

CELESTE

Funds Management

Celeste Australian Small Companies Fund

Monthly update 31 October 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	+6.4	+3.1	+1.5	+2.7	+6.5
Performance (relative to Index)	-0.7	+0.7	+0.9	+4.5	+5.0
S&P/ASX Small Ords Acc Index	+7.1	+2.4	+0.6	-1.8	+1.5
S&P/ASX Small Inds Acc Index	+5.8	+7.6	+11.5	+8.0	+3.5
S&P/ASX Small Res Acc Index	+16.2	-20.7	-29.2	-24.8	-5.0

Past performance is not necessarily indicative of future returns.

The Fund rose 6.4% in October, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index increasing by 7.1%. Since inception (May 1998) the Fund's return is 14.0% pa, net of all fees, against the Index's 4.7% pa.

Portfolio Commentary

OZ Minerals (OZL) rose 31.7% with the company delivering a solid September quarterly report. Production guidance was upgraded with Prominent Hill now expected to produce between 126,000 to 131,000 tonnes of copper which at the mid-point is 12% higher than the prior forecast. In concert, cash cost guidance was reduced to US 70-80c /lb of payable copper from US 80-95c /lb. The company also announced a cost initiative program that should rebase expenditure and provide substantial savings in 2016. Earlier in the month OZL released a new resource statement for the Carrapateena deposit which reflected a low capex, high grade alternative to the earlier pre-feasibility study.

Geosciences consultancy, **Coffey International (COF)**, rose 148% in the month after it was the recipient of a takeover offer by US based Tetra Tech at 42.5c. The offer is pitched on an EV of around 7.5X FY 2016 forecast earnings and is a significant premium to recent trading levels for COF shares.

Virtus Healthcare (VRT) +16.2% and **Monash IVF (MVF)** +11.1% performed well in the month, benefiting from positive Medicare IVF cycle data. In August 2015, Medicare IVF cycle numbers grew 12.8% on previous corresponding period, and are up 3.5% on a rolling 12 month basis. At its AGM during October, VRT noted that IVF fresh cycles had grown 6.6% in Q1 of FY 2016, whilst its Irish asset, the Sims Clinic, was up 10.2% on last year.

GUD Holdings (GUD) fell 6.7% in the month as AGM guidance was slightly lower than market consensus forecasts (EBIT of \$90m vs \$92m). GUD has experienced some challenge from the dramatic decline in the \$AUD, in combination with a soft discretionary consumer spending backdrop. GUD's auto business, Ryco and Brown & Watson, has continued to perform well and importantly make up some 70%+ of group earnings.

Portfolio Top 5 Holdings

Stock	% of Fund
1 SMS MANAGEMENT & TECHNOLOGY	5.6
2 REECE LIMITED	5.5
3 BREVILLE GROUP	4.8
4 ISENTIA GROUP	4.5
5 AMA GROUP	4.2

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+4.6	+0.4	+9.9
USA – S&P 500	+8.3	+3.0	+13.8
USA – NASDAQ Composite	+9.4	+9.1	+19.3
Europe – FTSE (UK)	+4.9	-2.8	+3.2
Europe – DAX (Germany)	+12.3	+16.3	+14.3
Asia – Nikkei (Japan)	+9.7	+16.3	+28.8
Asia – Shanghai Composite (China)	+10.8	+39.8	+17.8

Monthly Commentary

Equities had a very strong month in October across the globe. In Australia 'Smaller Companies' rose 7.1% , as measured by the S&P Small Ords Accumulation Index, whilst the S&P ASX All Ords Accumulation index was up 4.6% .

Since mid-2012 there has been an extended period of the 'large capitalisation' stocks outperforming their smaller company peers. Recently we have witnessed a reversal of this trend with smaller companies outperforming the larger stocks by 8.4% in the 3 months to 31 Oct. For the last three years the 'Banks' have been stellar performers with modest bad debt experience, low interest rates and low capital requirements. The 'Bank' sector performance juggernaut increasingly appears to be running out of steam as the Australian Prudential Regulation Authority (APRA) is demanding that banks hold more capital, credit growth remains lacklustre, net interest margins are pressured and valuations are placed under greater scrutiny. The other major part of the 'Larger Company' index are the big resources stocks who have struggled with slowing global growth, commodity oversupply and falling profits.

The US economy grew at 2¼% in the first half of 2015 whilst the unemployment rate was 5.1% in Sept, compared with 10% as recently as Oct 2009. The Federal Reserve continues to hold rates at historically low levels of 0% to 0.25% and monetary policy in the US remains unashamedly expansionary. While growth in the USA remains solid, Europe remains weak. European Central Bank (ECB) President Mario Draghi commented that the ECB will re-examine the degree of stimulus in Dec 2015 and would be ready to use all its available instruments within its mandate, adding that the quantitative easing program would continue beyond Sept 2016 if needed.

In Australia, the Consumer Price Index (CPI) rose by only 0.5%, quarter on quarter, to be 1.5% higher than a year ago. A continued sluggish domestic economy and low inflation has led many commentators to suggest that the Reserve Bank may cut interest rates before Christmas 2015. In the Australian market, corporate takeover activity appears to be gathering some momentum across the listed company spectrum as companies struggle for growth. Corporations look set to take advantage of a lower AUD and good access to debt /equity markets, with takeover activity set to rise.

Locally we expect that markets will remain volatile in the short term and that the messaging from AGM season will lead to further downward revision to earnings expectations. At Celeste we remain alert to the opportunity that volatility may present as we consistently apply our investment process with an eye on medium to longer term outperformance.

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Funds Management

Fund at a Glance

Fund Information

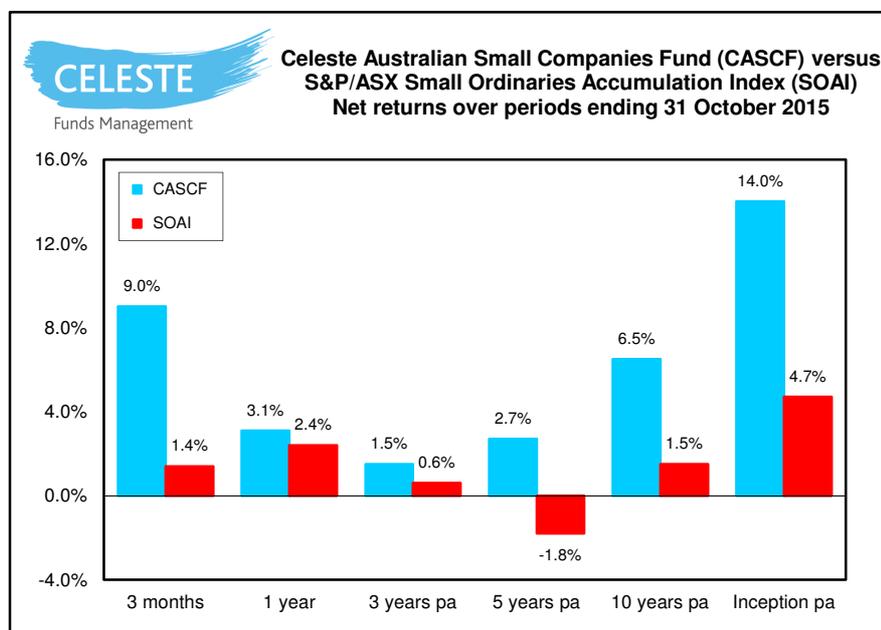
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 31.10.2015	\$2.7768
Unit price (application) as at 31.10.2015	\$2.7937
Fund Size as at 31.10.2015	\$87m
Minimum investment	\$25,000
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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