

CELESTE

Funds Management

Celeste Australian Small Companies Fund

Monthly update 31 May 2011

Fund Performance

In May the Fund was down 1.6% while the ASX Small Ordinaries Accumulation Index benchmark was down 1.9%. Global equity markets were all down in May, with the US S&P Index down 1.4%, the NASDAQ down 1.3%, the UK FTSE down 1.3% and the Nikkei down 1.6%.

In the past year the Fund increased in value by 21.0%, net of all fees, compared to a rise of 18.1% for the S&P/ASX Small Ordinaries Accumulation Index.

Since inception in May 1998 the Fund's return is 18.4% pa versus a return of 7.3% pa for the Index.

Portfolio Highlights

Skilled Group was up 11.4%, with investors reacting positively to a company presentation which outlined its strategy to re-calibrate its cost base, whilst highlighting the current progress on overhead restructuring.

RCR Tomlinson rose 8.4% as the market reacted positively to its acquisition of AE&E Australia, which will add to its intellectual property in the power generation space and will see it broaden its maintenance operations.

DuluxGroup rose 7.0% after delivering a solid first half result, despite the disruption from flooding at its Rocklea plant in Queensland. Dulux also confirmed its guidance that financial year 2011 would see earnings higher than financial year 2010.

Carsales.com was down 3.9% after the long muted competitive dealer website was finally announced in the form of a Joint Venture between News Limited's "Carsguide" website and major auto dealers A.P. Eagers, Automotive Holdings Group and unlisted Trivett Classic.

Portfolio Top 5 Holdings

Stock	% of Fund
1 SKILLED GROUP	5.3
2 DULUXGROUP	4.6
3 SALMAT	4.2
4 AUSTBROKERS HOLDINGS	4.0
5 BREVILLE GROUP	4.0

Market Comments

With May the high point of the profit warning season investors adjusted their earnings expectations and sold equities. In May domestic companies, of all shapes and hues, provided trading updates with negative news on revenue growth, cost containment and earnings.

Domestic economic data released during May highlighted an economy that is softening with credit growth anaemic, retail sales tepid and consumer sentiment subdued. Given a decidedly sluggish economic backdrop, the pressure for further rate tightening in coming months appears minimal.

European sovereign debt concerns continue to reverberate around the globe with Greek debt now rated BB - by S&P, some 6 notches below investment grade. In addition ratings agencies placed Belgium & Italy on negative watch, whilst Belarus received a \$3b crisis loan from Russia. Regional elections & protests in Spain highlighted no further appetite for social belt tightening. Investors appear increasingly resigned to some form of Eurozone debt restructuring, as distinct to default, so as to not raise the spectre of Europe's banks needing significant balance sheet write offs.

Market forecasts for Chinese GDP growth over the course of 2011 were adjusted down during May. Inflation sensitivity in China remains high and as a consequence the potential for policy relaxation in the short term is slim. In coming month's investors need gird themselves for further rate tightening in China, in tandem with further bank lending restrictions to soak up excessive liquidity levels.

Whilst market sentiment ebbs and flows we remain focused on executing our process. We adjust our portfolio exposures mindful of our valuation sensitivity and conservative disposition. We retain our medium to long term investment time horizon.

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 %	-1.6	-1.9	+0.3	-1.9	-1.8
3 month %	-3.4	-4.7	+1.3	-1.6	-8.7
1 year %	+21.0	+18.1	+2.9	+11.9	+28.6
2 years % pa	+28.7	+18.5	+10.2	+16.8	+21.2
3 years % pa	+8.7	-4.8	+13.5	-4.4	-4.4
5 years % pa	+9.7	+2.5	+7.2	-1.9	+13.1
10 years % pa	+14.4	+8.8	+5.6	+5.3	+19.3

Past performance is not necessarily indicative of future returns.

Fund at a Glance

Fund Information

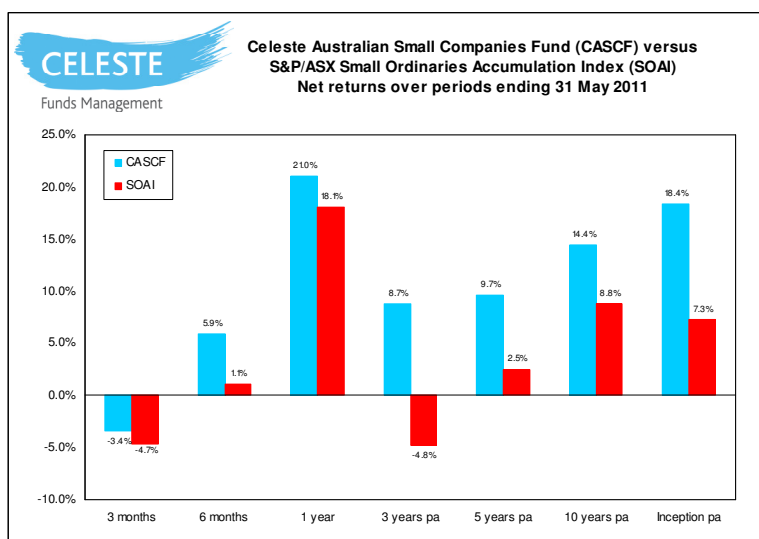
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 31.05.2011	\$3.1205
Unit price (application) as at 31.05.2011	\$3.1456
Fund Size as at 31.05.2011	\$111m
Minimum investment	\$25,000
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.

Fund Returns



*CPU/unit price at beginning of period.

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Distribution History

Total distribution year ended	Cents Per Unit	Annual Yield %*
June 99	3.07	2.9
June 00	17.37	11.3
June 01	13.88	7.8
June 02	27.17	14.2
June 03	7.01	3.9
June 04	21.71	11.2
June 05	49.48	19.5
June 06	18.88	7.3
June 07	34.32	12.3
June 08	38.82	9.9
June 09	10.06	4.2
June 10	18.70	8.9

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.

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