

# CELESTE

## Funds Management

### Celeste Australian Small Companies Fund

Monthly update 31 August 2010

#### Fund Performance

In August the Fund was up 2.0% while the ASX Small Ordinaries Accumulation Index benchmark increased 1.8%.

In August most major markets were down. The US S&P Index was down 4.7%, the NASDAQ was down 6.2% and the UK FTSE was down 0.6% while the Nikkei was down 7.5%

In the past year the Fund increased by 13.8%, net of all fees, compared to a rise of 2.7% 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 6.6%pa for the Index.

#### Portfolio Highlights

**ARB Corporation** was up 20.6% after delivering yet another excellent result, reflecting successful strategy execution on everything from product development and efficient manufacturing to marketing and distribution.

**Lycopodium** (18.7%) delivered an improved second half performance and successfully resolved a tax dispute in Tanzania. **Breville Group** rose 10.1%, with a result highlighted by excellent cost control, along with good sales and profit performance in North America. **The Mac Services Group** (7.4%) delivered a full year result that belied the turmoil in the mining sector during the year, further highlighting the resilience of its business model.

**Skilled Group** (-10.6%) reported a slower than expected recovery from the GFC. **APN News & Media** (-10.4%) reported a weaker than expected result, with restatements to reported segmentals further fanning the ire of investors.

#### Market Comments

The FY 2010 reporting season was the primary focus of domestic investors during August. The outworking of the reporting season is that earnings expectations have been adjusted downwards for FY 2011, as sales momentum has remained elusive and the bulk of post GFC cost adjustments have been delivered. Reported results highlighted that corporate balance sheets are in good order and that access to equity market, or bank funding, is no longer an impediment to corporations. Margins held up quite well in FY 2010 with the resilience a logical consequence of the broader focus on cost reductions.

Earnings guidance for FY 2011 was tactfully avoided during reporting season with the best case scenario being some further elaboration being provided during AGM season, later in calendar 2010.

We suspect that the lack of potential revenue growth may lead to an increase in corporate activity, particularly given the divergence in relative valuations currently evident along the listed company size spectrum.

On the domestic economic front the bulk of data points suggested that the Australian economy could still rightfully hold the mantle of the 'Goldilocks economy', with our economic position in stark contrast to our global first world peers. Over the course of August the question of a 'double dip' recession in the US resurfaced. We think a more appropriate focus would be global growth expectation, and the likelihood that the global growth rate in the medium term, will be at a markedly lower clip than that which we have become accustomed to over most of the last decade.

We see domestic equity market valuations as broadly supportive and will look to add to portfolio exposures in a patient and disciplined manner.

#### Performance Statistics (Net of fees)

	Celeste Australian Small Co. Fund	ASX Small Ord Acc Index	Performance	ASX Small Ind Acc Index	ASX Small Res Acc Index
1 month %	+2.0	+1.8	+0.2	+1.4	+2.4
3 month %	+3.9	+3.1	+0.8	+1.0	+6.9
1 year %	+13.8	+2.7	+11.1	-0.3	+8.5
2 years % pa	+9.5	-6.0	+15.5	-7.7	-1.4
3 years % pa	-3.2	-10.7	+7.5	-15.2	+0.1
4 years % pa	+6.6	-1.4	+8.0	-5.9	+10.3
5 years % pa	+8.4	+2.5	+5.9	-2.1	+15.4
10 years % pa	+12.9	+6.2	+6.7	+3.0	+17.4

Past performance is not necessarily indicative of future returns.

#### Portfolio Top 5 Holdings

Stock	% of Fund
1 ARB CORPORATION	5.7
2 IOOF HOLDINGS	5.6
3 DULUXGROUP	4.9
4 REECE AUSTRALIA	4.9
5 ASG GROUP	4.6

## 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) as at 31.08.2010	\$2.7214
Unit price (application) as at 31.08.2010	\$2.7433
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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