

CELESTE

Funds Management

Celeste Australian Small Companies Fund

Monthly update 30 November 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 | -1.7 | +8.5 | +2.0 | +2.4 | +5.9 |
| Performance (relative to Index) | -1.7 | +2.0 | +0.5 | +4.3 | +4.7 |
| S&P/ASX Small Ords Acc Index | +0.0 | +6.5 | +1.5 | -1.9 | +1.2 |
| S&P/ASX Small Inds Acc Index | +1.9 | +11.9 | +12.5 | +8.7 | +3.4 |
| S&P/ASX Small Res Acc Index | -11.7 | -20.5 | -30.8 | -27.1 | -6.5 |

Past performance is not necessarily indicative of future returns.

The Fund fell 1.7% in November, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index flat. Since inception (May 1998) the Fund's return is 13.8% pa, net of all fees, against the Index's 4.7% pa.

Portfolio Commentary

In November **Monash IVF** (MVF) rose 7.1% after announcing at its AGM that first half profit was likely to increase by 25%. The earnings growth is on the back of an 18.5% increase in patient treatments in the first 4 months of FY'16. MVF, along with other IVF portfolio holding **Virtus Health** (VRT) has also continued to re-rate based on improving Medicare IVF cycle data. October IVF cycles were a record month of 6,476, up 4.4% over September and an increase of 4.6% over the 12 months. The reversion towards the historic average growth rate of 4% is supportive of sector wide profit growth into 2016. Our positions in MVF & VRT make the IVF industry the largest active sector exposure in the portfolio.

Specialty Fashion Group (SFH) increased 31.4% during the month due to positive AGM commentary about the prospects of a turn-around in the Rivers business. Management are confident that it will become profitable in the next 12-24 months. Losses in Rivers has clouded strong results in the core brands of SFH over the past 18 months and we continue to view the company as undervalued. **Beacon Lighting Group** (BLX) increased 13.9% as the share price recovered from a moderate decline over the previous 2 months. We remain confident on the longer term prospects of BLX to continue to grow market share and expand sales in the wholesale and trade segments.

SMS Management & Technology (SMX) fell 36.7% during the month. At its AGM on Nov. 17th SMX noted that during H1 earnings were below expectation, and that an organisational restructure had affected sales. SMX provided guidance that H1 EBITDA would be between \$10.8m - \$11.5m, some 15% - 20% down on FY'15's \$13.5m. Whilst we are disappointed with SMX's FY'16 H1 performance we expect that the organisational issues currently bedeviling the company will be rectified and addressed swiftly. In the medium term we expect that SMX will deliver sales and earnings growth, commensurate with its revenue potential. Celeste added to its SMX position late in the month.

Portfolio Top 5 Holdings

| Stock | % of Fund |
|------------------|-----------|
| 1 REECE LIMITED | 5.7 |
| 2 BREVILLE GROUP | 4.8 |
| 3 ISENTIA GROUP | 4.7 |
| 4 AMA GROUP | 4.4 |
| 5 RCR TOMLINSON | 4.2 |

Global Index Performance (Accumulation)

| | 1 month % | 1 year % | 3 years % pa |
|------------------------------------|-----------|----------|--------------|
| Australia – S&P/ASX All Ordinaries | -0.7 | +3.1 | +9.5 |
| USA – S&P 500 | +0.1 | +0.6 | +13.7 |
| USA – NASDAQ Composite | +1.1 | +6.6 | +19.3 |
| Europe – FTSE (UK) | -0.1 | -5.5 | +2.7 |
| Europe – DAX (Germany) | +4.9 | +14.0 | +15.4 |
| Asia – Nikkei (Japan) | +3.5 | +13.1 | +27.9 |
| Asia – Shanghai Composite (China) | +1.9 | +28.4 | +20.3 |

Monthly Commentary

The mood in global equity markets was tentative in November. Investors increasingly focused on the potential for the US Federal Reserve to raise rates in December, and how this would play out given a sombre global growth backdrop. Federal Reserve Chair Janet Yellen told a US Congressional Committee during the month that a rise in US interest rates in December is "a live possibility". To ameliorate rate concerns, and in light of US rates having been near zero since 2008, the Federal Open Markets Committee has also recently stated that "beginning the normalisation process relatively soon would make it more likely that the policy trajectory after lift-off could be shallow".

