CELESTE
Funds Management

Celeste Australian Small Companies Fund

Monthly update **30 June 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	-4.4	-6.2	+0.8	+3.8	+6.0
Performance (relative to Index)	**+3.4**	**-6.6**	**-1.7**	**+2.5**	**+4.0**
S&P/ASX Small Ords Acc Index	-7.8	+0.4	+2.5	+1.3	+2.0
S&P/ASX Small Inds Acc Index	-7.1	+7.2	+12.2	+9.7	+3.8
S&P/ASX Small Res Acc Index	-11.3	-24.0	-23.5	-18.6	-3.0

Past performance is not necessarily indicative of future returns.

The Fund fell 4.4% in June, with its benchmark, the S&P/ ASX Small Ordinaries Accumulation Index decreasing by 7.8%. Since inception (May 1998) the Fund's return is 13.6% pa, net of all fees, against the Index's 4.6% pa.

Portfolio Commentary

Skilled Group (SKE) rose 17.7% over the month on news that Programmed Maintenance Services (PRG) would offer $1.79 per share in stock and cash for the company. The deal anticipates at least $35m in cost savings from the merged group with SKE shareholders owning 52% of the larger company. We intend assessing the independent experts report on the PRG & SKE marriage to determine an appropriate course of action for the fund.

Burson Group (BAP) increased 14.9% during the month after it announced that it had agreed terms to acquire Metcash Auto Holdings (MAH). The acquisition was funded by a combination of debt and a 7 for 15 equity raising in which Celeste participated. MAH is one of the largest wholesalers and distributors of auto products in Australia and has a marketing network of 416 stores under the AutObarn, Autopro, Midas, Carparts and ABS brands. The acquisition is expected to be 20% earnings accretive before synergies are obtained. We remain positively disposed to the medium term prospects of Burson Group.

Virtus Health (VRT) and **Monash IVF** (MVF) declined by 30.8% & 20.3% respectively over the month. Both stocks were sold off on news that IVF cycle growth had slowed and that a new low cost provider had taken some market share in NSW. We continue to believe that this is an overreaction to what is a good industry, both in structure and in growth potential. We expect the nature of demand will see the recent short term cycle weakness revert back to the historic 3-4% growth within the next 12 months.

A position in **AMA Group** (AMA) was established during June. AMA manufactures and distributes auto parts /accessories and is a major participant in the car panel repair sector, with annualised revenues of $80m. We are attracted to the significant consolidation opportunity that exists within the $3b+ smash repair industry, to sector cash flow recurrence/resilience, and to AMA's successful history of acquiring and integrating repair workshops.

Portfolio Top 5 Holdings

Stock	% of Fund
1 SKILLED GROUP	6.8
2 STEADFAST GROUP	5.7
3 REECE AUSTRALIA	5.0
4 BREVILLE GROUP	4.8
5 SUNLAND GROUP	4.4

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	-5.4	+5.7	+14.5
USA – S&P 500	-2.1	+5.2	+14.8
USA – NASDAQ Composite	-1.6	+13.1	+19.3
Europe – FTSE (UK)	-6.6	-3.3	+5.4
Europe – DAX (Germany)	-4.1	+11.3	+19.5
Asia – Nikkei (Japan)	-1.6	+33.5	+31.0
Asia – Shanghai Composite (China)	-7.3	+108.8	+24.3

Monthly Commentary

June proved a character building month for investors around the world as equity markets fell and sovereign debt yields rose.

Late in the month 'Greece' was the word, as it was back in 1978. Discussions between the Greek Government (GG) and its creditors took on the character of a Greek tragedy with neither party able to agree on terms for a new financial bailout. The game theory being played out between the Eurozone and the GG saw Greece failing to meet an IMF debt repayment of €1.6b on June 30th. European Central Bank support for the Greek banking system ended, pushing the GG into imposing bank sector capital controls and to cap bank withdrawals. At month end the impasse between the GG and the Eurozone appeared quite intractable and the status of the nation's US$380b of debt, some 200% of GDP, continues to weigh on global equity and debt investors.

