

# CELESTE

Funds Management

## Celeste Australian Small Companies Fund

Monthly update 30 April 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	-1.7	-7.6	-0.8	+2.3	+6.5
Performance (relative to Index)	-3.4	-12.9	+0.1	+2.3	+3.0
S&P/ASX Small Ords Acc Index	+1.7	+5.3	-0.9	+0.0	+3.5
S&P/ASX Small Inds Acc Index	-0.0	+10.2	+10.7	+7.8	+5.2
S&P/ASX Small Res Acc Index	+11.3	-12.8	-28.0	-18.5	-0.9

Past performance is not necessarily indicative of future returns.

The Fund fell 1.7% in April, with its benchmark, the S&P/ ASX Small Ordinaries Accumulation Index increasing by 1.7%. Since inception (May 1998) the Fund's return is 13.9% pa, net of all fees, against the Index's 5.0% pa.

### Portfolio Commentary

**OZ Minerals** rose 19.0% with the company delivering a solid March quarter production report. Guidance was released for CY/15 with Prominent Hill expected to produce between 110,000 to 120,000 tonnes of copper and 100,000 and 110,000 ounces of gold. We remain attracted to OZ Minerals and its growing cash flow profile over the next 24 months.

**Data #3** increased 11.4% for the month despite no news being announced. Investors are increasingly comfortable with Data #3's valuation and outlook, assisted by increasingly positive perceptions of the new State Government in Queensland.

**Independence Group** rose 12.6%. The Managing Director noted on the company's Q3FY/15 conference call that "*consistency, though boring, is a good thing*". Predictable and reliable production has been a hallmark of Independence Group in recent periods. The multi-mine, multi-commodity suite and balance sheet strength is a differentiating attribute relative to sector participants.

**IMF Bentham** declined by 12.4% over the month on the back of several adverse case rulings. The judgement in the High Court overruling the ANZ Bank fee case caused a \$5.5m write off. The denial of appeal in the Bank of Queensland case by the NSW Supreme Court, while not causing a financial impact, eliminated a potential revenue opportunity. We remain of the view that the high quality case book will deliver growing medium term earnings allowing for the payment of an increasing stream of dividends.

**Huon Aquaculture Group** declined by 15.9% on the back of lowered FY/15 earnings guidance. Domestic price weakness was driven by supermarkets substituting local product with cheaper imported frozen salmon. Excess global salmon and a high currency made the economics of importing advantageous. We remain positively disposed to Huon and expect to see the longer term economics of their capital expenditure program driving future profitability and dividends.

### Portfolio Top 5 Holdings

Stock	% of Fund
1 STEADFAST GROUP	5.7
2 BREVILLE GROUP	5.5
3 SKILLED GROUP	5.4
4 REECE AUSTRALIA	4.9
5 SUNLAND GROUP	4.4

### Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	-1.5	+10.2	+13.7
USA – S&P 500	+0.9	+10.7	+14.3
USA – NASDAQ Composite	+0.8	+20.1	+17.5
Europe – FTSE (UK)	+2.8	+2.7	+6.7
Europe – DAX (Germany)	-4.3	+19.3	+19.2
Asia – Nikkei (Japan)	+1.6	+36.5	+27.0
Asia – Shanghai Composite (China)	+18.5	+119.2	+22.8

### Monthly Commentary

In April, minutes from the RBA Monetary Policy Meeting noted that the economy continues to grow at below-average pace in the March quarter, as had been the case in the December quarter. The RBA notes that its policy settings have remained very accommodative, but that, "...the responsiveness of borrowers and savers to changes in interest rates and asset prices was unusually uncertain in a world of very low interest rates...". The RBA also noted that "...low levels of interest rates could foster imbalances in the housing market..." and that "...the bank was working with other regulators to assess and contain risks associated from the housing market...". Taking available data into account the RBA has left interest rates on hold for the time being, whilst continuing to assess the case for further cuts at forthcoming meetings.

