence that RCR's medium term earnings profile looks strong. We continue to believe that RCR's strong integrated engineering capability will deliver contract wins, revenue and earnings over the medium term.

Isentia Group (ISD) decreased 23.9% during the month. ISD's 1H16 result experienced slower social media penetration rates and a lower margin from August 2015 acquisition, 'King Content', a specialist content marketing company. ISD management reiterated the longer term outlook for the business, highlighting expectations for stronger margins in King Content in 2H16. New social media products are anticipated to lift penetration rates and average revenue per client.

Portfolio Top 5 Holdings

Stock	% of Fund
1 REECE LIMITED	5.9
2 BREVILLE GROUP	5.7
3 STEADFAST GROUP	5.1
4 MONASH IVF GROUP	4.8
5 SUNLAND GROUP	4.4

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	-1.5	-12.2	+3.2
USA – S&P 500	-0.4	-8.2	+8.5
USA – NASDAQ Composite	-1.2	-8.2	+13.0
Europe – FTSE (UK)	+0.2	-12.2	-1.4
Europe – DAX (Germany)	-3.1	-16.7	+7.0
Asia – Nikkei (Japan)	-8.5	-14.7	+11.5
Asia – Shanghai Composite (China)	-1.8	-18.8	+4.4

Monthly Commentary

The weak start to 2016 continued in February with volatility elevated and risk aversion on the rise. Equity investors saw markets fall for the first half of the month before paring back some of the decline late in the period. Stocks fell across the size spectrum, big and small, with declines experienced broadly across global equity markets.

On the local front economic data was mixed. The wage price index in Q4 rose by 0.5%, with the annual rate of growth a record low of 2.2%, the lowest growth rate seen since data collection began in 1998. Residential building approvals for December 2015 rose 9.2%, month on month, to a very healthy annual rate of 226,000. Employment growth fell slightly in January, but is still tracking at a year on year rate of 2.6%. Unemployment rose to 6.0% in the month with the participation rate steady at 65.2%.

Bond yields continued to fall in February. Investor nervousness over global growth, a growing appetite for safe harbour investment avenues, and the prospect of further central bank stimulus all reinforced the case for bonds. The yield on Japan's 10 year bond fell below zero in February and late in the month the Japanese Government auctioned 2.2 trillion Yen in 10 year bonds at an average yield of minus 0.024%. In effect investors are paying a fee to lend money to the Japanese Government for the next decade.

In China, the 'Purchasing Managers Index' fell below 50 in January to 49.4%, the 6th sub 50 reading in a row, and the lowest level seen since August 2012. At the end of February the People's Bank of China announced a 50 bp cut in the reserve requirement for financial institutions in an attempt to stimulate domestic activity. In Japan Q4 GDP contracted by 1.4%, quarter on quarter. In the US the unemployment rate fell to 4.9% and GDP for Q4 was revised up to 1% quarter on quarter, from an initially reported 0.7%. Euro area GDP grew 1.1% in Q4, slower than the 1.9% seen in H1 of 2015, whilst the annual inflation rate in February fell to minus 0.2%.

The local equity market focused on interim reporting season in February. Expectations prior to reporting season were muted at best, and the reality of February confirmed that a sober view had been appropriate. Corporates continue to cite an anaemic sales backdrop, margin pressure and little in the way of earnings growth. Whilst we acknowledge the challenge currently evident for companies, we note balance sheets are in good order, access to funding is ample, and debt costs are low. Companies have cost structures that offer significant leverage to any modicum of sales growth whilst the \$AUD is less volatile at present, than was the case in 2015, and at a more palatable level for exporters. At Celeste we remain alert to opportunity and will look to add to the portfolio in a process consistent manner when valuations are appropriately compelling.

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Funds Management

Fund at a Glance

Fund Information

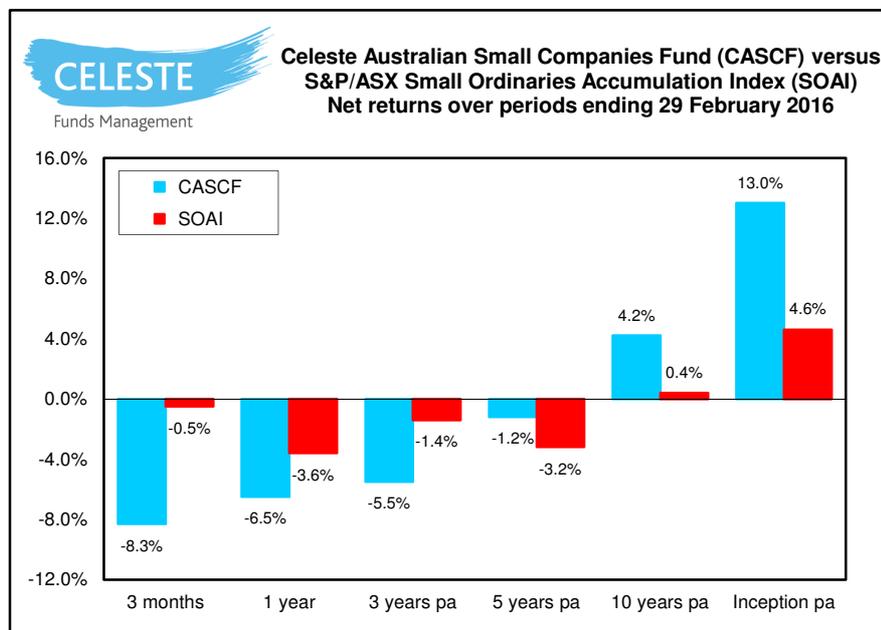
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 29.02.2016	\$2.4815
Unit price (application) as at 29.02.2016	\$2.4665
Fund Size as at 29.02.2016	\$72m
Minimum investment	\$25,000
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 06	18.88	7.3
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

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* CPU / unit price at beginning of period

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