

### Celeste Australian Small Companies Fund

Monthly update 30 September 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	+2.8	-5.5	-0.2	+2.2	+5.8
Performance (relative to Index)	+3.3	-0.6	+1.0	+4.7	+5.4
S&P/ASX Small Ords Acc Index	-0.5	-4.9	-1.2	-2.5	+0.4
S&P/ASX Small Inds Acc Index	+1.0	+3.1	+10.5	+7.2	+2.8
S&P/ASX Small Res Acc Index	-10.0	-37.6	-33.1	-26.3	-7.5

Past performance is not necessarily indicative of future returns.

The Fund rose 2.8% in September, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index decreasing by 0.5%. Since inception (May 1998) the Fund's return is 13.6% pa, net of all fees, against the Index's 4.3% pa.

#### Portfolio Commentary

**AMA Group Limited (AMA)** increased 62.2% during the month after the business announced the acquisition of Gemini Accident Repair Centres. The acquisition combines the two leading smash repair groups in Australia and is earnings accretive with a maximum multiple of 7.5x EBITDA before synergies are considered. We continue to be attracted to the growth plans of the AMA in the medium term and the 'bolt-on' opportunities present within the industry.

**Isentia Group** increased 12.8% during the month. The company's media intelligence business is a high quality one, with growing subscription revenue and a diverse tier-1 client base with low levels of customer concentration. The prior month acquisition of King Content provided further diversification to client's marketing budgets.

The IT Services sector performed well during the month with **SMS Management and Technology (SMX)** and **Data 3# (DTL)** up 15.5% and 20.6% respectively. For FY 2015 SMX grew revenues by 13%, significantly above its peer base, with net earnings up by 34%. DTL grew revenues by 4.4%, and net profit by 40.9% in FY 2015. DTL's 'software solutions' business performed well and helped drive product sales and service activity in the 'IT infrastructure' area. Both SMX & DTL are well positioned for growth in FY 2016

The Small Resources Accumulation Index fell 10.0% in September driven by weaker commodity prices **OZ Minerals (OZL)**, **Western Areas (WSA)** & **Independence Group (IGO)** declined 10.4%, 20.6% and 22.8% respectively in the period. OZL announced positive first results from its Hydromet demonstration plant which is aimed at enhancing concentrate grade with minimal impurity elements. WSA announced early drilling results from its Western Gawler Project Joint Venture. IGO concluded the Sirius Resource Scheme of Arrangement providing the company with control of the Nova nickel project.

#### Portfolio Top 5 Holdings

Stock	% of Fund
1 SMS MANAGEMENT & TECHNOLOGY	6.3
2 REECE AUSTRALIA	5.9
3 BREVILLE GROUP	4.8
4 ISENTIA GROUP	4.5
5 STEADFAST GROUP	4.2

#### Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	-2.5	-0.2	+9.3
USA – S&P 500	-2.6	-2.6	+10.0
USA – NASDAQ Composite	-3.3	+2.8	+14.0
Europe – FTSE (UK)	-3.0	-8.5	+1.8
Europe – DAX (Germany)	-5.8	+2.0	+10.2
Asia – Nikkei (Japan)	-8.0	+7.5	+25.2
Asia – Shanghai Composite (China)	-4.8	+29.1	+13.5

#### Monthly Commentary

Equities sold off in September as fears of the Chinese economy faltering, combined with falling commodity prices, drove the market lower.

The S&P/ASX Small Ordinaries Index fell 0.5% in the month, whilst the S&P/ASX 100, fell 3.1%. The outperformance of the small companies index goes against the trend that has been in place since mid-2012 where larger companies have outperformed smaller companies.

In the US the Federal Reserve continues to equivocate and delay any rise in interest rates despite that economy nearing full employment and recording reasonable growth. Rates in the US remain at close to zero nominally, and negative in a real context. The Chinese economy continues to show signs of weakness with a lower than expected manufacturing purchasing managers index (PMI), falling to 47.0 in Sept. from 47.3 in August, its lowest level since April 2009.

During Sept. the Asian Development Bank (ADB) lowered its medium term forecasts for growth in Asia noting, "...growth in developing Asia faced strong headwinds in the first half of 2015. Regional growth is now forecast to slow from 6.2% in 2014, to 5.8% in 2015 (from a previous forecast 6.3%)."

Domestically, The Reserve Bank of Australia (RBA) left interest rates at 2.0% for September. Unemployment decreased marginally to 6.2% and retail sales fell 0.1% over the month. The Australian dollar reflected poor commodity prices and sold off against most major currencies falling below US\$ 0.70 for the first time since early 2009. In September we also saw a leadership spill with Malcolm Turnbull deposing Tony Abbott to become the fifth Prime Minister of Australia in five years.

On the local front weaker commodities prices and a lower Australian dollar have stimulated some corporate activity with Oil Search receiving a bid from Woodside Petroleum, Veda being the subject of an offer from US based Equifax and NASDAQ listed Encore looking to gain control of local debt collection agency Baycorp. In the small resources sector private equity firm, KKR, took a 10% stake in local copper /gold miner OZ Minerals. With avenues for growth limited, costs squeezed and balance sheets in good shape some increase in corporate activity is likely in FY 2016. At Celeste we remain alert to market opportunity and will look to add to the portfolio in a process consistent manner when valuations are appropriately compelling.

# CELESTE

Funds Management

## Fund at a Glance

### Fund Information

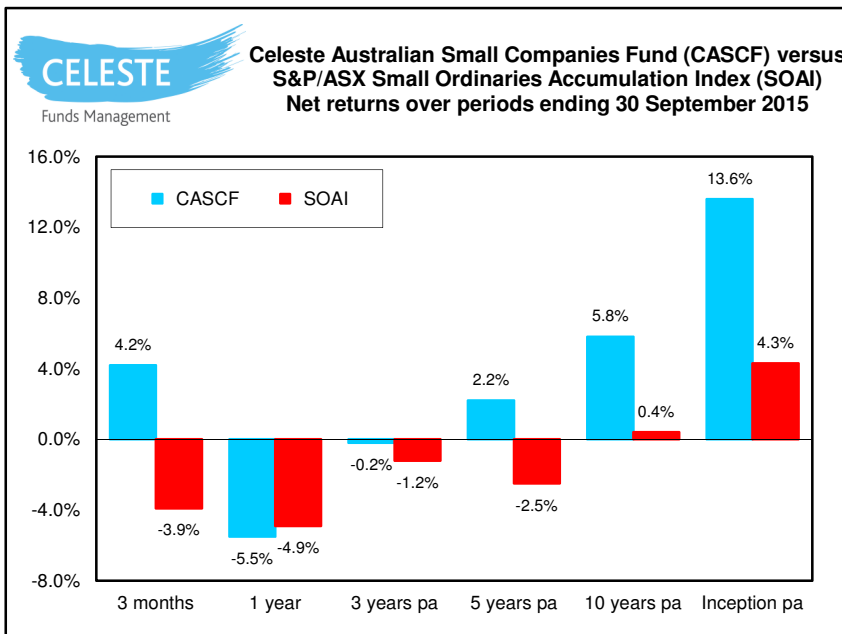
<b>Primary Investments</b>	Shares in listed Australian smaller companies
<b>Investment objective</b>	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
<b>Unit price (redemption) as at 30.09.2015</b>	\$2.6096
<b>Unit price (application) as at 30.09.2015</b>	\$2.6254
<b>Fund Size as at 30.09.2015</b>	\$83m
<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



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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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