The bulk of economic data from China in the month was soft with manufacturing activity, industrial production and retail sales weaker than market consensus. In response the People's Bank of China (PBOC) cut bank reserve requirements by 1% for loans in towns & cities, and 2% for rural lending. The decrease in bank reserves is an attempt to stimulate lending, with Chinese state media noting the cut will release an additional \$194b within the economy. In an attempt to assist the cooling Chinese property market the down payment required for a second home purchase was reduced from 60% to 40% during the month, whilst the minimum down payment required for a first home buyer, who uses the 'Housing Provident Fund', has been reduced from 30% to 20%.

The US unemployment rate was 5.5% in March with the US Department of Labour noting that 126,000 jobs were added in the month. March job creation was in stark contrast with the last 12 months where the US economy has created over 200,000 jobs per month. The March figure suffered from severe winter weather, factory slowdowns and a lacklustre construction sector. The latest minutes from the US Federal Open Market Committee (FOMC) suggests Federal Reserve policy makers are still contemplating when the right time to start lifting rates is, with a 'wait and see' policy position appearing to be the path of least resistance.

We expect the Australian equity market will display heightened volatility in coming months. Locally investors will need to contemplate a softening earnings backdrop as FY 2015 comes to an end and what this means for FY 2016 expectations, a Federal Budget which may have an 'austerity' air about it, and a global backdrop in which long bonds are edging higher despite a softer economic picture. At Celeste we will look to add to attractive portfolio exposures in periods of volatility. We will do so in a process consistent manner and with an eye on capital preservation, and medium to longer term alpha generation.

# CELESTE

Funds Management

## Fund at a Glance

### Fund Information

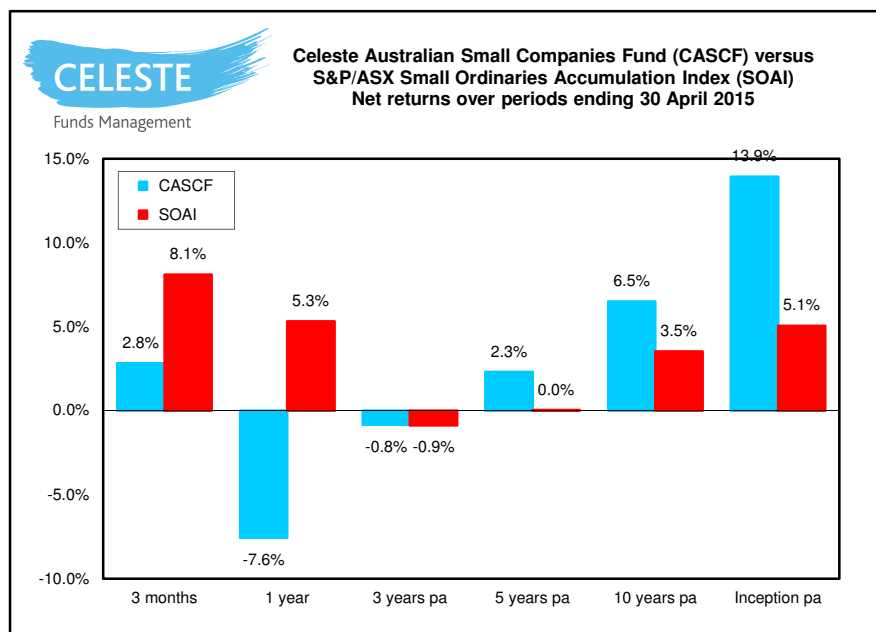
<b>Primary Investments</b>	Shares in listed Australian smaller companies
<b>Investment objective</b>	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
<b>Unit price (redemption) as at 30.04.2015</b>	\$2.6755
<b>Unit price (application) as at 30.04.2015</b>	\$2.6917
<b>Fund Size as at 30.04.2015</b>	\$122m
<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

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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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