

Celeste Australian Small Companies Fund

Monthly update 31 March 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	-1.8	-6.3	-0.2	+2.7	+5.6
Performance (relative to Index)	+0.1	-8.6	+1.5	+3.0	+2.9
S&P/ASX Small Ords Acc Index	-1.9	+2.3	-1.7	-0.3	+2.7
S&P/ASX Small Inds Acc Index	-0.7	+8.9	+10.7	+7.8	+4.5
S&P/ASX Small Res Acc Index	-7.7	-22.6	-31.0	-20.1	-2.6

Past performance is not necessarily indicative of future returns.

The Fund fell 1.8% in March, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index decreasing by 1.9%. Since inception (May 1998) the Fund's return is 14.1% pa, net of all fees, against the Index's 5.0% pa.

Portfolio Commentary

Burson Group (BAP) rose by 23.6% on the back of a good interim result & increased investor comfort with the investment case. Quadrant sold down 5% of their escrowed shareholding over the month with demand for stock very strong. BAP remains a very defensive business with strong growth opportunities.

Monash Group (MVF) rose by 14.8% on the back of the \$30m acquisition of the Sydney Ultrasound for Women clinics. The deal will create significant synergies with the MVF Victorian ultrasound business and is earnings accretive in FY/16 by around 3% and by 8% in FY/17. Medicare numbers have suggested that the weak IVF cycle volumes evident in the 4th quarter of 2014 had rebounded slightly with February IVF cycles up 3.5%.

Regis Healthcare (REG) rose 11.7% as the stock continued to re-rate based on a very strong interim result. Investors have become increasingly comfortable around REG's ability to execute their stated strategy of building and operating aged care facilities. The systems & controls that are in place to manage the facilities, the level of care, compliance, OH&S and in-house development programs are high quality. We continue to see significant long term opportunities for REG & the aged care sector.

RCR Tomlinson (RCR) declined by 18.8% which may be attributable to a lack of contract wins and order book growth. The outlook for Infrastructure work appears reasonable however RCR continues to need to win more work in resources if it is to maintain work in hand and revenues.

Salmat (SLM) declined by 22.2% over the month as investors digested a poor interim result. The delay in the cost reduction and business simplification plans has disappointed investors. The goodwill impairment resulted in an inability to pay an interim dividend, the first time this has happened since listing in 2002.

Portfolio Top 5 Holdings

Stock	% of Fund
1 BREVILLE GROUP	5.8
2 STEADFAST GROUP	5.8
3 SKILLED GROUP	5.0
4 REECE AUSTRALIA	4.9
5 REGIS HEALTHCARE	4.5

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+0.0	+13.2	+14.7
USA – S&P 500	-1.7	+10.4	+13.7
USA – NASDAQ Composite	-1.3	+16.7	+16.6
Europe – FTSE (UK)	-2.5	+2.6	+5.5
Europe – DAX (Germany)	+5.0	+25.2	+19.9
Asia – Nikkei (Japan)	+2.2	+29.5	+24.0
Asia – Shanghai Composite (China)	+13.2	+84.3	+18.3

Monthly Commentary

In March the smaller capitalisation companies continued to underperform their larger brethren. In the month the Small Ordinaries Accumulation index was down 1.9% while the All Ordinaries Accumulation index was flat. This trend masked the continued dramatic underperformance of the resource stocks. In the small sector of the market the Small Resources index fell 7.7% over March.

Resource prices continued to decline with Brent Crude prices falling 8% over the month to close at US\$55.11. The oil price has halved since June 2014. Softer world demand combining with increases in supply have seen many commodities fall. Iron Ore is one of the more graphic illustrations of large increases in supply leading to softer prices. Increasing supply, in the two largest producing countries, Australia and Brazil, continues to see the spot Iron Ore price soften, down 12% in the month to US\$51.35. Iron Ore has dropped more than 25% this calendar year and has plummeted more than 73% since its peak of US\$191.70 in 2011.

Softer commodities prices have seen the Australian dollar (\$AUD) weaker against the US dollar. The AUD closed the month at 0.7634 down 7% since the beginning of the year.

The softer currency is just one point of differentiation between Australia and the US economy. Glenn Stevens, the Governor of the Reserve Bank of Australia (RBA), commented in a recent address to the American Chamber of Commerce, that: "in America, inflation is low and asset values have been rising. Interest rates are extremely low, but the central bank is talking about raising them". Meanwhile "in Australia, inflation is low and asset values have been rising. Interest rates are very low, and the central bank has talked about lowering them further".

The essential difference between the two economies is that Australia is undergoing an adjustment phase at the end of the investment phase of the mining boom. The RBA is looking to ease rates to stimulate other sources of demand to fill the gap left by mining investment. With official cash rates at historic lows of 2.25% the stimulatory effect of further interest rate cuts are limiting the policy levers available to the RBA.

The reporting season concluded with earnings growth in the market at minimal levels. The All Ordinaries Accumulation index is up 10% so far this year driven by low interest rates not earnings. Low interest rates have seen a continuation of trend for investors to seek out yield in the market. At Celeste we remain process consistent and alert for opportunities in the market that will emerge as this trend plays out.

CELESTE

Funds Management

Fund at a Glance

Fund Information

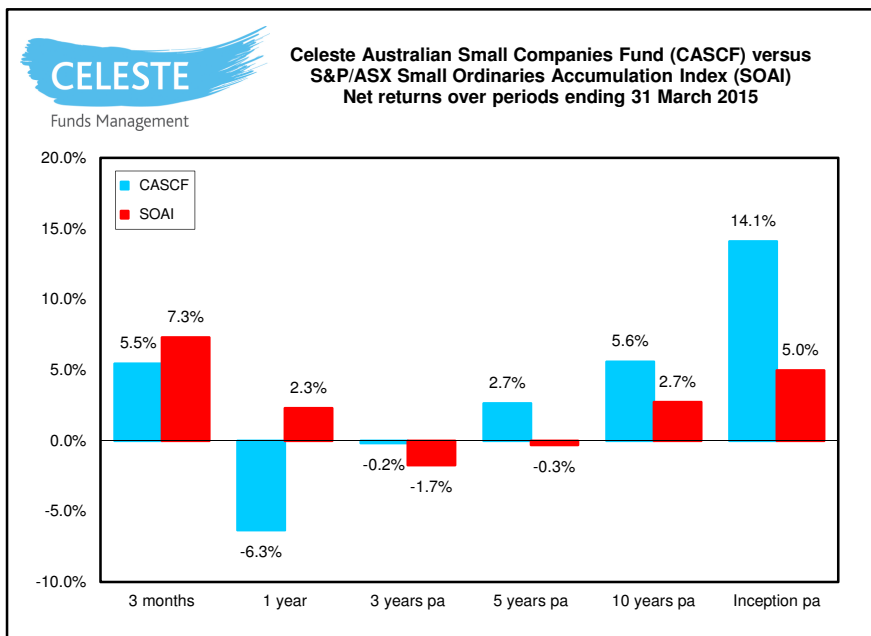
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 31.03.2015	\$2.7203
Unit price (application) as at 31.03.2015	\$2.7368
Fund Size as at 31.03.2015	\$127m
Minimum investment	\$25,000
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

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

www.celestefunds.com.au

ABN 78 098 628 605