

CELESTE

Funds Management

Celeste Australian Small Companies Fund

Monthly update 31 May 2010

Fund Performance

In May the Fund was down 7.9% while the ASX Small Ordinaries Accumulation Index benchmark was down 8.2%.

In May all major markets were down. The US S&P Index was down 8.2% and the NASDAQ down 8.3%. The UK FTSE was down 6.6% while the Nikkei was down 11.7%.

In the past year the Fund increased by 36.9%, net of all fees, compared to a rise of 19.0% for the S&P/ASX Small Ordinaries Accumulation Index.

Since inception in May 1998 the Fund's return is 18.2%pa versus a return of 6.4%pa for the Index.

Portfolio Highlights

STW Communications (7.4%) provided upbeat AGM commentary, highlighting improved prospects for corporate spend on advertising. **Resmed** rose 5.9% in the afterglow of its March quarter result, delivered at the end of April. **NIB Insurance** (0.4%) announced strong policyholder growth for the nine months to March and expects full year growth in this metric at the upper end of its 4% to 6% guidance range. **Calliden** (-2.0%) held its AGM highlighting further progress on employee productivity and IT system consolidation.

Ausenco (-55.7%) held its AGM in May, but later in the month announced a significant profit downgrade. **Thomas & Coffey** (-33.3%) also announced it expected a trading loss for the year mostly due to one poorly performing contract. **Specialty Fashion House** (-16.6%) did not report any news, with market sensitised to conditions in the retail sector which remain challenging, as federal government stimulus initiatives roll off and interest rate rise, denting already fragile consumer sentiment.

Count Financial (-15.3%) drifted lower, after earlier in the month briefing the market in more detail on its CountPlus initiative. **SMS Management & Technology** (-14.6%) gave back some of its February and March gains.

Portfolio Activity

In May the Fund exited its **Corporate Express Australia** holding. The fund established a new position in mining services company **Imdex**, and added to holdings in **ARB Corporation, Sunland Group, Fleetwood Corporation, ASG Group, Mac Services, and Salmat**. Cash at month end amounted to 3.9%.

Market Comments

In May investors were reminded that the healing process from the Global Financial Crisis will be gradual, and not linear in nature. European sovereign debt issues highlighted the altered nature of public and private sector balance sheets, and that banking sector in many parts of the world is still in a fragile state. In addition investors needed to brace themselves for a smorgasbord of other concerns including: a major environmental catastrophe unfolding in the Gulf of Mexico, signs of escalating tension on the Korean peninsula, whilst Australians tried to come to grips with the newly proposed Resource Super-Profits Tax, a fruit of the recent Henry Tax Review .

As anticipated, a number of companies issued profit warnings, highlighting that the expected earnings recovery of FY 2010 will be slower in arriving and bumpier in delivery than expected only a few months ago.

While the Fund is not immune to the broader market influences, it remains unashamedly conservatively positioned, skewed to companies with healthy cashflows, modest debt levels. Our focus remains on finding companies with unquestionable accounting quality, sound business models and with exceptional people.

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 %	-7.9	-8.2	+0.3	-8.0	-8.4
3 month %	-2.3	-1.9	-0.4	-5.1	-4.8
1 year %	36.9	19.0	+17.9	22.0	14.3
2 years % pa	3.1	-14.5	+17.6	-11.6	-17.5
3 years % pa	-4.6	-13.1	+8.5	-16.6	-4.4
4 years % pa	7.0	-1.1	+8.1	-5.0	9.5
5 years % pa	8.9	4.7	+4.2	0.2	17.9
7 years % pa	15.1	10.3	+4.8	6.3	23.0
10 years % pa	14.4	7.5	+6.9	4.3	19.4

Past performance is not necessarily indicative of future returns.

Portfolio Structure (Top 5 holdings)

Stock	% of Fund
1 ARB CORPORATION	5.7
2 IOOF HOLDINGS	5.3
3 ASG GROUP	5.1
4 RESMED	5.0
5 SALMAT	4.7
OTHER STOCKS	70.3
CASH	3.9
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 31.05.10	\$2.7541
Unit price (application) as at 31.05.10	\$2.7763
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%
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.

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

www.celestefunds.com.au

ABN 78 098 628 605