

Celeste Australian Small Companies Fund

Monthly update 31 July 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	-9.0	+1.3	+3.3	+6.0
Performance (relative to Index)	+0.2	-6.2	-1.8	+2.7	+4.2
S&P/ASX Small Ords Acc Index	+1.6	-2.8	+3.1	+0.6	+1.8
S&P/ASX Small Inds Acc Index	+3.7	+6.7	+13.0	+9.5	+3.8
S&P/ASX Small Res Acc Index	-9.0	-36.0	-24.8	-21.0	-4.4

Past performance is not necessarily indicative of future returns.

The Fund rose 1.8% in July, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index increasing by 1.6%. Since inception (May 1998) the Fund's return is 13.6% pa, net of all fees, against the Index's 4.7% pa.

Portfolio Commentary

Data #3 (DTL) increased 20.2% in July after releasing pre-audit results for FY15 of \$10-11m NPAT compared to \$7.5m in the prior year. This was above market expectations and reflected improved business spending on IT services and software licencing. The company also announced the launch of a dedicated Security Practice to cater specifically for growing concerns over IT security.

Southern Cross Electrical Engineering (SXE) increased 23.3% retracing part of the significant share price fall seen during 2015. In a market update SXE announced a 4th quarter that was much improved on the 3rd quarter. Whilst tendering activity remained high, the company stressed an ongoing focus on overhead management and restructuring initiatives given the challenging market conditions across the resources construction sector. The intention to pay a final 2.7c dividend reflects the strong cash and franking position of the company.

Regis Healthcare (REG) rose by 11.2% over the month. During July the Supreme Court ruled for REG over the Victorian State Revenue Office (SRO). The case, running for 4 years, related to the calculation of stamp duty in the 2007 merger of Regis and the Moran & Salvation Army healthcare assets. REG will receive \$14.4m in pre-paid duty as well as legal costs and interest of some \$3m. Including the reversal of a \$1.1m provision, REG will report \$19.5m higher net profit after tax in FY15, some 6.5c per share over and above organic growth.

Skilled Group (SKE) declined by 9.4% over the month. The June acceptance of the Programmed (PRG) takeover offer has seen the market focus turn to the release of the independent experts report, expected in late August. PRG's AGM announcement highlighted that stronger property revenue had been offset by weaker marine revenues. SKE will report FY15 results in early August and if the takeover is approved, is expected to pay 25c per share in fully franked dividends over the next 9 weeks.

Portfolio Top 5 Holdings

Stock	% of Fund
1 BREVILLE GROUP	6.6
2 SKILLED GROUP	6.4
3 REECE AUSTRALIA	6.0
4 STEADFAST GROUP	4.8
5 SUNLAND GROUP	4.3

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+4.2	+5.4	+14.7
USA – S&P 500	+2.0	+9.0	+15.1
USA – NASDAQ Composite	+2.8	+17.4	+20.4
Europe – FTSE (UK)	+2.7	-0.5	+5.9
Europe – DAX (Germany)	+3.3	+20.2	+18.6
Asia – Nikkei (Japan)	+1.7	+31.8	+33.3
Asia – Shanghai Composite (China)	-14.3	+66.4	+20.3

Monthly Commentary

The Australian equity market ended positively in July, having been on a rollercoaster ride over the month. Chinese equities declined in the month, continuing the trend evident in recent weeks. July was the worst performing month for the Shanghai A Shares Index since August 2009. The rate of decline in July was dramatic, with the Shanghai A Shares Index falling over 8% on July 27th. The equity market selloff prompted Chinese regulators to halt trading in many listed companies, to defer new equity listings, and to pledge that the nation's largest brokers would buy 120b yuan in equities, some \$AUD 26.3b. Greeks voted no to an austerity referendum at the start of July but by month end the impasse between the EU and Greece had been papered over. At month end a new €86b bailout package was in place and Greek Banks had reopened for business.

On the domestic economic front, employment growth continued to exceed both market expectations and the 1.4% rate of population growth in the 12 months to 31 December. In June the unemployment rate was 6%, continuing the trend of modest improvement evident in recent months. Credit growth in the housing sector remained ebullient with owner occupier loan growth in June of 7.3%, year on year, the highest level seen since October 2010. Housing credit to investors in June grew at 10.7% year on year, a seven year high.

Locally the Australian Prudential Regulation Authority (APRA) drew a line in the sand on residential property lending. APRA announced that the banks would need to increase their capital weighting for residential mortgages with the risk weighting on home loans to move from the previous 16% to "...at least 25%...", effectively an increase of over 50%, as of 1 July 2016.

In the United States the June unemployment rate fell to 5.3%, having been 10% as recently as October 2009. US housing starts in June rose 9.8% year on year, to an annualised rate of 1.174m. The Consumer Price Index rose 0.4% month on month, an annualised clip of 0.2%. Federal reserve Chair Janet Yellen noted in her semi-annual testimony to Congress that, "...economic conditions likely would make it appropriate at some point this year to raise the federal funds target rate..."

In coming weeks investor focus will move to reporting season and, critically, how results delivered will feed into earnings expectations and valuations. Whilst we see valuations as quite full we also note that expectations are deeply pessimistic, possibly overly so. At Celeste we look forward to reporting season and the inevitable opportunities that it brings to adjust portfolio exposures, adding to some, whilst trimming others, always in a manner consistent with our investment process.

CELESTE

Funds Management

Fund at a Glance

Fund Information

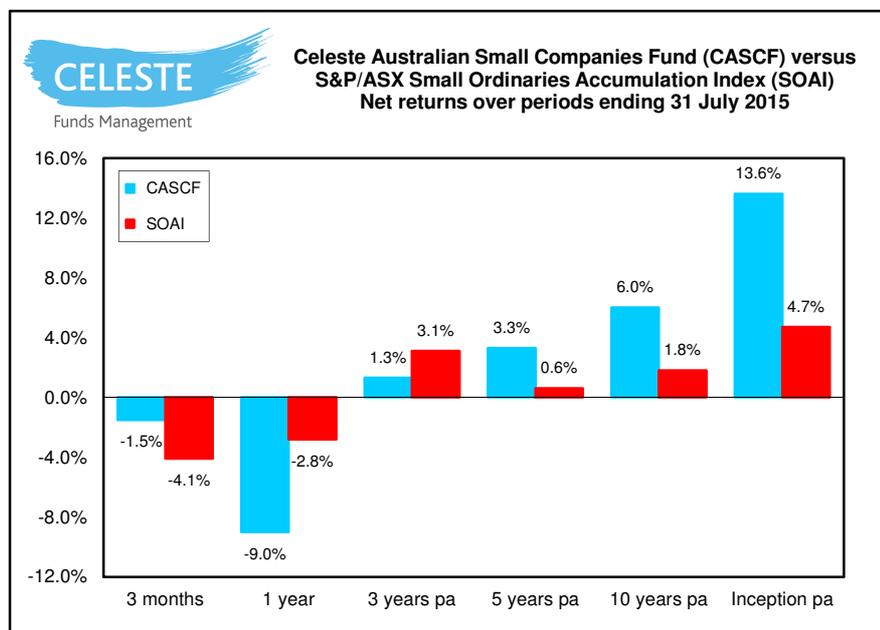
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 31.07.2015	\$2.5631
Unit price (application) as at 31.07.2015	\$2.5477
Fund Size as at 31.07.2015	\$89m
Minimum investment	\$25,000
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 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

Past performance is not necessarily indicative of future returns

* CPU / unit price at beginning of period

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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