

# CELESTE

## Funds Management

### Celeste Australian Small Companies Fund

#### Monthly update 31 July 2010

##### Fund Performance

In July the Fund was up 4.1% while the ASX Small Ordinaries Accumulation Index benchmark increased 5.2%.

In July all major markets were up. The US S&P Index, the NASDAQ and the UK FTSE were all up 6.9%. The Nikkei was up only 1.7%

In the past year the Fund increased by 24.7%, net of all fees, compared to a rise of 7.3% for the S&P/ASX Small Ordinaries Accumulation Index.

Since inception in May 1998 the Fund's return is 18.1%pa versus a return of 6.4%pa for the Index.

##### Portfolio Highlights

**Mitchell Communication Group** was up 39.6% after a takeover offer by Aegis Group plc at \$1.20 in cash, or Aegis shares, plus a 5 cent per share fully franked dividend. The takeover is subject to approval by a scheme of arrangement, with the Mitchell Communications Board unanimously recommending the offer, in the absence of a superior proposal.

**The Mac Services Group** (13.3%) confirmed that it had signed contracts for the 1,050 room expansion during 2011 that it had first mentioned at the half year result, as well as renewing contracts for 2,050 existing rooms. **Data#3** was up 8.0%, pre-releasing its full year profit, which beat consensus by about 5% and also once again was ahead of earlier company guidance.

**Talent2** (-3.9%) announced a vocational education and training (VET) bolt on acquisition, Origin HR, to augment its existing VET presence.

**Count Financial** (-2.2%) announced the 15<sup>th</sup> CountPlus acquisition as well as confirming around 10% operating profit growth in FY 2010, in line with previous guidance.

##### Portfolio Activity

In July the Fund established a position in **Dulux** while late in the month the holding in **Mitchell Communication Group** was sold. Cash at month end amounted to 2.1%.

##### Market Comments

Equity markets around the world performed strongly in July as US reporting season delivered slightly above collective market expectation, European Bank stress testing engendered little discomfort, and emerging market economies substantially retained their post GFC economic mettle and growth trajectory.

In the coming months we expect that market sensitivity to growth will heighten as evidence of post GFC global growth becomes increasingly elusive. In this environment equity markets are likely to remain volatile as sentiment whipsaws from pessimistic to optimistic. We also expect that with global growth expectations moderating the markets focus on after tax yield and earnings per share growth will increase, as will the attraction of earnings certainty.

We see domestic equity valuations as reasonable and reflecting an appropriate degree of economic uncertainty. In the short term we retain a cautious disposition given a fragile FY 2011 earnings outlook but will look to add to positions where medium to longer term valuation appeal is evident.

##### 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 %	+4.1	+5.2	-1.1	+4.9	+5.8
3 month %	-6.1	-7.0	+0.9	-8.4	-4.5
1 year %	+24.7	+7.3	+17.4	+7.5	+6.8
2 years % pa	+13.5	-6.0	+19.5	-6.0	-4.2
3 years % pa	-5.4	-12.4	+7.0	-16.4	-2.8
4 years % pa	+7.3	-0.9	+8.2	-5.3	+10.4
5 years % pa	+8.8	+3.0	+5.8	-1.5	+15.7
7 years % pa	+13.5	+9.0	+4.5	+5.0	+21.0
10 years % pa	+13.3	+6.4	+6.9	+3.1	+18.0

Past performance is not necessarily indicative of future returns.

##### Portfolio Structure (Top 5 holdings)

Stock	% of Fund
1 IOOF HOLDINGS	5.8
2 ASG GROUP	5.3
4 REECE AUSTRALIA	5.2
2 ARB CORPORATION	4.9
5 SALMAT	4.7
OTHER STOCKS	72.0
CASH	2.1
TOTAL	100%

## Fund at a Glance

### Celeste Australian Small Companies Fund

- **Primary Investments** Shares in listed Australian smaller companies
- **Investment objective** Small Ordinaries Accumulation 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 08	38.82	9.8
June 09	10.06	4.2
June 10	18.70	8.9

\*CPU/unit price at beginning of period.

### Fund Information

Unit price (redemption)	\$2.6690
Unit price (application)	\$2.6905
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.

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