

# CELESTE

Funds Management

## Celeste Australian Small Companies Fund

Monthly update 31 December 2014

### 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	-0.9	-13.9	+3.5	+2.5	+4.9
Performance (relative to Index)	-1.4	-10.1	+2.9	+4.5	+2.6
S&P/ASX Small Ords Acc Index	+0.5	-3.8	+0.6	-2.0	+2.3
S&P/ASX Small Inds Acc Index	+1.0	+2.8	+14.4	+6.0	+3.8
S&P/ASX Small Res Acc Index	-2.6	-28.4	-30.5	-21.4	-1.9

Past performance is not necessarily indicative of future returns.

The Fund fell 0.9% in December, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index rising 0.5%. Since inception (May 1998) the Fund's return is 14.0% pa, net of all fees, against the Index's 4.6% pa.

### Portfolio Commentary

**Beacon Lighting (BLX)** rose 29% in December. Late in the month the company provided a trading update for H1 FY2015 noting strong comparative sales and EBITDA of between \$13.6m and \$14.6m, some 25% up on the previous corresponding period. We remain attracted to the return traits of Beacon Lighting, on the operational leverage within the company and by the growth potential of the business given the fragmented sector in which BLX operates.

**Southern Cross Electrical Engineering (SXE)** rose 15% in the month after announcing that it had been successful in gaining some work on the Curtis Island LNG project. In December SXE also announced that it would undertake an on market buy-back for up to 10% of shares on issue, subject to price & market conditions.

**Virtus Health Care (VRT)** rose 12% in December and announced its subsidiary, the Sims Clinic, would acquire a second fertility clinic in Ireland. The asset to be acquired is the HARI Clinic, part of the Dublin based Rotunda Hospital, one of the oldest operating maternity hospitals in the world. The acquisition is consistent with VRT's domestic and international growth strategy and follows calendar 2014 fertility clinic investments in Queensland, Tasmania and Singapore.

**Skilled Group (SKE)** declined 24% in December, and fell 34% in the quarter. In December SKE announced that it had renewed its debt facility for a five year period with the refinancing process leading to improved terms and lower financing costs. SKE announced the appointment of Angus McKay as CEO, who was most recently MD of Pacific National Rail, and had previously been CFO of Fosters Group between 2008 and 2010. Late in the month SKE was the subject of a takeover offer from ASX listed Programmed Maintenance Services. Celeste remains attracted to the investment fundamentals of SKE, increasing our interest in the company from 5% to 8% of shares on issue during December.

### Portfolio Top 5 Holdings

Stock	% of Fund
1 SKILLED GROUP	5.8
2 STEADFAST GROUP	5.5
3 BREVILLE GROUP	5.2
4 SUNLAND GROUP	4.7
5 REECE AUSTRALIA	4.7

### Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+1.9	+5.0	+14.3
USA – S&P 500	-0.4	+11.4	+17.9
USA – NASDAQ Composite	-1.2	+13.4	+22.0
Europe – FTSE (UK)	-2.3	-2.7	+5.6
Europe – DAX (Germany)	-1.8	+2.7	+18.5
Asia – Nikkei (Japan)	-0.1	+7.1	+27.3
Asia – Shanghai Composite (China)	+20.6	+52.9	+13.7

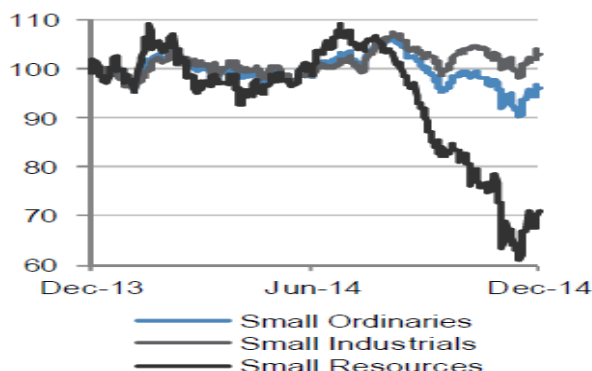
### Monthly Commentary

December saw a continued fall in the AUD against the USD, closing the month down 3.4% to 81.8c. In 2014 the AUD fell 8.3% on a trade weighted basis as commodity prices fell heavily. The RBA's index of commodity prices fell 21% over 2014 due, in part, to the large price fall in the bulk commodities of iron ore & coal.

