

### Celeste Australian Small Companies Fund

Monthly update 30 April 2016

#### 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	+4.2	+5.6	-0.3	+0.9	+4.7
Performance (relative to Index)	+1.2	+0.5	-4.5	+1.9	+4.2
S&P/ASX Small Ords Acc Index	+3.0	+5.1	+4.2	-1.0	+0.5
S&P/ASX Small Inds Acc Index	+0.5	+6.4	+7.8	+8.1	+2.8
S&P/ASX Small Res Acc Index	+16.3	-1.7	-10.2	-21.6	-6.1

Past performance is not necessarily indicative of future returns.

The Fund rose 4.2% in April, with its benchmark, the S&P/ ASX Small Ordinaries Accumulation Index increasing by 3.0%. Since inception (May 1998) the Fund's return is 13.4% pa, net of all fees, against the Index's 5.1% pa.

#### Portfolio Commentary

**GDH Holdings (GUD)** increased 22.7% after the sale of its 51% interest in Sunbeam to Jarden Consumer Solutions, for \$35m. The divestment eliminates the drag on earnings from a poorly performing business and increases the percentage of earnings contributed from the auto parts segment. We remain attracted to the GUD auto aftermarket parts business which has iconic brands, strong market positions, solid growth prospects and an attractive return profile.

**Pacific Smiles (PSQ)** increased 23.6% in April with no new information released by the Company, however, we note that PSQ is currently experiencing a broadening of broker coverage and related increase in market attention. During the month the Federal Government announced changes to the funding of dental care in the lead up to the budget, with full details yet to be released. We note that the industry's exposure to funding from Government is very low compared to general healthcare and the pending changes are unlikely to have an impact on PSQ's long term prospects.

**Data #3 (DTL)** decreased 8.9% in April with no information released by DTL. The fall may be attributable to investor concern regarding the impact of the election campaign on IT spending. We remain positively disposed to the medium term opportunities available to DTL, to the recurrent sticky cash flows generated from their 'software licensing' business, and from the continuing shift towards cloud IT spend with which DTL assists clients.

During the month we established a position in **Reliance Worldwide Corporation (RWC)**. Reliance is a company that designs, manufactures and distributes branded plumbing products, specifically, fittings, pipes and valves. Reliance manufactures >70% of the product it sells, via 11 manufacturing sites in Australia, the USA, Spain and New Zealand. Reliance generates >75% of its sales outside of Australia and we are attracted to RWC's growth prospects and from the further leveraging of its product offering and intellectual property globally.

#### Portfolio Top 5 Holdings

Stock	% of Fund
1 REECE LIMITED	6.5
2 BREVILLE GROUP	5.3
3 AMA GROUP	5.0
4 STEADFAST GROUP	4.7
5 MONASH IVF GROUP	4.1

#### Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+3.2	-3.7	+5.4
USA – S&P 500	+0.3	-1.0	+8.9
USA – NASDAQ Composite	-1.9	-3.4	+12.8
Europe – FTSE (UK)	+1.1	-10.3	-1.0
Europe – DAX (Germany)	+0.7	-12.4	+8.3
Asia – Nikkei (Japan)	-0.6	-14.6	+6.3
Asia – Shanghai Composite (China)	-2.2	-33.8	+10.5

#### Monthly Commentary

The Australian equity market rose in April, buoyed by firming commodity prices. Improving base metal prices saw LME prices for Nickel +11.4%, Aluminium +10.5% and Zinc +6.9%. Iron Ore prices rose over 23% to > \$US65 / mt as production cuts were announced by BHP, RIO and Vale. The Brent Crude Oil price rose 16.2% to \$47.37/bbl. Precious metals also rose in the month with Gold +4.9% and Silver +15.6%.

On the domestic economic front, Q1 2016 CPI grew at negative 0.2%, quarter on quarter, the first negative quarter reported since Q4 of 2008. The CPI figure is now tracking materially below the RBA's target of 2% to 3%, with the headline inflation rate falling to 1.3% year on year. Employment growth in March led to the unemployment rate falling from 5.8% to 5.7%, a two-and-a-half-year low. Building approvals were up 3.1%, with the growth substantially attributable to the rise in high density approvals, which rose 7.7%, whilst single family approvals fell 1%.

