

### Celeste Australian Small Companies Fund

Monthly update 31 March 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	+4.7	-0.4	-3.0	-0.3	+4.4
Performance (relative to Index)	-0.8	-4.1	-4.5	+1.8	+4.1
S&P/ASX Small Ords Acc Index	+5.5	+3.7	+1.5	-2.1	+0.3
S&P/ASX Small Inds Acc Index	+6.0	+5.8	+8.0	+7.8	+2.7
S&P/ASX Small Res Acc Index	+3.0	-5.9	-20.9	-24.7	-7.1

Past performance is not necessarily indicative of future returns.

The Fund rose 4.7% in March, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index increasing by 5.5%. Since inception (May 1998) the Fund's return is 13.2% pa, net of all fees, against the Index's 4.9% pa.

#### Portfolio Commentary

**Oroton (ORL)** increased 37.1% during the month after announcing a 1H16 result which benefitted from strong like-for-like sales growth of 10%. NPAT increased 73% or 9% on an underlying basis post Oroton's steps to reduce losses from international operations, and sale of the loss-making Brooks Brothers JV in 2H15.

**MACA (MLD)** was up 17.4% in the month after delivering a very solid FY16 interim result. MLD generated EBITDA of \$42.9m in the period, and finished the half with \$1.15b in 'work in hand'. Since listing in late 2010 MLD has paid out fully franked dividends of \$1.075, against a last sale price of 92c. We anticipate that given the cash generative characteristics of MLD a healthy dividend stream from the company is likely for the foreseeable future.

**STW Communications (SGN)** rose 12% in March as investors warmed to the company's prospects, post its pending merger with the Aust./NZ operations of WPP Group. Post-merger SGN will have very significant cost and revenue synergy opportunities, with a large portion likely to be delivered within the next 24 months.

**IMF Bentham (IMF)** rose 10.3% on the back of a busy month of ASX announcements. IMF announced 1 case loss & 3 case wins with a pre-tax contribution of \$7.5m. NAB agreed to a settlement on bank fees with profit likely to be finalised in FY16. There were no court objections to the Standard & Poor's settlement so IMF will book \$47m of pre-tax profit in 2H16. Four more cases were funded with a revenue opportunity of \$320m. Growth in the case portfolio & positive settlements continue to underpin our investment thesis.

**Huon (HUO)** declined by 10.8% over March post a weaker result in the February reporting season. Huon harvested salmon early to avoid heat related mortalities however this had a negative effect on both price and profit. We remain confident that the fish classes in FY17 & FY18 will have lower costs and with a better revenue environment, Huon will deliver a step change in profitability.

#### Portfolio Top 5 Holdings

Stock	% of Fund
1 REECE LIMITED	6.0
2 BREVILLE GROUP	5.5
3 STEADFAST GROUP	5.0
4 AMA GROUP	4.9
5 MONASH IVF GROUP	4.5

#### Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+4.7	-8.0	+5.6
USA – S&P 500	+6.6	-0.4	+9.5
USA – NASDAQ Composite	+6.8	-0.6	+14.2
Europe – FTSE (UK)	+1.3	-8.8	-1.2
Europe – DAX (Germany)	+5.0	-16.7	+8.5
Asia – Nikkei (Japan)	+4.6	-12.7	+10.6
Asia – Shanghai Composite (China)	+11.8	-19.9	+10.3

#### Monthly Commentary

The Australian equity market performed well in March, in stark contrast to the declines experienced in January and February. Whilst the appetite for equities globally was healthy, the variance in performance across the globe was stark with China's Shanghai Composite Index up 11.8%, whilst in Europe the UK FTSE index rose only 1.3%.

On the domestic economic data front the release of Q4 2015 GDP data highlighted that the economy grew 3%, year on year. The unemployment rate in February fell to 5.8%, from 6%, and the NAB Survey of Business Conditions rose to 8.3%, from a previous 5.4%. Interestingly the recent decline in the household savings rate continued, in part reflecting a weak income environment, with the savings rate now tracking at a low last seen in Q3 of 2008.

The US Federal Reserve sensitivity to potential economic weakness was noteworthy in March with Federal Reserve President Janet Yellen stating that "...our objectives for employment and inflation will likely require a somewhat lower path for the federal funds rate than was anticipated in December". To further reinforce the heightened sensitivity, the Federal Open Market Committee adjusted their interest rate guidance, and now expect two increases in 2016, from a previous four.

