

CELESTE

Funds Management

Celeste Australian Small Companies Fund

Monthly update 30 June 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	-0.1	+8.3	+3.5	+1.7	+5.3
Performance (relative to Index)	+1.2	-6.1	-5.6	+0.7	+4.2
S&P/ASX Small Ords Acc Index	-1.3	+14.4	+9.1	+1.0	+1.1
S&P/ASX Small Inds Acc Index	-3.5	+12.8	+11.0	+9.2	+3.1
S&P/ASX Small Res Acc Index	+9.1	+20.7	+1.1	-18.2	-4.8

Past performance is not necessarily indicative of future returns.

The Fund fell 0.1% in June, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index decreasing by 1.3%. Since inception (May 1998) the Fund's return is 13.3% pa, net of all fees, against the Index's 5.2% pa.

Portfolio Commentary

MACA Limited (MLD) rose 18.9% in June, after announcing that it had been successful in winning contract mining work for ASX listed Blackham Resources. The work to be undertaken is for the Matilda open pit gold mine in Wiluna WA, for a period of 32 months and has a value of \$115m.

SAI Global (SAI) rose by 5.2% over the month. The company announced that it would seek arbitration with Standards Australia (SA) in respect to publication format standards. SA believe that SAI are only allowed to publish standards in one format, SAI disagree. It is likely that this arbitration will be rolled in with the review of the royalty rate paid to SA and both will occur in early calendar year 2017. If we exclude the SA business altogether, the remaining businesses owned by SAI are worth more than the current share price. We remain comfortable that the core assurance, compliance & risk management businesses will see strong growth into 2017.

IMF Bentham (IMF) rose by 11.3% over the month after announcing the funding of a further \$60m in US cases and the sale of their European JV to partner, Elliott Management for US\$6m. The evolving IMF strategy of smaller cases to provide revenue & earnings diversity sat at odds with the JV partner's desire to hunt for a smaller number of bigger cases. With record reported case wins, IMF will report a record FY16 result in August and we anticipate a significant increase in the dividend.

Monash IVF (MVF) & **Virtus Health** (VRT) saw ongoing strong Medicare IVF cycle numbers reported in May. May rose 6.2% vs last year, quarterly growth was 7.5%, with 12-month rolling growth remaining strong at 8.2%. Cycle growth has been balanced over the 12 months with growth in both frozen and fresh cycles at 9.7% & 7.0% respectively. We expect the IVF stocks to highlight the duration of their cycle pipeline into FY17 when they both report strong earnings in August.

Portfolio Top 5 Holdings

Stock	% of Fund
1 REECE LIMITED	8.6
2 BREVILLE GROUP	4.6
3 AMA GROUP	4.3
4 IMF BENTHAM	4.2
5 SAI GLOBAL	4.2

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	-2.3	+2.0	+8.2
USA – S&P 500	+0.1	+1.7	+9.3
USA – NASDAQ Composite	-2.1	-2.9	+12.5
Europe – FTSE (UK)	+4.4	-0.3	+1.5
Europe – DAX (Germany)	-5.7	-11.6	+6.7
Asia – Nikkei (Japan)	-9.6	-23.0	+4.4
Asia – Shanghai Composite (China)	+0.4	-31.5	+14.0

Monthly Commentary

In what proved to be a major surprise for global financial markets, the UK voted to exit the European Union (EU). This set in train unprecedented volatility in global fixed income, commodity & equity markets. The initial sell off in the Pound (GBP) was extreme with the currency touching 30 year lows against the USD. The 11% high-to-low move on the day was twice the volatility that occurred in 2008 when Lehman defaulted. With the resignation announcement of the UK Prime Minister & a leadership challenge for the Labour opposition, there is a governance vacuum. The lack of planning for the execution on Brexit continues to cause uncertainty and will lead to ongoing volatility across markets.

The US unemployment rate declined in May to 4.7% from 5.0% on the back of a 0.2% decline in the labour participation rate. Job creation was weak at 38,000 well down from the 200,000 per month created in the prior quarter. Fed Chair Yellen testified to the Senate that while labor markets had slowed, economic activity had picked up. With inflation still running below the 2% target and economic conditions tepid, interest rate rises are likely to be gradual with current rates remaining below long run levels.

Chinese industrial production grew 6.0% in May, flat on last year. GDP growth remains on track to report 6.7% in the 2nd quarter. Power growth output was flat, cement production rose 3%, retail sales slipped slightly to 10.0% & exports declined 4%. Post weakening economic data, Korea surprised the market with a 25bp cut to official interest rates, taking them to a new low of 1.25%. Economic growth expectations for the next 12 months across the Asian region have begun to weaken on the back of slower activity.

Prior to the Brexit calamity, bond yields had already begun to fall as investors tried to position into safer assets. The US 10 year bond moved from 1.85% at the beginning of the month to 1.47% by months end. There were similar 30bp moves in the Japanese, German & French 10 year bonds.

The RBA left the cash rate unchanged at 1.75% citing ongoing improvement in economic activity, albeit very slowly. Labour indicators however remain mixed & with inflation low, the RBA noted that rates are likely to remain low for some time. Housing data reported prices +1.6% over May & +10.0% over the year.

In the coming months we expect that the economic backdrop will remain sombre and that generating earnings growth will stay problematic. At Celeste we remain sensitive to the pricing of risk, current lofty valuations in the equity market, and the lack of overt risk and reward sensitivity. Celeste retains its patient investment disposition, a process centric mindset, and an eye on tax effective medium to longer term returns.

CELESTE

Funds Management

Fund at a Glance

Fund Information

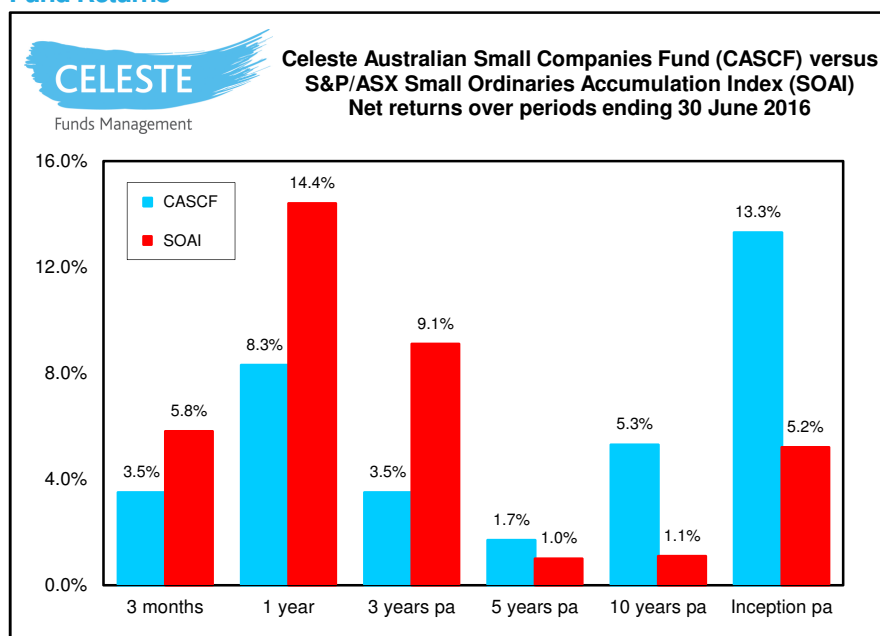
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 30.06.2016 [ex-distribution]	\$2.6127
Unit price (application) as at 30.06.2016 [ex-distribution]	\$2.6285
Fund Size as at 30.06.2016 [ex-distribution]	\$62m
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



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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

* 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

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