The oil price has continued its rapid descent since June 2014 when it was trading at nearly \$115/barrel. At Dec. month end it was trading at just over \$50/Barrel, a fall of 55% in just 6 months. Both Iraq & Russia are increasing production in the face of falling prices in an effort to shore up fading state revenues. The behavior of the major oil producing nations and softer global demand give little hope for an early rebound in the oil price.

The oil price move is a two edged sword for our economy. Traditionally lower oil prices stimulate demand in the economy as consumers spending power increases. However in the present uncertain economic times consumers are tending to save instead of spend their higher purchasing power. Many industries should benefit from lower oil prices as costs fall.

As the graph below shows in the smaller companies market it has been the small resources that have performed particularly poorly in the last quarter of 2014.



Source: Bloomberg, rebased to 31 December 2013 at 100.

The Reserve Bank is being very "accommodative" keeping rates low in the face of sluggish growth and low inflationary pressures. The Reserve Bank seems content to let the Australian Dollar fall as it holds a fundamental view that the Australian Dollar is too high given the price weakness in commodities. 2015 is likely to see more of the same slow growth within the Australian economy with the stimulatory effects of lower oil prices offset to some extent by weaker growth in many of our export markets.

# CELESTE

## Funds Management

### Fund at a Glance

#### Fund Information

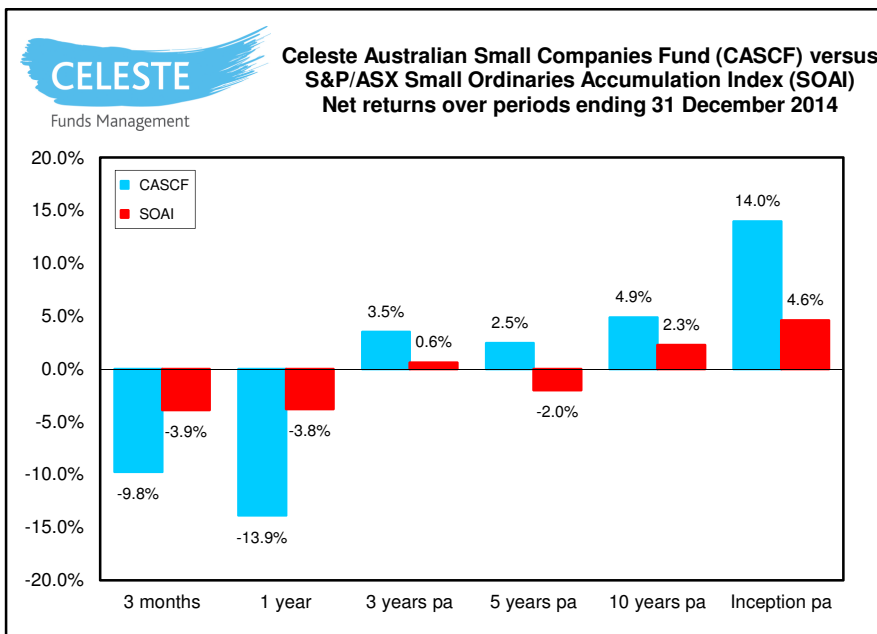
<b>Primary Investments</b>	Shares in listed Australian smaller companies
<b>Investment objective</b>	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
<b>Unit price (redemption) as at 31.12.2014 (ex. 4.0 cpu dist.)</b>	\$2.5795
<b>Unit price (application) as at 31.12.2014 (ex. 4.0 cpu dist.)</b>	\$2.5951
<b>Fund Size as at 31.12.2014</b>	\$134m
<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 05	49.48	19.5
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

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