

CELESTE

Funds Management

Celeste Australian Small Companies Fund

Monthly update 31 October 2011

Fund Performance

The Fund rose 6.6% in October, with its benchmark, the ASX Small Ordinaries Accumulation Index up 7.9%.

The main equity markets around the world posted strong gains with the US S&P 500 Index up 10.8%, the NASDAQ up 11.1%, the German DAX and UK FTSE up 11.6%, and 8.1% respectively and the HK Hang Seng Index up 12.9%.

In the past year the Fund is down 0.9%, net of all fees, compared to an 8.2% decline for the S&P/ASX Small Ordinaries Accumulation Index. Since inception in May 1998 the Fund's return is 17.2% pa, against to the Index's 6.2% pa.

Portfolio Highlights

Western Areas rose 34.3% as base metal prices rallied and the company announced major nickel intersections below the Flying Fox & Spotted Quoll mines in WA. Further resource upgrades are anticipated which should extend the current mine life beyond 10 years.

Imdex delivered a record quarterly result and rose 27.9%. The result by the Minerals Division reflected continued robust drilling activity & higher mineral expenditure globally. Notwithstanding global economic uncertainty, management remain optimistic on prospects for growth in FY'12.

Sunland Group rose 16.3% announcing an asset swap which saw it give up its troubled assets in Dubai in return for 100% control of Palazzo Versace Gold Coast Hotel. This transaction provides greater balance sheet transparency and a greater focus on Australian assets.

Super Retail Group was down 9.1% after undertaking a \$334m capital & \$296m debt raising to acquire Rebel Group for \$610m. Rebel Group consists of 92 Rebel Sport & 36 Amart All Sports stores. It is the No.1 sporting goods retailer in Australia with approximately 24% market share. Rebel will be >35% of EBITDA and is a significant addition to the Group's portfolio of leisure time oriented businesses.

Portfolio Top 5 Holdings

Stock	% of Fund
1 SKILLED GROUP	4.5
2 DULUXGROUP	4.3
3 BREVILLE GROUP	4.1
4 AUSTBROKERS HOLDINGS	4.0
5 IOOF HOLDINGS	3.8

Market Comments

Following the turmoil of recent months, international equity markets rebounded in October. Cyclical sectors outperformed defensives reflecting reduced risk aversion.

Bonds yields increased, the Australian dollar rallied and base metals rallied strongly off their September lows as investors drew confidence that a global slowdown was a more likely scenario than a recession. Economic data in the US was a little better than anticipated and European markets reacted favourably to the plan for resolving the Eurozone sovereign debt crisis. The proposal involves lenders agreeing to write off 50% of their Greek debt holdings, recapitalisation of banks and fiscal support via a leveraged European Financial Stability Fund.

Initial euphoria has since subsided as investors grapple with the reality that the debt to GDP remains unsustainably high, financial contagion risk has not been averted and the surprise announcement by the Greek government of a referendum on its austerity package. Chinese data over the month indicated that inflation had been contained by policymakers and that tighter credit had slowed growth in the property sector. The dramatic 35% drop in the spot price of iron ore over the month presents as an important bellwether on the health of the Chinese construction industry.

Australian economic data over the month was consistent with an economy growing at a moderate pace. Thus far the commentary from the Annual General Meetings has been subdued and consistent with soft consumer sentiment. This tone is unlikely to alter despite the Reserve Bank easing interest rates by 0.25% subsequent to month end.

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 %	+6.6	+7.9	-1.3	+5.8	+11.2
3 month %	-2.0	-6.2	+4.2	-3.5	-9.6
1 year %	-0.9	-8.2	+7.3	-4.6	-12.8
2 years % pa	+5.8	+1.2	+4.6	-1.4	+6.1
3 years % pa	+17.7	+12.6	+5.1	+7.9	+24.1
5 years % pa	+4.8	-2.1	+6.9	-5.6	+6.8
10 years % pa	+13.5	+8.0	+5.5	+4.8	+18.9

Past performance is not necessarily indicative of future returns.

Fund at a Glance

Fund Information

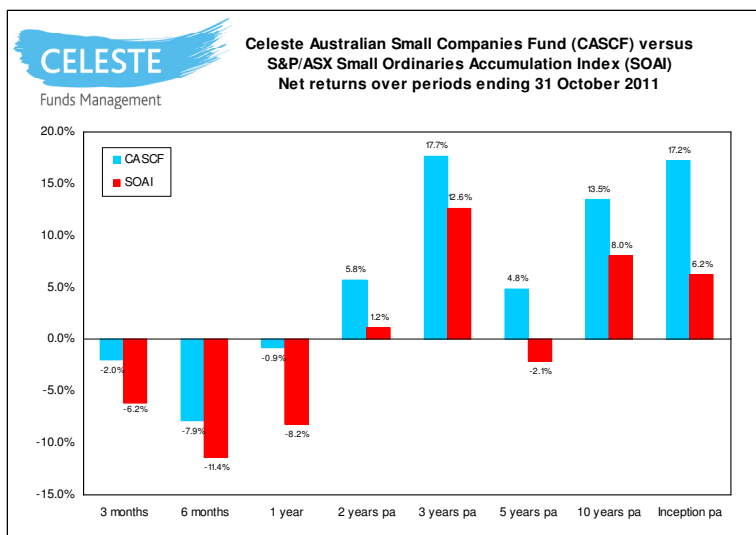
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 31.10.2011	\$2.8538
Unit price (application) as at 31.10.2011	\$2.8768
Fund Size as at 31.10.2011	\$119m
Minimum investment	\$25,000
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



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.

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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