

CELESTE

Funds Management

Celeste Australian Small Companies Fund

Monthly update 28 February 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	+6.5	-6.8	+1.9	+4.2	+5.5
Performance (relative to Index)	-1.9	-9.9	+2.9	+2.8	+2.7
S&P/ASX Small Ords Acc Index	+8.4	+3.1	-1.0	+1.4	+2.8
S&P/ASX Small Inds Acc Index	+8.0	+9.8	+12.3	+8.7	+4.5
S&P/ASX Small Res Acc Index	+10.9	-21.2	-30.5	-16.7	-1.9

Past performance is not necessarily indicative of future returns.

The Fund rose 6.5% in February, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index increasing by 8.4%. Since inception (May 1998) the Fund's return is 14.3% pa, net of all fees, against the Index's 5.1% pa.

Portfolio Commentary

Nufarm (NUF) rose 27.6% after announcing plans to rationalise its European manufacturing operations with anticipated cost savings of at least \$23m per annum.

MACA Ltd (MLD) rose 34.1% after delivering a solid interim result with EBITDA up 10%, underlying net profit up 2%, and dividend increasing from 6.5c to 7c. This was a commendable result given the challenging operating environment in contract mining.

RCR Tomlinson (RCR) increased 21.9% after delivering a record half-year profit. The strong balance sheet, a noteworthy feature, was assisted by the sale and leaseback of four properties.

Regis Healthcare (REG) rose 22.9% in the month on the back of a strong interim result. Management increased FY 2015 earnings guidance by 5-10% on the back of improving occupancy, higher daily revenue per bed, strong accommodation deposit bond balance growth and slightly lower costs. REG operates a vertical care model with emphasis on high patient care in substantially self-developed properties. We regard the management team highly.

Data #3 (DTL) increased 20.6% during the month. The company delivered a positive half year result with gross profit up 8.6% due to strong growth in services revenue, and the acquisition of Business Aspect in September 2014. The increased dividend, strategic outlook and confirmed full year 2015 guidance are encouraging going into 2H15.

Salmat Limited (SLM) fell 25.6% in the month as H1 FY 2015 earnings were below expectation and an interim dividend was forgone for the first time in the company's listed history. SLM saw 9.2% sales growth in H1 but continued to suffer from restructuring cost adjustments required post the sale of its Business Process Outsourcing division.

Portfolio Top 5 Holdings

Stock	% of Fund
1 STEADFAST GROUP	6.4
2 SKILLED GROUP	5.5
3 BREVILLE GROUP	5.4
4 REECE AUSTRALIA	4.7
5 ARB CORPORATION	4.2

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+7.0	+13.6	+15.2
USA – S&P 500	+5.5	+13.2	+15.5
USA – NASDAQ Composite	+7.1	+14.6	+18.7
Europe – FTSE (UK)	+2.9	+2.0	+5.8
Europe – DAX (Germany)	+6.6	+17.6	+18.5
Asia – Nikkei (Japan)	+6.4	+26.7	+24.6
Asia – Shanghai Composite (China)	+3.1	+61.0	+10.9

Monthly Commentary

Interim reporting season was the primary focus of investors in February. In a broad context, results largely met muted expectations with relief a cornerstone to February equity market strength. Corporates cited a challenging environment on the sales front, but not materially worse than was expected. Operating margins were largely to forecast with the bulk of any improvement derived via cost initiatives and operational restructure. Dividends and payout ratios were slightly better than expected as management and board sensitivity to yield generation, dividend delivery, remains heightened in a very yield compressed environment. Companies suggest the lending backdrop remains accommodative with interest costs low and debt structures becoming increasingly 'covenant light'.

Early in the month the Reserve Bank of Australia (RBA) cut the cash rate by 0.25% to a record low of 2.25%, the first time a rate move has occurred since August 2013. The RBA continues to cite that the Australian economy is growing, but at a pace that is below trend, with domestic demand overall quite weak. This sub trend growth is fuelling some weakening in the employment market with the unemployment rate edging up to 6.4% in January, from 6.1%, the highest unemployment rate since June 2002. The wage price index for Q4 of 2014 shows growth of 2.5% year on year, the lowest rate of growth experienced in the last 17 years. Given this anaemic backdrop the RBA believes that inflation will remain within target over the next one to two years, even with the lower exchange rate. The RBA also appears to be supportive of a further decline in the \$AUD, with RBA Governor Stevens recently stating, "...the Australian dollar has declined noticeably against the US dollar, though less so against a basket of currencies. It remains above most estimates of its fundamental value, particularly given significant declines in key commodity prices. A lower exchange rate is likely to be needed to achieve balanced growth in the economy..."

On the international front, the US economy created 257,000 new jobs in January taking the unemployment rate to 5.7%. The People's Bank of China (PBC) cut lending rates by 25 bps on March 1st, the second rate cut delivered by the PBC in the last 3 months. A four month extension of the bailout program between Greece and its Eurozone partners was hammered out in February providing some temporary relief to Eurozone break-up concerns.

Equity market performance thus far in 2015 appears far more driven by the interest rate backdrop, rather than any improvement in the earnings outlook. Whilst we expect that markets may mark time for a period we remain alert to the opportunities that may emerge to a conservative and process consistent asset manager.

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Funds Management

Fund at a Glance

Fund Information

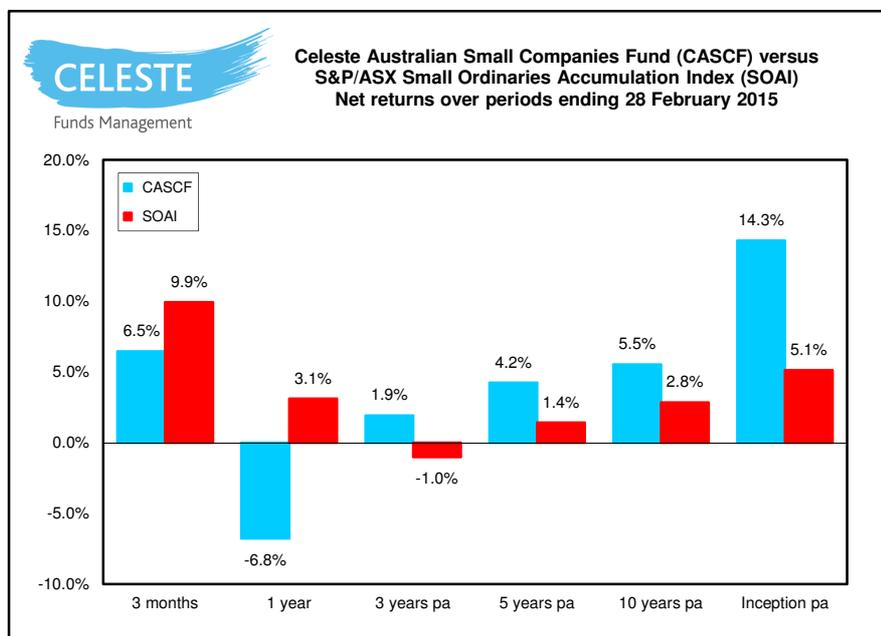
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 28.02.2015	\$2.7712
Unit price (application) as at 28.02.2015	\$2.7880
Fund Size as at 28.02.2015	\$132m
Minimum investment	\$25,000
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

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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