

CELESTE

Funds Management

Celeste Australian Small Companies Fund

Monthly update 31 March 2010

Fund Performance

In March the Fund returned 6.0%, against an ASX Small Ordinaries Accumulation Index benchmark return of 6.8%.

The US S&P Index was up 5.9% and the NASDAQ up a strong 7.1%. The UK FTSE was up 6.1% while the Nikkei was up a strong 9.5%, following a softer February.

In the past year the Fund increased by 67.4%, net of all fees, compared to a rise of 58.1% for the S&P/ASX Small Ordinaries Accumulation Index.

Since inception in May 1998 the Fund's return is 19.3%pa versus a return of 7.3%pa for the Index.

Portfolio Highlights

Corporate Express Australia rose 30.6% following a \$5.60 takeover offer by USA based parent Staples Incorporated. **Lycopodium** (25.4%) rose in the aftermath of its 1st half result, which is expected to be a cyclical low point for the business, with significantly better prospects going forward. **Specialty Fashion House** (17.8%) rose on the afterglow of a credible 1st half result reported in February. **Fleetwood** (14.4%) rose on indications that demand for its Recreational Vehicle division is picking up. **Ausenco** (12.8%) announced a contract win from Xstrata early in the month, and benefitted from continued improvement in sentiment towards the resources sector. **IOOF Holdings** (11.3%) was another stock that continued to rise on the back of a good result delivered in late February. **ASG Group** was up 11.3% announcing both a Federal Government contract win and an acquisition that takes it into the IT Consulting space.

SDI was down 15.1% on no company specific news and we note that a visit to the 2010 Australasian Dental Expo during March highlighted that the company's product offering remains innovative and competitive, in a global context. **Skilled Group**, which was down 11.9%, saw both management & Board alter in March. **BSA** (-11.3%) & **Thomas & Coffey** (-7.4%) drifted lower on no news.

Portfolio Activity

In March the Fund added to positions in **Resmed**, **Skilled Group**, **STW Communications**, and **Specialty Fashion House**. The Fund exited its positions in **Reckon** and **Campbell Brothers**. Cash at month end amounted to 2.0%.

Market Comments

The performance of the Small Ords in March continued the trend of recent months, and of 2009, with the market increasingly accepting of the potential returns and operational leverage provided by small companies in the early stages of economic recovery. The FY 2010 interim reporting season highlighted that balance sheets in the small cap sector are by and large in good shape, cost structures have been pared down dramatically, and the operational leverage within many companies to even modest improvements in revenues will be quite acute. In addition the situation for many small companies today is that bank funding is again available, as distinct to the situation of one year ago when an effective credit strike was in effect. In the short term we would not be surprised to see the market take breath, given the 58.1 % appreciation of the Small Ords over the last 12 months. We believe that the greatest market apprehension in the short term will gyrate between the potential for a sovereign debt crisis (and an inevitable moderation in global growth that will consequently emerge) and on the issue of China growth. Whilst we remain sensitive to market apprehension our primary focus remains on the application of our process in a patient and disciplined manner over market and economic cycles.

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 %	6.0	6.8	-0.8	3.4	13.9
3 month %	4.4	-1.6	+6.0	-1.3	-2.0
1 year %	67.4	58.1	+9.3	54.3	64.2
2 years % pa	7.7	-7.4	+15.1	-7.4	-6.5
3 years % pa	0.7	-7.5	+8.2	-11.9	4.0
4 years % pa	8.0	0.3	+7.7	-4.0	12.0
5 years % pa	8.6	5.8	+2.8	1.3	18.9
7 years % pa	17.5	12.8	+4.7	8.9	25.0
10 years % pa	13.9	6.6	+7.3	3.2	20.6

Past performance is not necessarily indicative of future returns.

Portfolio Structure (Top 5 holdings)

Stock	% of Fund
1 IOOF HOLDINGS	5.6
2 RESMED	5.1
3 ASG GROUP	5.1
4 REECE AUSTRALIA	4.6
5 ARB CORPORATION	4.5
OTHER STOCKS	73.1
CASH	2.0
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 31.03.10	\$2.9892
Unit price (application) as at 31.03.10	\$3.0133
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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