

CELESTE

Funds Management

Celeste Australian Small Companies Fund

Monthly update 28 February 2011

Fund Performance

In February the Fund was up 2.1% while the ASX Small Ordinaries Accumulation Index benchmark was up 1.3%.

Global equity markets rose in February with the US S&P Index up 3.2%, the NASDAQ up 2.8%, the UK FTSE up 2.2% and the Nikkei up 3.8%.

In the past year the Fund increased in value by 22.4%, net of all fees, compared to a rise of 21.6% for the S&P/ASX Small Ordinaries Accumulation Index.

Since inception in May 1998 the Fund's return is 19.2% pa versus a return of 7.8% pa for the Index.

Portfolio Highlights

Data#3 rose 26.9%, with its interim result delivering a 23% increase in sales and a 68% leap in net earnings. Gross margin generated at Data#3 improved, in part reflecting growth in its customer base in tandem with careful management of services offered. Data#3 delivered a truly outstanding result both relative to the market and its IT sector peers.

Lycopodium was up 15.4%, delivering a better than expected interim result, with profits almost doubling on the previous corresponding period. Result composition was also notable, with the profit contribution from Study Services rising from 22% to 30%, a harbinger of greater project based revenues likely over the next 12 to 24 months.

Breville Group (14.3%) delivered another strong result, with on-going sales success for its small electrical appliance offering internationally. In the FY 2011 interim period Breville Group saw International revenues grow 21.7% and EBITDA up 36.8%. Interestingly Breville Group now generates more earnings internationally, than it does in Australia and New Zealand, a trend we expect to continue in the medium term.

Navitas (13.9%) delivered a solid result with profit up 18%, despite having to absorb significant costs from its USA expansion.

Market Comments

The interim reporting season has led to some modest trimming of full year FY 2011 earnings expectations. Whilst corporate balance sheets are, by and large in good shape, it appears that cost cutting initiatives have run their course and that the sales environment remains lacklustre. The challenging operational outlook is further complicated by a domestic labour market that continues to tighten, and where skills scarcity is increasingly cited as an impediment to project delivery, and a justification for cost overruns.

We expect that the environment for sales will remain challenging in the short to medium term, for corporations across the size spectrum, and that companies who exhibit an ability to grow their top lines will be positively re-rated by the market.

In a global context geo-political and inflationary concerns will continue to weigh on investors' appetite for risk assets in coming months. We expect central bankers will have two primary areas of concern in the medium term; inflation and growth. On the inflation front rates will be tweaked, around the globe, in the hope that the inflation genie can be cajoled back into a manageable position. The other central banker concern relates to global growth expectations, with the quantitative easing punchbowl now drained, and with emerging market growth engines, China and India, looking to adjust their growth trajectories to more sustainable levels.

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 %	+2.1	+1.3	+0.8	+0.4	+2.4
3 month %	+9.7	+6.1	+3.6	+5.6	+6.7
1 year %	+22.4	+21.6	+0.8	+7.9	+47.5
2 years % pa	+44.9	+40.8	+4.1	+32.6	+54.7
3 years % pa	+9.0	-2.4	+11.4	-5.2	+2.5
4 years % pa	+4.4	-1.6	+6.0	-7.4	+11.8
5 years % pa	+9.9	+4.1	+5.8	-1.5	+18.0
10 years % pa	+15.3	+9.0	+6.3	+5.1	+20.4

Past performance is not necessarily indicative of future returns.

Portfolio Top 5 Holdings

Stock	% of Fund
1 SKILLED GROUP	4.7
2 IOOF HOLDINGS	4.6
3 DULUXGROUP	4.5
4 SALMAT	4.3
5 MONADELPHOUS	4.2

Fund at a Glance

Celeste Australian Small Companies Fund

- **Primary Investments** Shares in listed Australian smaller companies
- **Investment objective** Small Ordinaries Acc 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 28.02.2011	\$3.2308
Unit price (application) as at 28.02.2011	\$3.2568
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.

This report is intended to provide only general securities advice. Celeste Funds Management Limited does not purport to make any recommendation that any securities transaction is appropriate to your particular investment objectives, financial situation or particular needs. Prior to making any investment decision, you should assess, or seek advice from your adviser, on whether any relevant part of this report is appropriate to your individual circumstances. Celeste Funds Management Limited believes that the information contained in this report has been obtained from sources that are accurate, but it has not checked or verified that information. Except to the extent that liability cannot be excluded, Celeste Funds Management Limited accepts no liability for any losses or damage caused by any error in or omission from this report.



Celeste Funds Management Limited

Level 14, 15 Castlereagh Street, Sydney NSW 2000. GPO Box 4266, Sydney NSW 2001

T 02 9216 1800 F 02 9216 1899 E contact@celestefunds.com.au

www.celestefunds.com.au

ABN 78 098 628 605