CELESTE

Funds Management

Celeste Australian Small Companies Fund

Monthly update **31 August 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	-0.4	-12.0	-0.3	+2.8	+5.6
Performance (relative to Index)	**+4.5**	**-2.4**	**-0.7**	**+3.5**	**+4.7**
S&P/ASX Small Ords Acc Index	-4.9	-9.6	+0.4	-0.7	+0.9
S&P/ASX Small Inds Acc Index	-4.3	-1.5	+10.1	+8.2	+2.9
S&P/ASX Small Res Acc Index	-8.3	-39.8	-27.4	-22.7	-5.6

Past performance is not necessarily indicative of future returns.

The Fund fell 0.4% in August, with its benchmark, the S&P/ ASX Small Ordinaries Accumulation Index decreasing by 4.9%. Since inception (May 1998) the Fund's return is 13.5% pa, net of all fees, against the Index's 4.4% pa.

Portfolio Commentary

RCR Tomlinson (RCR) increased 11.9% over August. RCR's reported profit after tax fell 10% which was a commendable outcome given the challenging operating environment. Net debt was reduced $45m over FY 2015 with dps increasing from 10c to 11c. In August RCR announced a small acquisition in the water segment, consistent with it broadening its infrastructure exposure.

Reece Australia (REH) rose 8.8% in August after delivering a strong earnings result. In FY 2015 REH grew sales 17.4%, net earnings by over 23%, and EBITDA by 22%. We remain attracted to the medium term prospects of REH, to its strong competitive position and to its 'best of breed' return profile

SMS Management & Technology (SMX) increased 26.6% during the month after the company reported a strong FY2015 result. SMX grew EBITDA by 37% in FY 2015 and there are increasing signs that IT spending is picking up after a weak period of investment by businesses and all tiers of government.

Monash IVF Group (MVF) declined by 13.5% over the month. MVF reported an FY 2015 profit that missed its IPO forecast by $2.7m (c10%), with Australian IVF cycle volumes 5% less than budget. The start to FY 2016 has however been much stronger with IVF volumes reverting to around historic growth rates. We expect medium term demand for IVF will remain strong given later age pregnancies & growing reproductive issues in the community.

IMF Bentham (IMF) declined by 15.1% over August. IMF is increasingly looking to grow its litigation funding book outside of Australia and into Asia, the UK & the US. A strong investment process underlies case selection and funding. Conservative assessments of case success point to a high degree of latent value contained in the current +$2bn casebook. While earnings will be lumpy, in line with court judgements, we remain confident in the long-term prospects of IMF.

Portfolio Top 5 Holdings

Stock	% of Fund
1 REECE AUSTRALIA	5.9
2 BREVILLE GROUP	5.7
3 SMS MANAGEMENT & TECHNOLOGY	5.7
4 SKILLED GROUP	5.6
5 STEADFAST GROUP	4.4

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	-7.3	-3.0	+11.0
USA – S&P 500	-6.3	-1.6	+11.9
USA – NASDAQ Composite	-6.9	+4.3	+15.9
Europe – FTSE (UK)	-6.7	-8.4	+3.0
Europe – DAX (Germany)	-9.3	+8.3	+13.7
Asia – Nikkei (Japan)	-8.2	+22.5	+28.8
Asia – Shanghai Composite (China)	-12.5	+44.6	+16.1

Monthly Commentary

Global equity markets fell over the month lead by the large 12.3% fall in the Shanghai index. The large rise for the year to 31 August in the Shanghai Index of 44.6% clouds the tremendous volatility in that index. The Shanghai Index is down 37.9% from its mid-June high. The performance of the Chinese equity market is masked by a number of policy initiatives introduced to try to stop the falls in equity prices. These include company directors being banned from selling shares in their own companies, no new companies can be listed and central banks have increased lending to state run margin lending companies.

The Chinese economy continues to soften and this has led to large falls in commodity prices. Weak Chinese economic data included a 2% fall in electricity output in July, industrial output growth slowed to a three-month low of 6%, and exports contracted more than 8% year on year. The Caixin Purchasing Managers' Index dropped to 47.1 in August from 48.2 in July, the lowest level since March 2009. On 28 August, in response to a softer economy and unstable financial markets the Peoples Bank of China (PBoC) cut interest rates by 25 bp. This is the fifth interest rate cut since November last year. The 1 year lending rate in China is now 4.6%. In response to weak export data the PBoC cut the exchange rate for the Yuan sparking fears of a global currency war.

On 1 September the Reserve Bank of Australia (RBA) announced that it would leave the cash rate unchanged at 2.0 per cent. It cited the moderate expansion rates in the Australian economy, a steady rate of unemployment over the past year and domestic inflationary pressures being contained. Perhaps more interestingly, it stated that the Australian dollar is adjusting to the significant declines in commodity prices after having maintained the line that it was not reflecting the changes in terms of trade. The Australian dollar has fallen from 0.8202 to 0.7149 this calendar year.

Against a global backdrop driven by financial instability in China, the Australian market had to contend with reporting season. Companies have been talking down earnings expectations for 2016 leading to downgrades by analysts and some negative share price reactions. The worst performing sectors were the very ones that drove the market higher, the Banks, Materials and Energy sectors. Banks have been forced to raise equity in the face of tightening credit standards. The month saw smaller companies outperform their larger brethren. This is significant as it goes against the trend of the last two years.

Whilst markets are likely to remain challenging in the short term Celeste will remain process consistent, and alert to the mispricing that volatility presents.

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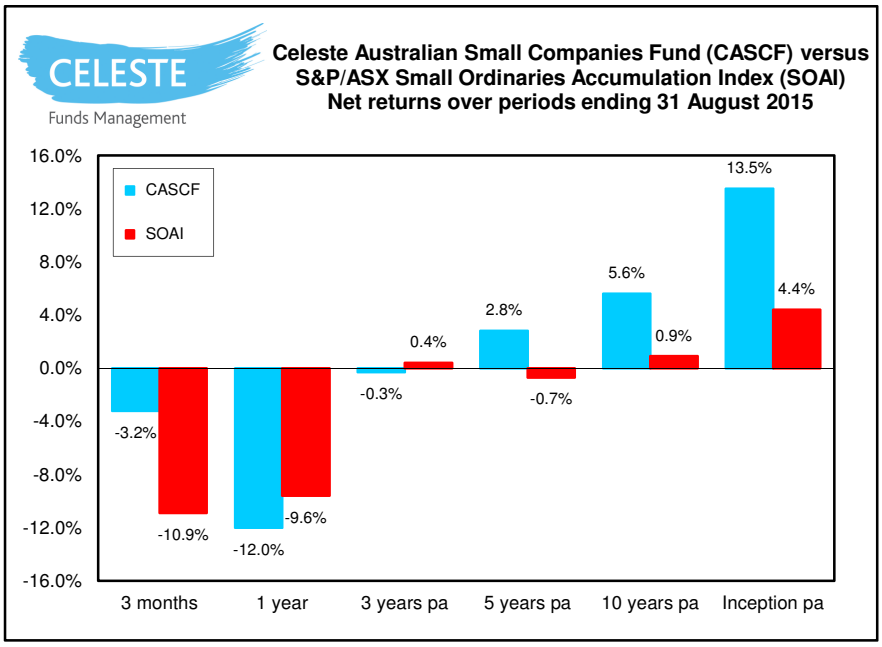
Fund at a Glance

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 31.08.2015	$2.5373
Unit price (application) as at 31.08.2015	$2.5527
Fund Size as at 31.08.2015	$85m
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*

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