

We have added a new section to the Celeste Website called “**What we Read, Watch & Listen to**”, covering a broad cross-section of topics of interest.

To access the page, you can click on the following link:  
<http://www.celestefunds.com.au/Default.aspx?tabid=98>

## Celeste Australian Small Companies Fund

Monthly update 31 August 2011

### Fund Performance

In August the Fund was down 2.4%, with its benchmark, the ASX Small Ordinaries Accumulation Index down 2.7%.

Most major Global equity markets fell again in August with the German DAX down 19.2%, the US S&P Index off 5.7%, the NASDAQ down 6.4% and the UK FTSE down 7.2%.

In the past year the Fund increased in value by 8.5%, net of all fees, compared to a 7.2% rise for the S&P/ASX Small Ordinaries Accumulation Index. Since inception in May 1998 the Fund's return is 17.4% pa, compared to the Index's 6.6% pa.

### Portfolio Highlights

**ARB Corporation** was up 17.0%, once again delivering an excellent result despite a challenging operating environment. Sales grew 11.5% and net earnings rose 16.5%. ARB has generated 20 yrs + of double digit revenue growth and its medium term growth prospects remain undiminished. ARB is 'IP' rich, has a robust product pipeline, and is successfully growing internationally. ARB also has a flexible in-house manufacturing base, in Australia and Thailand, ensuring appropriate quality controls and cost sensitivities are in place.

**NIB Holdings** rose 12.7% on a strong result that saw a 4 cents final dividend and a 5 cent special dividend, all paid on top of the recent 16 cent capital return. The good result was founded on strong 6.0% growth in policy holders - nearly double the market growth rate, driving premium growth of 10%. Strong underwriting profit growth of 30.7% more than offset a decline in investment income to see net profit increase 6.4%. EPS of 13.7 cents increased 10.5%.

**SAI Global** (+6.2%), a recently acquired position delivered strong FY'11 profit growth. This was assisted by the successful integration of the Integrity International compliance business. SAI management expect revenue and EBITDA growth across all divisions in FY'12, with medium to longer terms prospects positive.

### Portfolio Top 5 Holdings

Stock	% of Fund
1 SKILLED GROUP	4.8
2 DULUXGROUP	4.5
3 AUSTBROKERS HOLDINGS	4.1
4 BREVILLE GROUP	4.1
5 DATA#3	4.0

### Market Comments

Volatility was the pervasive theme of August with intra month index movement of over 10%. The Australian reporting season delivered largely to expectation for FY 2011, with modest pruning of earnings expectations for FY 2012. Corporations generally resisted the opportunity to provide any earnings guidance for FY 2012, with some suggesting operational updates would be provided during AGM season. Some cited unprecedented levels of operational and economic uncertainty making forecasting too difficult at this point in time. Currently FY 2012 forecasts have fallen some 3%, from pre reporting season levels.

The bulk of economic data to emerge during August has led to further downgrading of global growth expectations. Over the month GDP data from Germany, Spain and France slowed sharply and eurozone manufacturing output was at the lowest level recorded in 2 years. In Asia Japanese and South Korean factory output slowed markedly, whilst India experienced its weakest GDP growth for 6 quarters. In China, the People's Bank attempted to drain excess liquidity from the economy via higher interest rates and restrictive reserve requirements. This led to a significant decline in new lending, but thus far had little impact on inflation which remains stubbornly high at an annualised 6.5%, well above the Government's 4% target. The US Federal Reserve noted that the pace of the US recovery had slowed, that unemployment would decline only gradually and that the outlook is "...likely to warrant exceptionally low levels for the federal funds rate at least through mid-2013". Recent missives from the Australian Reserve Bank noted that the economy had slowed and that the downside risks to demand had probably increased.

Whilst sentiment towards equities is currently poor and the earnings downgrade cycle has a little further to run, valuations are gravitating towards compelling for a number of higher quality companies, with strong fundamentals, attractive yields and excellent prospects. We will look to add to our portfolio where opportunities are process consistent, risk is dimensioned and valuation is attractive.

### 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 %	-2.4	-2.7	+0.3	-2.2	-3.4
3 month %	-6.9	-6.3	-0.6	-5.7	-7.3
1 year %	+8.5	+7.2	+1.3	+4.5	+11.6
2 years % pa	+11.2	+4.9	+6.3	+2.0	+10.0
3 years % pa	+9.2	-1.8	+11.0	-3.8	+2.8
5 years % pa	+7.0	+0.3	+6.7	-3.9	+10.5
10 years % pa	+13.7	+8.4	+5.3	+4.9	+19.8

Past performance is not necessarily indicative of future returns.

## Fund at a Glance

### Fund Information

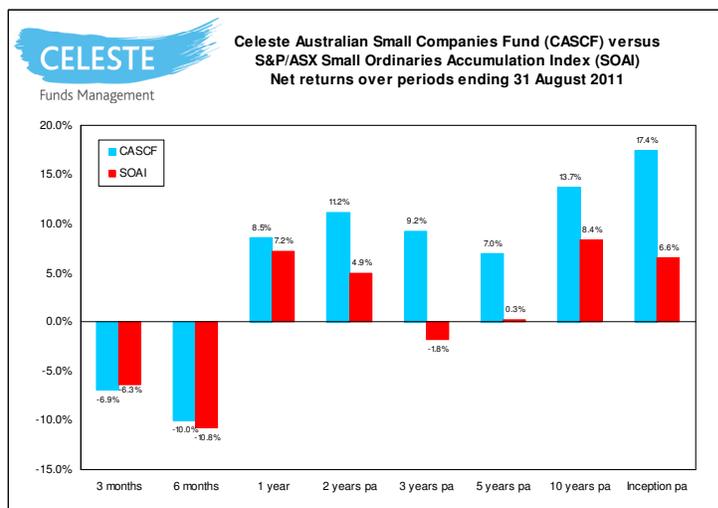
<b>Primary Investments</b>	Shares in listed Australian smaller companies
<b>Investment objective</b>	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
<b>Unit price (redemption) as at 31.08.2011</b>	\$2.8407
<b>Unit price (application) as at 31.08.2011</b>	\$2.8636
<b>Fund Size as at 31.08.2011</b>	\$112.1m
<b>Minimum investment</b>	\$25,000
<b>Minimum additional investment</b>	\$1,000
<b>Minimum balance</b>	\$15,000
<b>Minimum investment: monthly investment plan</b>	\$500
<b>Redemption will generally be available in</b>	7 days
<b>Distributions</b>	30 June and 31 December
<b>Entry fee*</b>	0%
<b>Exit fee*</b>	0%
<b>Buy/Sell differential*</b>	0.40%
<b>Management fee*</b>	0.95%
<b>Performance fee**</b>	20% of return above benchmark
<b>OGFM***</b>	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



### 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
June 11	11.89	4.6

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\*CPU/unit price at beginning of period.

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