

# CELESTE

## Funds Management

### Celeste Australian Small Companies Fund

#### Monthly update 31 December 2010

##### Fund Performance

In December the Fund was up 4.4% while the ASX Small Ordinaries Accumulation Index benchmark rose 7.1%.

Global equity market performed strongly over the course of December with the US S&P Index up 6.5%, the NASDAQ up 6.2%, the UK FTSE up 6.7% and the Nikkei up 2.9%.

In the past year the value of the Fund increased by 14.8%, net of all fees, compared to a rise of 13.1% for the S&P/ASX Small Ordinaries Accumulation Index.

Since inception in May 1998 the Fund's return is 19.0% pa versus a return of 8.0% pa for the Index.

##### Portfolio Highlights

**Imdex** was up 32.0%, announcing the acquisition of Germany based Mud-Data. The purchase diversifies IMD's geographic and customer footprint given Mud-Data's European representation across the oil & gas, environmental and renewable sectors.

**Lycopodium** rose 18.0%, receiving a long awaited "Limited Notice To Proceed" from Newmont Mining Corporation on the Akyem project located in Ghana, West Africa.

**Breville Group** (11.5%) saw its Panini Press gain some high profile exposure in the US as it was highlighted on Oprah Winfrey's "Oprah's Favourite Things 2010" list during December.

**Salmat** (7.9%) announced the acquisition of four digital services companies from Photon Group in a move that further broadens its product offering and entrenches its position as the leading targeted customer communications solutions provider in Australia.

**GWA International** rose (7.3%), acquiring the Australian Garage Doors and Openers business of Gliderol International. The business fits neatly into GWA's strategy of strengthening its builder relationships by offering a broader range of products to meet their needs.

**NoniB** (-9.5%) announced that unprecedented discounting in the market would see a 2.5% decline in its like for like sales, and that margin compression would lead to a fall in year on year interim earnings.

##### Market Comments

Calendar 2010 finished strongly with investors adopting a 'risk on' mindset. Part of the increased appetite for risk assets can be observed in the performance of the Small Resources Index which rose 10% in the month, and 19% in the quarter. We retain a cautious disposition towards many stocks in the Small Resource sector and see some valuations as highly speculative in nature, and lacking any fundamental basis.

Economic news from China highlighted on going sensitivity to inflationary pressures with the People's Bank of China raising its benchmark interest rate on December 25<sup>th</sup>, the second time it has done so in two months. In the US recent data suggests the economic picture has stabilised and is unlikely to deteriorate further. The US economic recovery scenario was most felt in fixed interest markets during December with the US 10y Bond yield moving from 2.96% to 3.29%. In Europe sovereign debt concerns continued to fan Bond spread movement with the situation unlikely to change any time soon.

Domestic economic indicators remain healthy with labour markets robust, investment intentions solid and with GDP continuing to benefit from a rising terms of trade. We suspect that the FY 2011 interim reporting season may lead to some downgrading of earnings expectations and will look to opportunistically add to weightings should valuations become 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 %	+4.4	+7.1	-2.7	+4.8	+10.0
3 month %	+8.2	+11.2	-3.0	+5.5	+19.0
1 year %	+14.8	+13.1	+1.7	+2.2	+30.7
2 years % pa	+35.5	+33.4	+2.1	+21.7	+56.9
3 years % pa	-0.3	-5.9	+5.6	-11.2	+4.0
4 years % pa	+4.9	-0.6	+5.5	-6.8	+13.3
5 years % pa	+10.2	+5.5	+4.7	-0.9	+21.4
10 years % pa	+15.1	+9.3	+5.8	+5.2	+21.3

Past performance is not necessarily indicative of future returns.

##### Portfolio Top 5 Holdings

Stock	% of Fund
1 IOOF HOLDINGS	5.5
2 SALMAT	4.6
3 DULUXGROUP	4.6
4 MONADELPHOUS	4.5
5 PLATINUM ASSET MANAGEMENT	3.9

## 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 31.12.2010 (ex dist 5.0cpu)	\$3.0749
Unit price (application) as at 31.12.2010 (ex dist 5.0cpu)	\$3.0997
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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