

# CELESTE

## Funds Management

### Celeste Australian Small Companies Fund

#### Monthly update 31 October 2010

##### Fund Performance

In October the Fund was up 3.6% while the ASX Small Ordinaries Accumulation Index benchmark increased 3.3%.

In October most major markets rose with the exception of Japan. The US S&P Index was up 3.7%, the NASDAQ was up 5.9% and the UK FTSE was up 2.3%, while the Nikkei was down 1.8%

In the past year the Fund increased by 12.8%, net of all fees, compared to a rise of 11.5% for the S&P/ASX Small Ordinaries Accumulation Index.

Since inception in May 1998 the Fund's return is 18.8% pa versus a return of 7.5% pa for the Index.

##### Portfolio Highlights

October saw a continuation of the strong performance of resource sector and related service companies. **Index** rose another 19.9% following a strong 1<sup>st</sup> quarter result which saw analysts substantially upgrading their earnings forecasts. **Mac Services** also rose another 17.7% after receiving a \$3.90 takeover proposal from USA based Oil States International. **Lycopodium** and **Fleetwood** rose 13.3% and 11.2% respectively, also benefitting from generally positive sentiment towards service providers to the resource sector.

**Count** share price rose 8.3% as it announced the last CountPlus acquisition prior to the December 2010 float of CountPlus.

**Specialty Fashion Group** (-7.0%) and **NoniB** (-2.5%) were both lower with AGM commentary pointing to continued tough retail conditions with widespread discounting ahead of the important Christmas selling period.

##### Market Comments

Over the course of October investor appetite for risk grew. Investors moved further out on the risk high wire with a belief that the US Federal Reserve and 'quantitative easing 2' would provide a supportive safety net in the short term.

To further illustrate the 'animal spirits' currently evident in equity markets in October the Small Resource sector rose by 5%, compared to a Small Industrials which increased by 2%. Over the last 3 months the Small Resources Index has risen 22.6%, against the Small Industrials increase of 9.6%.

Whilst commodity prices have been supportive in recent months the greatest investor interest in the Small Resource sector has been in conceptual companies, often with projects of questionable longer term viability and no immediate cash flow.

With Annual General Meeting season now in full swing it would appear that earnings expectation for FY 2011 will be adjusted downwards. The combination of lacklustre demand, domestic cost pressures are increasingly leading to a broad based pruning of earnings expectation.

Domestic economic data over the course of October suggested that the Australian economy is holding together well, though at a slightly lesser clip than recent months, as evidenced in both credit growth and employment data. On the international front currency issues continued to dominate the economic debate with the situation likely to remain so in the medium term.

We suspect that the impact of further quantitative easing in the US may assuage investor concerns in the very short term but that the reality of anaemic global growth for equity market sentiment and valuations will be more pervasive over the coming months. We remain cautious in the short term and will look to selectively add to exposures when valuations are appropriately compelling.

##### 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 %	+3.6	+3.3	+0.3	+2.0	+5.0
3 month %	+12.2	+14.7	-2.5	+9.6	+22.7
1 year %	+12.8	+11.5	+1.3	+1.9	+29.1
2 years % pa	+28.2	+24.8	+3.4	+14.7	+48.0
3 years % pa	-2.3	-10.1	+7.8	-14.5	-1.2
4 years % pa	+6.3	-0.5	+6.8	-5.9	+12.3
5 years % pa	+10.5	+4.9	+5.6	-0.8	+19.9
10 years % pa	+14.6	+8.2	+6.4	+4.5	+19.9

Past performance is not necessarily indicative of future returns.

##### Portfolio Top 5 Holdings

Stock	% of Fund
1 IOOF HOLDINGS	5.4
2 SALMAT	4.7
3 DULUXGROUP	4.7
4 MONADELPHOUS	4.4
5 SUPER CHEAP AUTO GROUP	4.2

## 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 31.10.2010	\$2.9932
Unit price (application) as at 31.10.2010	\$3.0173
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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