

CELESTE

Funds Management

Celeste Australian Small Companies Fund

Monthly update 31 July 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	+9.9	+17.0	+3.2	+3.9	+6.2
Performance (relative to Index)	+1.3	-5.3	-5.5	+1.5	+4.2
S&P/ASX Small Ords Acc Index	+8.6	+22.3	+8.7	+2.4	+2.0
S&P/ASX Small Inds Acc Index	+8.3	+17.8	+11.6	+11.3	+4.1
S&P/ASX Small Res Acc Index	+9.6	+45.4	-2.9	-17.7	-4.0

Past performance is not necessarily indicative of future returns.

The Fund rose 9.9% in July, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index increasing by 8.6%. Since inception (May 1998) the Fund's return is 13.8% pa, net of all fees, against the Index's 5.6% pa.

Portfolio Commentary

GUD Holdings (GUD) increased 10.3% during the month with the company announcing its FY16 report on July 28. The GUD result was characterised by continued strong performance in the core auto aftermarket segment, contrasted with an underlying loss and write-down to the shelving & racking provider, Dexion. Following the sale of Sunbeam, Dexion remains the key laggard in the GUD portfolio and we believe that its performance will strengthen management's resolve to fix or, more likely, divest it during FY17.

Data #3 (DTL) increased 18.6% in July after announcing a preliminary FY16 result which was ahead of market expectations. NPAT of \$13 - 13.5m is c.25% above the \$10.6m recorded in FY15. We believe the DTL annual report will highlight that the core underlying DTL business grew strongly in FY16, despite the performance drag from the consolidation of Discovery Technology, which had previously been equity-accounted. DTL continues to be leveraged to the growing shift towards outsourced implementation of remote and cloud computing. This was further highlighted by an announcement outlining a successful Cisco deployment and managed service contract win at Edith Cowan Uni.

Isentia (ISD) declined 9.5% during the month with the company confirming that the FY16 result will fall within the EBITDA guidance range of \$50-53m. We await the FY16 result, with a focus on detailed client metrics and the performance of FY15 acquisition, King Content. We also note that the current share price implies reasonably benign growth for ISD, a company which has a domestic market share of >90%, attractive ROCE traits, and further Asian growth opportunities.

A number of portfolio positions with exposure to the resource sector performed strongly during July, including: WA based nickel miner **Western Areas** +27.0%, contract miner **MACA Ltd** +39.9%, diversified engineer **RCR Tomlinson** +19.4%, and provider of drilling fluids and consumables **Index Ltd** + 85.7%.

Portfolio Top 5 Holdings

Stock	% of Fund
1 REECE LIMITED	6.8
2 BREVILLE GROUP	5.0
3 MONASH IVF GROUP	4.9
4 AMA GROUP	4.9
5 REGIS HEALTHCARE	4.6

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+6.3	+4.0	+8.5
USA – S&P 500	+3.6	+3.3	+8.8
USA – NASDAQ Composite	+6.6	+0.7	+12.6
Europe – FTSE (UK)	+3.4	+0.4	+0.5
Europe – DAX (Germany)	+6.8	-8.6	+7.7
Asia – Nikkei (Japan)	+6.4	-19.5	+6.6
Asia – Shanghai Composite (China)	+1.7	-18.7	+14.3

Monthly Commentary

Brexit volatility seen early in July dissipated by month end as soothing accommodative statements emerged from Central Bankers around the world. Global economic news was very mixed in July with some data stronger than expected, notably from China, whilst in the Eurozone it was weaker than expected.

In the USA, a strong Purchasing Managers Index (PMI) contrasted with a weak Gross Domestic Product (GDP) figure. The US PMI was released on July 25, and came in at 52.9, up from 51.3 in June, beating the 51.5 market consensus forecast. The PMI increase for July was the sharpest rise recorded since November 2015. In stark contrast the US GDP number reported for the June quarter came in at an annual rate of 1.2%, well below market consensus expectations of 2.6%.

