

CELESTE

Funds Management

Celeste Australian Small Companies Fund

Monthly update 31 December 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	-0.6	+8.8	-0.5	+1.4	+5.7
Performance (relative to Index)	-4.5	-1.4	-2.2	+3.9	+4.3
S&P/ASX Small Ords Acc Index	+3.9	+10.2	+1.7	-2.5	+1.4
S&P/ASX Small Inds Acc Index	+3.8	+15.0	+11.9	+8.5	+3.7
S&P/ASX Small Res Acc Index	+4.5	-14.7	-29.4	-27.9	-6.4

Past performance is not necessarily indicative of future returns.

The Fund fell 0.6% in December, with its benchmark, the S&P/ASX Small Ordinaries Accumulation Index increasing by 3.9%. Since inception (May 1998) the Fund's return is 13.7% pa, net of all fees, against the Index's 4.9% pa.

Portfolio Commentary

STW Communications (SGN) increased 12.7% during the month, after announcing that it had agreed to merge with the Aust./NZ businesses of WPP Plc. As a result of the merger, WPP will become the majority shareholder of SGN with a 61.5% shareholding (currently 23.6%). A combination of these two businesses provides a meaningful opportunity to take costs out, primarily non-labour related along with improved efficiencies across training, recruitment and retention. The December ASX release also included a trading update with SGN confirming it was tracking in line with the ~\$40m guidance provided at the 1H16 result. This outcome along with some encouraging indicators provides confidence that activity in CY16 will be stronger, year on year.

Steadfast (SDF) rose 9.1% over the month as the company continued to emphasise the strong performance from the recently acquired Agency businesses. Premium rates remain soft, and are unlikely to firm until FY17. Earnings in FY16 however look to be fortified by cost reduction, an ongoing switch by the brokers from commission towards fee income and the better than anticipated performance of the agency operations. Acquisitions will continue to lift earnings as will the recently announced deal for broker cluster group Insight (43 members) to join the Steadfast broking network.

Royal Wolf (RWH) fell by 38.1% in Dec. after downgrading FY16 EBITDA from \$44m to \$36m. RWH have decided to remove all resource/energy sector income from their guidance reflecting (1) the appointment of voluntary administrators to client, Titan Energy, and (2) extreme conservatism around resource accommodation earnings. The non-resource areas of removals, storage & portable construction products continue to grow and in most cases pricing is up by around 2-3%. The Royal Wolf selloff appears overdone and Celeste moved to >5% of the company's register during the month.

AMA Group (AMA) declined by 9.6% in Dec. as the share price fell following its strong performance in 2015. We continue to be attracted to AMA, to sectoral consolidation within the repair industry and to the ability for AMA to roll-out rapid repair workshops.

Portfolio Top 5 Holdings

Stock	% of Fund
1 REECE LIMITED	5.5
2 BREVILLE GROUP	5.4
3 STEADFAST GROUP	4.4
4 MONASH IVF GROUP	4.2
5 SUNLAND GROUP	4.1

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+2.6	+3.8	+9.3
USA – S&P 500	-1.8	-0.7	+12.7
USA – NASDAQ Composite	-2.0	+5.7	+18.4
Europe – FTSE (UK)	-1.8	-4.9	+1.9
Europe – DAX (Germany)	-5.6	+9.6	+12.2
Asia – Nikkei (Japan)	-3.6	+9.1	+22.3
Asia – Shanghai Composite (China)	+2.7	+9.4	+16.0

Monthly Commentary

In Australia the economic picture remains one of moderate expansion, with monetary policy remaining highly-accommodative. In November the unemployment rate fell to 5.8%, and importantly the 'participation rate' rebounded to a 3 year high of 65.3%. The economy grew at 0.9% in the September quarter, taking Australia's annual economic growth rate to 2.5%, year on year. Credit growth was 0.7% in October, up 6.7% year on year, and new car sales topped 1m in November, resulting in year to date growth of 3.9%.