Volatility in the Chinese equity market added to investor nervousness in June with intra-day movements of >5% not uncommon. At month end the People's Bank of China (PBOC) cut interest rates in targeted loan areas and reduced bank reserve requirements. The 'double cut' is intended to support weak sectors and broader economic growth. Across the Atlantic the US territory of Puerto Rico announced that it was unable to service its US$72b of debt and that it would look to enter into discussions with its debt providers to restructure payment terms.

On the domestic economic front Q1 GDP was up 0.9% quarter on quarter, with growth now an annualised 2.3%, year on year. Job creation in May was a positive 42,000. The unemployment rate fell to 6%, its lowest level thus far in 2015. The lacklustre state of the local economy was noted in the Reserve Bank of Australia's Policy Meeting Minutes (2/6) with the word "average" used nine times in describing the economic landscape. In the US, economic activity continues to expand moderately, jobs growth has quickened, whilst inflation continues to track below the 2% desired by the Federal Reserve. Investor focus remains firmly on when US interest rates will lift-off. On June 19th President of the Federal Reserve Bank of San Francisco, John C. Williams, said, "…waiting until we're close enough to dance with 2% means the very real risk of having to dramatically raise rates to reverse course, which could destabilise markets and potentially derail the recovery. I see a safer course of action in starting sooner and proceeding more gradually…".

We expect the market to remain volatile in the short term with the pending reporting season only likely to accentuate the pessimistic mood. At Celeste we remain process centric and will look to selectively add to the portfolio in periods of uncertainty, when the risk and reward trade-off appears attractive.

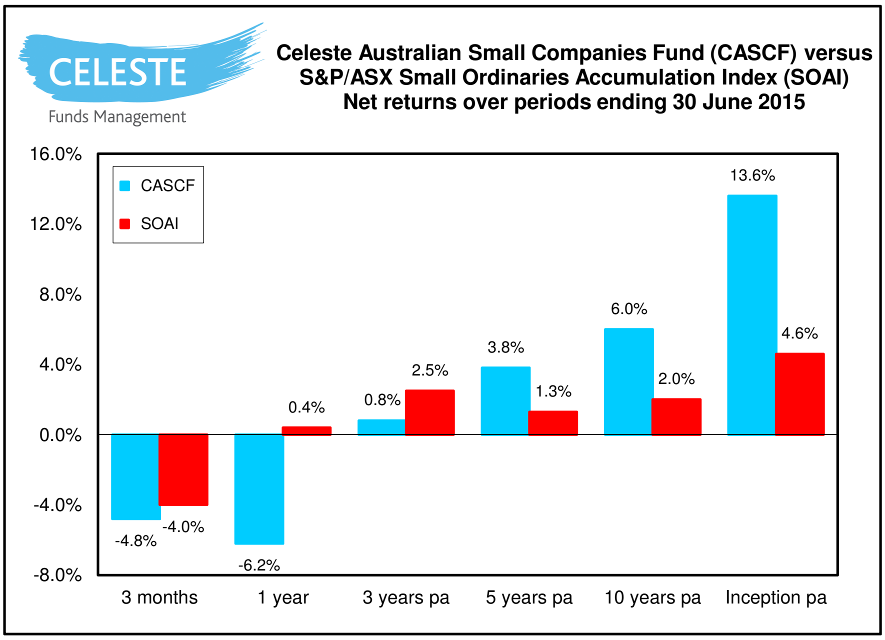
Fund at a Glance

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 30.06.2015 [ex 8.67 cpu dist.]	$2.5038
Unit price (application) as at 30.06.2015 [ex 8.67 cpu dist.]	$2.5190
Fund Size as at 30.06.2015 [ex 8.67 cpu dist.]	$113m
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



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Distribution History

Total distribution year ended	Cents Per Unit	Annual Yield %*
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
June 15	12.67	4.5

** 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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