In Australia the economic picture is one of moderate expansion, with some improvement in non-mining sector activity, credit growth lifting and monetary policy remaining highly-accommodative.

US jobs data in October was strong with 271,000 jobs added, and with average hourly earnings also strengthening to an annualised + 2.5%, the highest level seen since 2009. The strong October jobs performance moved the unemployment rate to 5%, the lowest rate in 7½ years. The US Commerce Department announced GDP rose 2.1% in Q3, whilst consumer spending, which accounts for some two-thirds of US economic activity grew at 3%. Japan's economy saw growth fall by 0.2% in Q3, shrinking by an annualised 0.8%. The data highlights that the world's 3rd largest economy, Japan, is technically in recession, having shrunk for a 2nd consecutive quarter.

The Chinese Communist Party Central Committee provided some insight into its medium term economic objectives via the quaintly titled 13th Five Year Plan. With a target of doubling GDP and per capita income by 2020 Chinese President Xii Jinping stated that the country's annual growth rate should be no less than 6.5% from 2016 to 2020. One strategy for augmenting growth in the Chinese economy is the 'One Belt One Road (OBOR)' development, a 21st Century Maritime Silk Road. Along the road are 65 countries with 4.4b people and total GP of \$22 trillion. OBOR provides demand for infrastructure construction, manufacturing activity & resource development. As noted by the China International Chamber of Commerce "China's capital, techniques and capacity can thus go global, creating new economic growth points for China's development". Further highlighting China's place in the global economy, the International Monetary Fund (IMF) announced that China's Yuan would join the funds basket of reserve currencies and will make up part of the IMF's Special Drawing Rights, along with the \$US, Yen, Euro and Pound.

Celeste would like to take the opportunity to wish its clients a Merry Christmas and a prosperous and healthy 2016.

CELESTE

Funds Management

Fund at a Glance

Fund Information

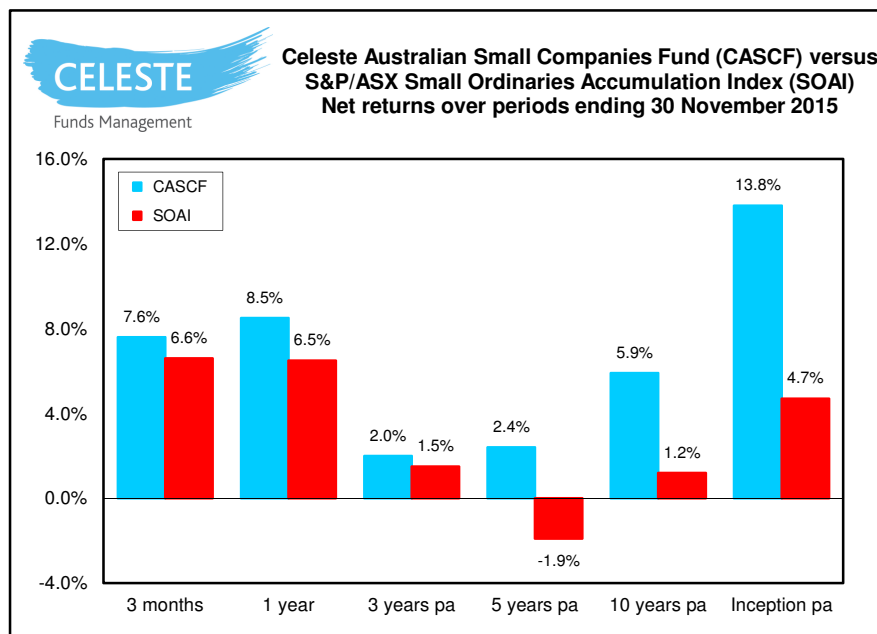
| | |
|--|---|
| Primary Investments | Shares in listed Australian smaller companies |
| Investment objective | Small Ordinaries Acc Index + 5% p.a. over rolling 3 years |
| Unit price (redemption) as at 30.11.2015 | \$2.7296 |
| Unit price (application) as at 30.11.2015 | \$2.7461 |
| Fund Size as at 30.11.2015 | \$83m |
| 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



Past performance is not necessarily indicative of future 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 |

* 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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