

Celeste Australian Small Companies Fund

Monthly update 31 January 2015

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	-9.7	+2.3	+3.0	+4.8
Performance (relative to Index)	+0.0	-9.5	+3.9	+3.3	+2.9
S&P/ASX Small Ords Acc Index	+0.9	-0.2	-1.6	-0.3	+1.9
S&P/ASX Small Inds Acc Index	+0.3	+6.5	+12.5	+7.2	+3.4
S&P/ASX Small Res Acc Index	+3.9	-24.8	-32.1	-18.9	-2.2

Past performance is not necessarily indicative of future returns.

The Fund rose 0.9% in January, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index also rising 0.9%. Since inception (May 1998) the Fund's return is 13.9% pa, net of all fees, against the Index's 4.6% pa.

Portfolio Commentary

Independence Group (IGO) rose 11.7% in January as its Dec. quarterly highlighted strong performance at the 30% owned Tropicana gold mine. Tropicana cash costs of A\$536 / oz and all in sustaining costs of A\$804 / oz place the mine in a very attractive position on the global cost curve. The performance of the Long nickel & Jaguar zinc / copper mines was also above expectation.

Breville (BRG) rose 12.4% in the month as the \$AUD continued to weaken. With a significant US business and a growing UK operation, BRG will see higher profit translation courtesy of a weaker dollar. BRG continues to maintain a strong development pipeline for new products over the medium term.

Nufarm (NUF) rose 20.0% in January as rain fell across most of Australia's agricultural regions. Significantly better sub soil moisture bodes well for planting and product demand into FY/15.

Steadfast (SDF) declined 5.5% over the month despite re-iterating strong profit growth for the FY/15 year. The interim result is expected to see an increase in cash net profit of 9% with full year growth of 10% - 13% driven by cost reductions & acquisitions.

OxForex (OFX) fell 10.3% in January on the back of Westpac announcing it was to cease providing banking services to the global money transfer sector. OFX will now relocate some of its banking requirements to other existing counterparties like Barclays, Macquarie, Bank of America and NAB. We do not see Westpac's exit as a risk given the quality of, and depth in, the banking counterparties that handle OFX's money transfers.

Oroton (ORL) fell by 29.0% in January after announcing that the interim result would be below 2014. A decision to stop discounting product has seen improved gross margin but lower total revenue and absolute profit. Profit has also been impacted by costs to close a store in Hong Kong and start-up costs for the roll-out of GAP and Brooks Brothers.

Portfolio Top 5 Holdings

Stock	% of Fund
1 BREVILLE GROUP	5.7
2 SKILLED GROUP	5.3
3 STEADFAST GROUP	5.2
4 SUNLAND GROUP	5.1
5 REECE AUSTRALIA	4.6

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+3.0	+11.3	+13.5
USA – S&P 500	-3.1	+11.9	+15.0
USA – NASDAQ Composite	-2.1	+12.9	+18.1
Europe – FTSE (UK)	+2.8	+3.7	+5.9
Europe – DAX (Germany)	+9.1	+14.9	+18.3
Asia – Nikkei (Japan)	+1.3	+18.5	+26.2
Asia – Shanghai Composite (China)	-0.8	+57.9	+11.9

Monthly Commentary

The World Bank cut its global growth forecast in the month to 3% for this year and 3.3% next year, from its June expectation of 3.4% and 3.5% respectively. The IMF also lowered its 2015 global growth expectation to 3.5%, from its October 2014 expectation of 3.8%. The IMF now expects global growth in 2016 of 3.7%.

In Q4 China's economy grew 7.3%, and growth in 2014 came in at 7.4%, compared to 7.7% in 2013. In January China's National Bureau of Statistics released a raft of interesting data. As at the end of 2014 the population of China was 1.37billion, that urban residents were now 54.7% of the mainland population and that per capita income rose 8% in 2014 to 20,167 yuan, the equivalent of \$USD 3,200, or \$AUD 4,100. Q4 growth in South Korea, Asia's fourth largest economy, fell to a six year low of 0.4%, compared to a Q3 run rate of 0.9%.

The European Central Bank unveiled its Quantitative Easing program in January with purchases of €60b per month, from March 2015 to September 2016, with a minimum total commitment over the period of €1.14 trillion.

Late in the month the Swiss National Bank (SNB) abandoned its currency cap against the Euro, with the Swiss franc rising 30% post announcement. The SNB also cut its deposit rate of -0.25% to -0.75%, raising the amount investors pay to hold Swiss deposits.

The US grew 2.6% in Q4, weaker than the 5% achieved in Q3. Pleasingly, consumer spending in the US rose 4.3% in Q4, the best growth rate achieved in the last nine years, and a step up from the 3.2% achieved in Q3. With the American consumer accounting for > 2/3 of economic activity in the US, the acceleration in consumer activity is a healthy trend, which will only be assisted by the recent dramatic decline in fuel costs. In December the US economy added 252,000 jobs taking the unemployment rate fell to 5.6%. As recently as October 2009 the US unemployment rate was 10%. An average of 246,000 jobs per month were created in the US over the course of 2014.

Local investor focus in February will be interim reporting season. Consistent with recent below trend economic growth we expect that in reporting season companies will cite an anaemic sales backdrop, challenges due to \$AUD volatility, and that the scope for further cost adjustment remains limited. Whilst we acknowledge that current market multiples & payout ratios are lofty EPS growth expectations for FY 2015 are subdued. At Celeste we remain process consistent and sensitive to the opportunities that periodically emerge in times of market volatility, and during reporting periods.

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Funds Management

Fund at a Glance

Fund Information

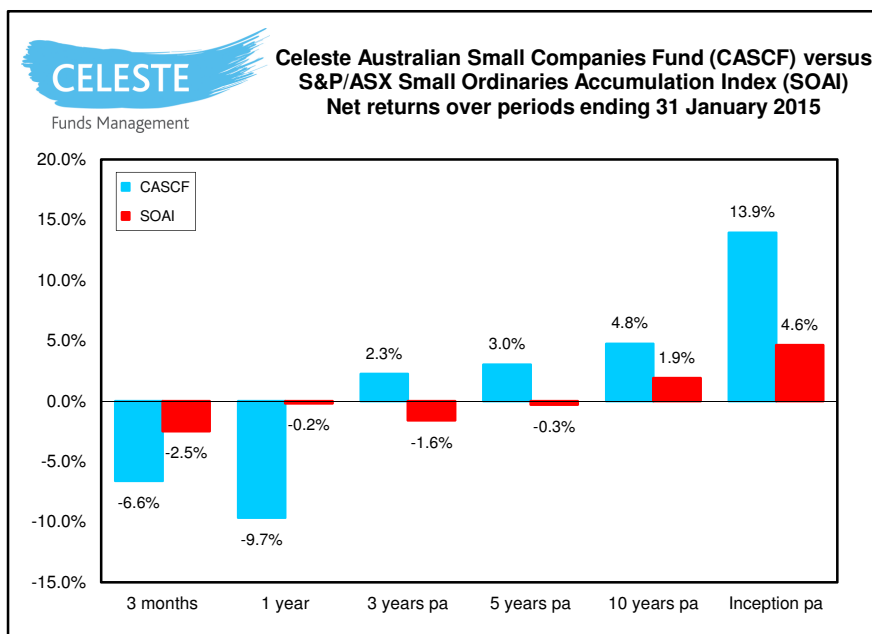
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 31.01.2015	\$2.6022
Unit price (application) as at 31.01.2015	\$2.6180
Fund Size as at 31.01.2015	\$124m
Minimum investment	\$25,000
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 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

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* CPU / unit price at beginning of period

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