The US Federal Reserve (Fed.) raised interest rates by 0.25% in December, the first increase since 2006. With US rates having been close to zero since 2008 the increase sees the Federal Funds rate move to between 0.25% and 0.5%, the rate range used by banks to lend to each other overnight. In explaining the rate increase the Fed. justified the move citing economic activity expanding at a moderate pace, confidence that inflation will rise and the improvement in labour market conditions. The Fed. expects rates to 'normalise', and for the Federal Funds rate to move to 1.5% in 2016, 2.5% in 2017, and 3.5% in 2018. The US economy added 211,000 jobs in November, with the unemployment rate at 5%, the lowest rate seen since April 2008.

Economic indicators in China have picked up a little in recent weeks. The National Bureau of Statistics reported year on year growth in a number of economic areas during November with industrial output up by 6.2%, retail sales 11.2% higher and fixed asset investment up 10.2%. Late in the month China's Non-Manufacturing Purchasing Managers Index (PMI) came in at 54.4% in Dec., compared to 53.6% in Nov., and the highest PMI recorded in CY 2015.

The European Central Bank (ECB) moved to bolster economic activity within the Eurozone by cutting interest rates and extending its stimulus program. The ECB cut the overnight deposit rate, from -0.2% to -0.3%, in an attempt to stimulate bank lending. The ECB also extended its monthly €60b. stimulus program by six months to March 2017. In December elections in Spain saw the 32 year 2 party dominance of the Popular Party (Conservative), and PSOE (Socialists) challenged as 2 anti-austerity parties, Podemos & Ciudadanos, gained over 34% of the national vote.

In 2016 we anticipate EPS growth will remain elusive across the Australian listed company spectrum. In 2016, investor sentiment will be coloured by further Fed tightening, normalising (higher) bond yields and anaemic global growth. We maintain an opportunistic disposition, given the extreme valuation disparity evident between loved and hated stocks, and will look to add to the portfolio in a process consistent manner, should risk and reward traits be palatable.

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Funds Management

Fund at a Glance

Fund Information

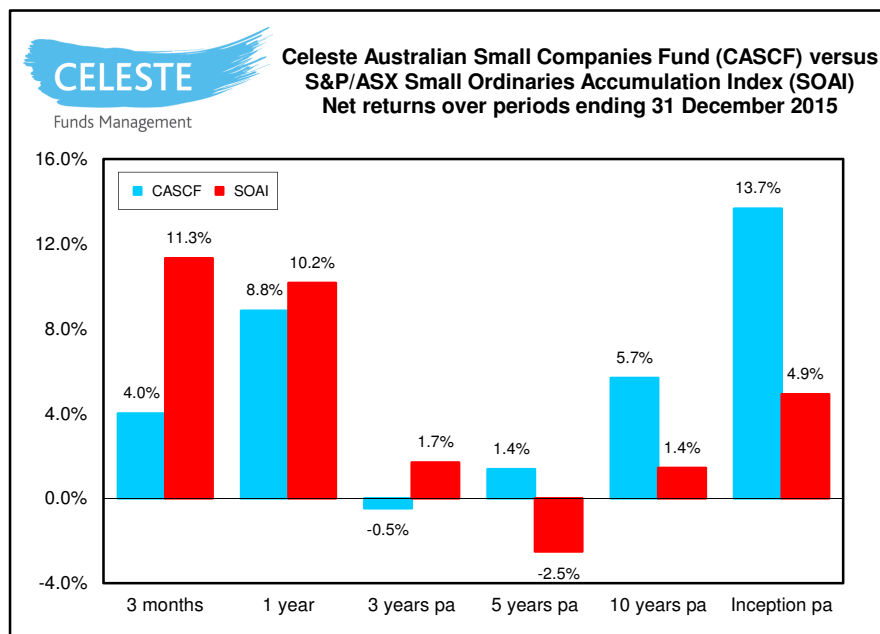
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 31.12.2015 [ex-distribution]	\$2.6742
Unit price (application) as at 31.12.2015 [ex-distribution]	\$2.6904
Fund Size as at 31.12.2015 [ex-distribution]	\$78m
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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