In Europe, economic growth has almost ground to a halt. On July 29, Eurozone June quarter GDP figures were released, showing growth in the Eurozone has stalled. The Eurozone June quarter GDP growth rate of 0.3%, is half the rate of the March quarter.

Meanwhile in China, growth has remained quite robust, and better than many in the market had forecast. In mid-July, China released its June quarter 2016 GDP figure, which, whilst flat on previous corresponding quarter, was still a healthy 6.7%. The June quarter GDP figure from China, 6.7% year on year, was also a notable improvement from the trough of 6.0% in the 4th quarter of 2015. In the first half of 2016 retail sales in China grew 10.3%, year on year, whilst industrial production in the year to June grew at 6.2%, a lift on the 6% growth seen in April and May. The Australian market applauded the economic performance of China, one of our largest customers for minerals and energy, with the S&P/ASX Small Resources Accum. Index posting a large gain of 9.6% in July.

Locally the RBA noted that available data was consistent with "...moderation in GDP growth...". The unemployment rate in June was 5.8%, up from 5.7% in the previous three months, whilst consumption had grown at around the decade average. The Q2 Consumer Price Index (CPI) of 0.4%, quarter on quarter, took the year on year figure to 1.5%, materially below the RBA's 2% to 3% inflation target. In response to the weak CPI figure, and with a lacklustre local economy, the RBA cut the cash rate by 0.25% to 1.5%, on August 2nd.

We remain concerned with the global interest rate environment, with the imprudent reach for yield that is being induced by non-traditional monetary policy, and the consequent mispricing of risk that is occurring. At Celeste, we remain process centric, aware of risk and reward factors, and alert to the opportunities that may emerge during the FY16 reporting season.

CELESTE

Funds Management

Fund at a Glance

Fund Information

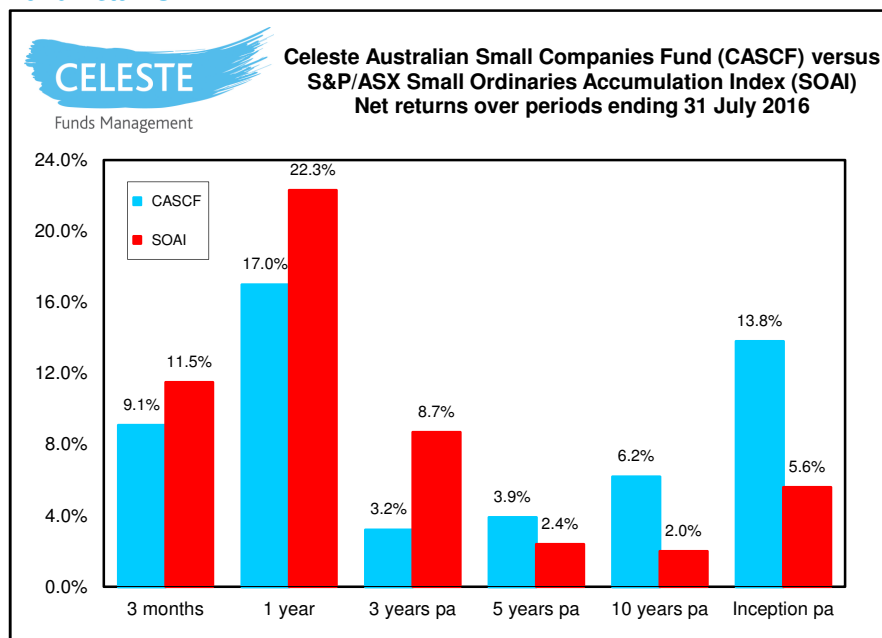
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 31.07.2016	\$2.8706
Unit price (application) as at 31.07.2016	\$2.8880
Fund Size as at 31.07.2016	\$61m
Minimum investment	\$25,000
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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