

CELESTE

Funds Management

Celeste Australian Small Companies Fund

Monthly update 30 September 2010

Fund Performance

In September the Fund was up 6.2% while the ASX Small Ordinaries Accumulation Index benchmark increased 9.1%.

In August most major markets were up. The US S&P Index was up 8.8%, the NASDAQ was up 12.0% and the UK FTSE was up 6.2% while the Nikkei was up 6.2%

In the past year the Fund increased by 11.9%, net of all fees, compared to a rise of 6.6% for the S&P/ASX Small Ordinaries Accumulation Index.

Since inception in May 1998 the Fund's return is 18.6%pa versus a return of 7.3%pa for the Index.

Portfolio Highlights

Stocks with exposure to a strengthening mining outlook performed well over the month. **Index** rose 22.6% as the market anticipated increased supply of company consumables to the mining sector. **Skilled** rose 21.6% on expectations that tightness in labour markets would only worsen (especially in WA) and drive man hours and revenues. **Mac Services** rose 12% as the market began to factor in increased utilisation rates in the current accommodation villages and potential faster roll out of the land banked prospective sites.

Count share price rose 13.1% on continued acquisitions in the CountPlus financial planning business. The stock continues to strengthen as the December deadline for the proposed corporate spin out approaches.

NIB (-2.3%) and **Austbrokers** (-1.4%) have been strongly performing stocks over the past few months due to their strong defensive earnings quality. Nothing has changed with their outlook however the market tended to focus on stocks that had greater cyclical earnings leverage which saw NIB and Austbrokers lag the market during September.

Market Comments

The market performance over both the month of September and the quarter was very strong. The Small Ords Accumulation index was up 9.1% for September and up 16.8% for the quarter. More interesting however was the divergence between the returns from the Industrial and Resource components of the Small Ords. The Small Industrial index rose 5.9% over September, up 12.6% for the quarter. Highlighting the willingness of the market to actively seek out risk was the performance of the

Small Resource index, double that of the Small Industrials Index. Over the month the Small Resources rose 14.0%, whilst over the quarter it increased a breath taking 23.6%.

The increased risk appetite for equities was not just evident in the Australian market with the S&P's performance in the US the strongest September since 1982 .

Globally markets rose strongly as economic data suggested that the US and Euro zone may avoid a "double-dip" recession, fuelled by uber accommodative central bankers. Despite some positive economic data emerging in September we continue to believe that global growth 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, and that ultimately this will percolate through to equity market sentiment and valuations.

We expect that investor focus will move to AGM season in October and November, as earnings guidance was tactfully avoided during the recent reporting season. Our expectation is that AGM commentary will be guarded, at best, given an anaemic revenue back drop and little scope for further cost cutting. With markets having performed very strongly in recent months we suggest a healthy dose of caution may be warranted in the short term, with our focus to remain process driven at its core and selective in nature.

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 %	+6.2	+9.1	-2.9	+5.9	+14.0
3 month %	+12.7	+16.8	-4.1	+12.6	+23.6
1 year %	+11.9	+6.6	+5.3	-1.3	+21.6
2 years % pa	+15.3	+6.4	+8.9	+0.8	+19.3
3 years % pa	-1.5	-9.5	+8.0	-13.9	-0.2
4 years % pa	+7.2	+0.4	+6.8	-5.2	+14.3
5 years % pa	+9.6	+3.4	+6.2	-1.5	+16.2
10 years % pa	+14.4	+7.7	+6.7	+4.2	+19.1

Past performance is not necessarily indicative of future returns.

Portfolio Top 5 Holdings

Stock	% of Fund
1 IOOF HOLDINGS	5.3
2 SALMAT	4.8
3 DULUXGROUP	4.7
4 ARB CORPORATION	4.6
5 REECE AUSTRALIA	4.4

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 30.09.2010	\$2.8890
Unit price (application) as at 30.09.2010	\$2.9123
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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