Locally the NAB survey of business conditions rose from +8 to +12.3, the highest level seen since February 2008. The Westpac consumer confidence index fell to 95.1, below the long run average of 101.4 and the lowest level in seven months.

US economic data took on a sombre tone with Q1 GDP up 0.5%, annualised, against consensus expectation of 0.7% and a previous +1.4%. Industrial production for March fell 0.6% month on month, whilst the unemployment rate edged up a tenth to 5%.

In Japan, the Bank of Japan Tankan quarterly survey of business confidence fell to +6, from +12, the biggest contraction in 3 years.

Q1 GDP in the Eurozone grew 0.6%, against a previous period 0.3%, whilst unemployment in April fell to 10.2%, from 10.4%.

In China Q1 2016 GDP rose 6.7%, year on year, whilst Industrial Production in March grew by 6.8%, against a previous 5.4%. The reduction in down payment requirements, for tier #2 & #3 cities in China appears to be having an impact with residential real estate investment up 7.8% year on year in March, and new home prices up 4.9% year on year.

We anticipate that markets are likely to remain volatile in the short term as June 30<sup>th</sup> earnings expectations are questioned, and the economic backdrop remains subdued. In an environment where valuations are stretched and risk pricing is corrupted we retain a heightened sense of caution. Whilst vigilant, if equity valuations become sufficiently attractive, we will look to add to the portfolio in a systemic, disciplined and process consistent manner.

# CELESTE

Funds Management

## Fund at a Glance

### Fund Information

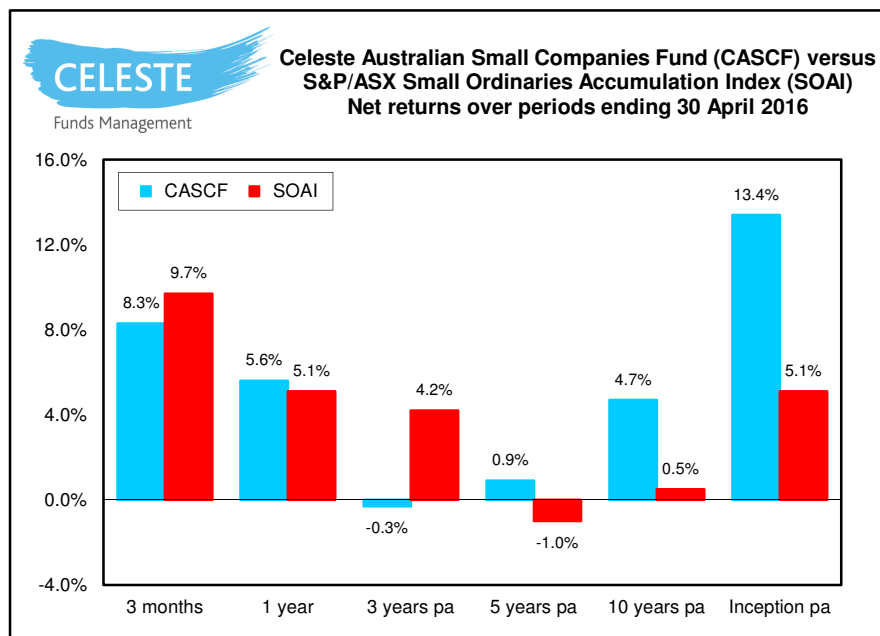
<b>Primary Investments</b>	Shares in listed Australian smaller companies
<b>Investment objective</b>	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
<b>Unit price (redemption) as at 30.04.2016</b>	\$2.6898
<b>Unit price (application) as at 30.04.2016</b>	\$2.7060
<b>Fund Size as at 30.04.2016</b>	\$73m
<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



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

### Celeste Funds Management Limited

Level 14, 15 Castlereagh Street, Sydney NSW 2000. GPO Box 4266, Sydney NSW 2001

T 02 9216 1800 F 02 9216 1899 E [contact@celestefunds.com.au](mailto:contact@celestefunds.com.au)

[www.celestefunds.com.au](http://www.celestefunds.com.au)

ABN 78 098 628 605