US economic data was generally positive in the month with real GDP growth for Q4 revised up 0.4% to 1.4%, and February housing starts up 5.2% to an annual rate of 1.18m. The US economy created 242,000 jobs in February with the unemployment rate at 4.9%, an eight year low. Despite improvement in the labour market wages growth in the US remains anaemic. Average hourly earnings slowed to year on year growth of 2.2% in February, from 2.5% in January.

In China the 13<sup>th</sup> Five Year Plan was delivered to the National People's Congress by Premier Li Keqiang. The five year plan outlines the policy framework & economic development goals for 2016 to 2020, including an economic growth target of 6.5% to 7% p.a., the creation of 10 million new urban jobs, and a registered urban unemployment rate of 4.5%. Premier Keqiang noted, "...we must work to build, through tireless efforts, a beautiful China where the sky is blue, the land is green, and the water runs clear".

In the short term, we expect that markets will remain volatile as earnings growth remains elusive, valuations are stretched, and the pricing of risk remains distorted by the uber accommodative mindset of global Central Bankers. We maintain a cautious disposition and will look to add to the portfolio in a process consistent manner, should risk and reward metrics become compelling.

# CELESTE

Funds Management

## Fund at a Glance

### Fund Information

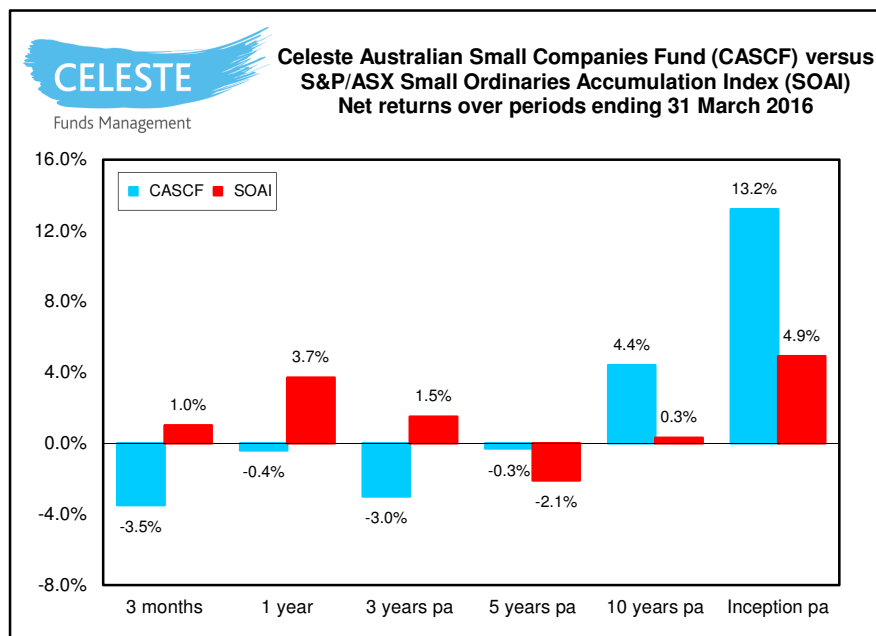
<b>Primary Investments</b>	Shares in listed Australian smaller companies
<b>Investment objective</b>	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
<b>Unit price (redemption) as at 31.03.2016</b>	\$2.5814
<b>Unit price (application) as at 31.03.2016</b>	\$2.5970
<b>Fund Size as at 31.03.2016</b>	\$72m
<b>Minimum investment</b>	\$25,000
<b>Minimum additional investment</b>	\$1,000
<b>Minimum balance</b>	\$15,000
<b>Minimum investment: monthly investment plan</b>	\$500
<b>Redemption will generally be available in</b>	7 days
<b>Distributions</b>	30 June and 31 December
<b>Entry fee*</b>	0%
<b>Exit fee*</b>	0%
<b>Buy/Sell differential*</b>	0.30%
<b>Management fee*</b>	0.95%
<b>Performance fee**</b>	20% of return above benchmark
<b>OGFM***</b>	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

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](mailto:contact@celestefunds.com.au)

[www.celestefunds.com.au](http://www.celestefunds.com.au)

ABN 78 098 628 605