

CELESTE

Funds Management

Celeste Australian Small Companies Fund

Monthly update 31 December 2011

Fund Performance

The Fund was down 3.5% in December, with its benchmark, the ASX Small Ordinaries Accumulation Index down 4.3%.

Equity markets around the world put in mixed performances, with the US S&P 500 Index up 0.9%, the UK FTSE up 1.2%, the Nikkei up 0.3%, while the German DAX was down 3.1% and the Shanghai Composite fell 5.7%.

In the past year the Fund is down 11.3%, net of all fees, compared to a 21.4% decline for the S&P/ASX Small Ordinaries Accumulation Index.

Since inception in May 1998 the Fund's return is 16.4% pa, against to the Index's 5.5% pa.

Portfolio Commentary

Coffey International was up 9.0% announcing the sale of its Victorian rail consultancy business for \$9.0m. While not overly significant in size, the transaction further highlights a focus on core operations in the businesses of Geosciences, International Development, Project Management and allows for some incremental debt reduction.

Southern Cross Electrical Engineering was up 1.9% after announcing that it had won two small contracts on the East Coast of Australia. The contract wins further highlight the success of the company's strategy to expand from its West Australian home base.

Skilled Group declined by 14.5% over the month in response to the market anticipating weaker global growth over the next 12 months. Slower growth and higher unemployment will impact the Skilled revenue line but the investment case is not based solely on revenue growth. We believe the Skilled Group management team are working hard to address the bloated cost base of the company and will deliver earnings growth in the medium term despite economic headwinds

Portfolio Top 5 Holdings

Stock	% of Fund
1 SKILLED GROUP	4.4
2 DULUXGROUP	4.4
3 AUSTBROKERS HOLDINGS	4.3
4 BREVILLE GROUP	4.0
5 RCR TOMLINSON	4.0

Monthly Commentary

The performance of the Australian equity market in December was a continuation of the trend evident over the year, with challenging economic news flows and increasing risk aversion leading to equities being sold off.

The local market was also reminded of a potentially disappointing forthcoming interim reporting season with a number of profit warnings delivered in December. The earnings weakness amongst the corporations pre-announcing in December highlighted soft consumer demand, leading to poor sales, and margin contraction.

In part acknowledgement of the 'changed behaviour of households' and given an inflationary outlook within target range the Reserve Bank of Australia (RBA) reduced the cash rate by 0.25% to 4.25%. Given the level of nominal and real interest rates in Australia we see scope for the RBA to continue to ease rates over 2012.

In Europe the European Central Bank (ECB) provided 489bn euros in three year loans to Eurozone banks to ensure systemic liquidity and avoid a potential credit crunch. The ECB initiative also provides further breathing space to Eurozone leaders to deal with sovereign debt levels and short term refinancing requirements.

In South Korea industrial growth continued to slow with the consumer electronics and semiconductor sectors reporting that factory utilisation was at the weakest level reported since November 2009. In Singapore the economy grew by 3.6% in the last quarter of 2011, compared with 5.9% in the previous quarter. For 2011 Singapore's economy grew by 4.8%, compared with 14.5% in 2010. We think that the slowdowns currently being experienced in South Korea and Singapore may provide some insight into likely global growth over 2012.

Whilst we expect continued market volatility in the coming months, we will remain opportunistic, process consistent, and retain our medium 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 %	-3.5	-4.3	+0.8	-2.3	-7.1
3 month %	-0.5	-0.6	+0.1	-0.0	-1.4
1 year %	-11.3	-21.4	+10.1	-12.8	-31.8
2 years % pa	+0.9	-5.8	+6.7	-5.6	-5.6
3 years % pa	+17.6	+11.8	+5.8	+8.9	+18.9
5 years % pa	+1.4	-5.2	+6.6	-8.1	+2.4
10 years % pa	+11.8	+6.5	+5.3	+3.6	+16.6

Past performance is not necessarily indicative of future returns.

Fund at a Glance

Fund Information

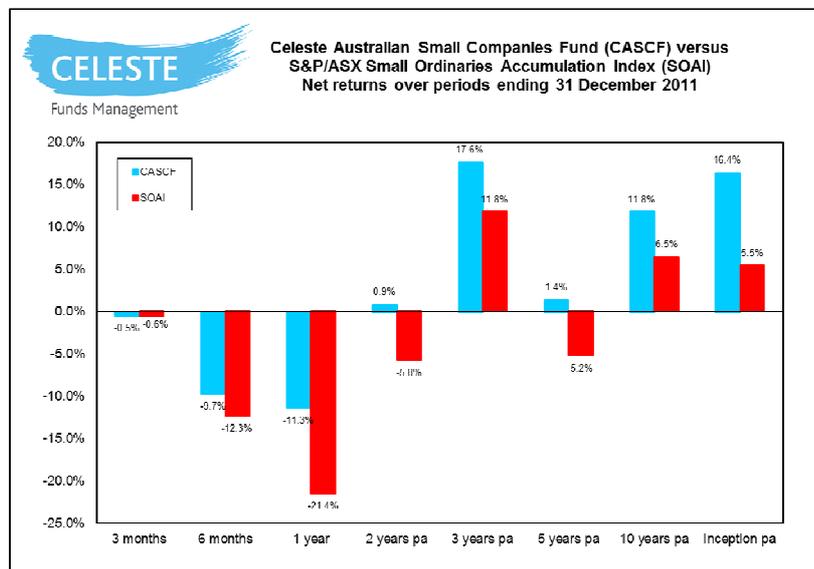
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 31.12.2011 (ex dist. 2.0cpu)	\$2.6451
Unit price (application) as at 31.12.2011 (ex dist. 2.0cpu)	\$2.6664
Fund Size as at 31.12.2011	\$109m
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



Past performance is not necessarily indicative of future 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

*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.

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