

CELESTE

Funds Management

Celeste Australian Small Companies Fund

Monthly update 28 February 2010

Fund Performance

In February the Fund returned 0.4%, against an ASX Small Ordinaries Accumulation Index benchmark return of -0.5%.

The US S&P Index was up 2.9% and the NASDAQ up 4.2%. The UK FTSE was also stronger, up 3.2% while the Nikkei was down 0.7%.

In the past year the Fund increased by 71.6%, net of all fees, compared to a rise of 63.1% for the S&P/ASX Small Ordinaries Accumulation Index.

Since inception in May 1998 the Fund's return is 18.9%pa versus a return of 6.7%pa for the Index.

Portfolio Highlights

Despite pre-announcing in January **Noni B** (+15.0%), rose strongly delivering a high quality result focusing on working capital management, cost control and margin improvement. **SMS Management & Technology** (13.3%) delivered a result slightly above expectation, leading to upgrades in FY 2011 and FY 2012. **The Mac Services** was up 12.1% delivering a better than expected result and flagging the addition of 1,000 new rooms to its portfolio over the next 18 months. **ResMed** (11.1%) delivered a record result with a product pipeline that bodes well for a strong 2011 performance. **Monadelphous** (10.6%) surprised with a result well above expectation in a challenging operating environment. Other stocks that performed well in February included **IOOF Holdings** (6.6%), **ARB Corporation** (6.3%), **Salmat** (5.9%), and **Breville Group** (5.0%).

Coffey International fell 15.0%, on a softer than expected result substantially due to one off charges in its International Development division. **Calliden Group** was down 14.1%, as high catastrophe losses made it report a small loss for 2009. **BSA** (-13.1%) was impacted earlier in the half by project deferrals in its Building Services division – some of which have now commenced. **Data#3** was down 10.0%, taking a breather after rising over 100% over the last 12 months

Portfolio Activity

In February the Fund added to positions in **Resmed**, **APN**, **Coffey International**, **Ausenco**, **Fleetwood**, **Breville Group**, **Reece Australia** and **WHK Group**. Acquisitions were funded by reducing exposures to **Reckon**, and **Campbell Brothers**. Cash at month end amounted to some 0.7%

Market Comments

The FY 2010 interim reporting season has been the primary focus of market attention in February. In general the reporting season delivered to expectation with the number of shocks to the system diminished, a not totally surprising situation given continuous disclosure obligations. The interim reporting season did highlight that across the small cap sector achieving sales growth remained a challenge, with corporate sector top lines anaemic by and large. We expect that with the sales environment the worst has passed and that improvement will be evident as calendar 2010 progresses. Balance sheets across the small cap sector are in good shape with coverage ratios healthy and net debt levels manageable given current operating conditions. In the short term we expect that investors will move their attention to a rising interest rate environment, domestically and globally, and to sovereign debt fissures opening up across Europe. The outworking of Chinese governments attempts to slow their economy, and to slow commercial lending volumes specifically, is very much a work in progress that will have a significant bearing on the direction of equity markets in month's to come.

Performance Statistics (Net of fees)

	Celeste Australian Small Co. Fund	ASX Small Ord Acc Index	Difference	ASX Small Ind Acc Index	ASX Small Res Acc Index
1 month %	0.4	-0.5	+0.9	0.9	-3.2
3 month %	-0.2	-3.9	+3.7	-0.5	-10.3
1 year %	71.6	63.1	+8.5	62.9	62.3
2 years % pa	2.9	-12.6	+15.5	-11.1	-14.5
3 years % pa	-1.0	-8.3	+7.3	-12.0	2.0
4 years % pa	7.0	0.2	+6.8	-3.8	11.6
5 years % pa	6.8	4.3	+2.5	0.6	15.4
7 years % pa	16.6	11.9	+4.7	8.6	22.7
10 years % pa	14.2	5.8	+8.4	2.8	18.1

Past performance is not necessarily indicative of future returns.

Portfolio Structure (Top 5 holdings)

Stock	% of Fund
1 IOOF HOLDINGS	5.3
2 ASG GROUP	4.8
3 REECE AUSTRALIA	4.8
4 ARB CORPORATION	4.7
5 SALMAT	4.5
OTHER STOCKS	75.2
CASH	0.7
TOTAL	100%

Fund at a Glance

Celeste Australian Small Companies Fund

- **Primary Investments** Shares in listed Australian smaller companies
- **Investment objective** Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
- **Investor time horizon** Minimum 4 years

Distribution History

Total distribution for the year ended	Cents Per Unit	Annual Yield %*
June 07	34.32	12.2
June 08	38.82	9.8
June 09	10.06	4.2

*CPU/unit price at beginning of period.

Fund Information

Unit price (redemption) as at 28.02.10	\$2.8197
Unit price (application) as at 28.02.10	\$2.8425
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*	0.40%
Management fee*	0.95% effective 1 March 2010
Performance fee**	20% of return above benchmark
OGFM***	0.95% p.a. effective 1 March 2010

* 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.

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