

CELESTE

Funds Management

Celeste Australian Small Companies Fund

Monthly update 31 August 2012

Fund Performance

The Fund was up 4.5% in August, with its benchmark, the ASX Small Ordinaries Accumulation Index up 3.0%.

Key global equity indices mostly rose in August with the S&P 500 up 2.0%, the FTSE up 1.4%, and the DAX up 2.9%. Asian markets were mostly softer, the Hang Seng down 1.6% and Shanghai Composite down 2.7%, whilst the Nikkei rose 1.7%.

In the past year the Fund is up 6.7%, net of all fees, compared to an 11.1% decline for the S&P/ASX Small Ordinaries Accumulation Index.

Since inception in May 1998 the Fund's return is 16.6% pa, against the Index's 5.3% pa.

Portfolio Commentary

Skilled Group was up 19.6% on delivery of a strong result. Good cost control and efficiency improvements as well as earnings growth across all divisions produced 61% growth in underlying earnings per share. At the same time net debt reduced from \$96.6m to \$27.4m effectively completing the balance sheet rehabilitation process. Skilled Group's strong revenue pipeline with exposure to mining, telecommunications, infrastructure and oil & gas bodes well for its future and for the prospect of earnings and dividend growth.

Mermaid Marine rose 18.3% as the company continues to benefit from strong and growing levels of oil & gas activity on the North West shelf. The company remains well positioned with strategic supply base assets and a strongly performing vessel hire operation that continues to expand in size and delivery capability.

Carsales.Com was up 15.4% delivering a strong result in the face of fierce competition. New products and services further increase the attractiveness of its websites to the consumer. This in turn increasingly attracts advertisers, as highlighted by 47% growth of its Display Advertising division. At the end of the month a proposed license agreement with TradingPost.com.au was announced which, if approved by the ACCC, would further enhance the company's leading market position across a number of industry portals.

Portfolio Top 5 Holdings

| Stock | % of Fund |
|---------------------------------|-----------|
| 1 SKILLED GROUP | 5.3 |
| 2 TRANSPACIFIC INDUSTRIES GROUP | 5.1 |
| 3 BREVILLE GROUP | 4.8 |
| 4 CARSALES.COM | 4.6 |
| 5 AUSTBROKERS HOLDINGS | 4.3 |

Monthly Commentary

The 2012 Financial year reporting season was broadly to market expectation, and has led to some modest pruning of earnings forecasts for FY 2013. The bulk of commentary from listed corporates, across the size spectrum, continued to cite a challenging earnings environment with sales growth elusive and cost pressures increasing. We expect that the domestic operating environment will remain challenging for corporates in the medium term but see this as largely baked into current expectations and share prices. In the short term the forthcoming Australian AGM season will be a focus of market attention and we suspect it will provide further evidence of a tough operational backdrop for corporates.

Data points over August paint a global growth picture that remains decidedly sombre. In Europe economic activity continues to contract with the situation unlikely to improve in the short to medium term. US economic growth remains anaemic with the travails of the economy likely to be a market focus in the run up to the US Presidential election on November 6th. China's economy continues to grow, at what is considered a more sustainable pace, though at a clip below recent historic norm.

In recent weeks sentiment towards the Australian economy has been buffeted by the ebb and flow of global growth expectations, with the recent decline in hard commodity prices fanning the fire of investor concern. In a broader context the Australian economic picture appears quite reasonable, especially in a global context, with the economy growing, unemployment and inflation low, and terms of trade high in a historic context. The Australian Reserve Bank also finds itself in a globally unique position as it maintains considerable flexibility with its interest rate arsenal should signs of a slowdown become pronounced.

We expect that equity markets globally will remain extremely volatile in the short term. At Celeste we retain an opportunistic mindset and will build positions in a process consistent manner, when valuations are appropriately attractive, with an eye on the medium to longer term.

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 % | +4.5 | +3.0 | +1.5 | +3.4 | +2.0 |
| 3 month % | +4.1 | -2.2 | +6.3 | +3.1 | -12.9 |
| 1 year % | +6.7 | -11.1 | +17.8 | +6.5 | -35.5 |
| 3 years % pa | +9.7 | -0.7 | +10.4 | +3.5 | -7.9 |
| 5 years % pa | +1.0 | -7.5 | +8.5 | -7.5 | -6.4 |
| 10 years % pa | +12.9 | +6.9 | +6.0 | +5.6 | +12.8 |

Past performance is not necessarily indicative of future returns.

Fund at a Glance

Fund Information

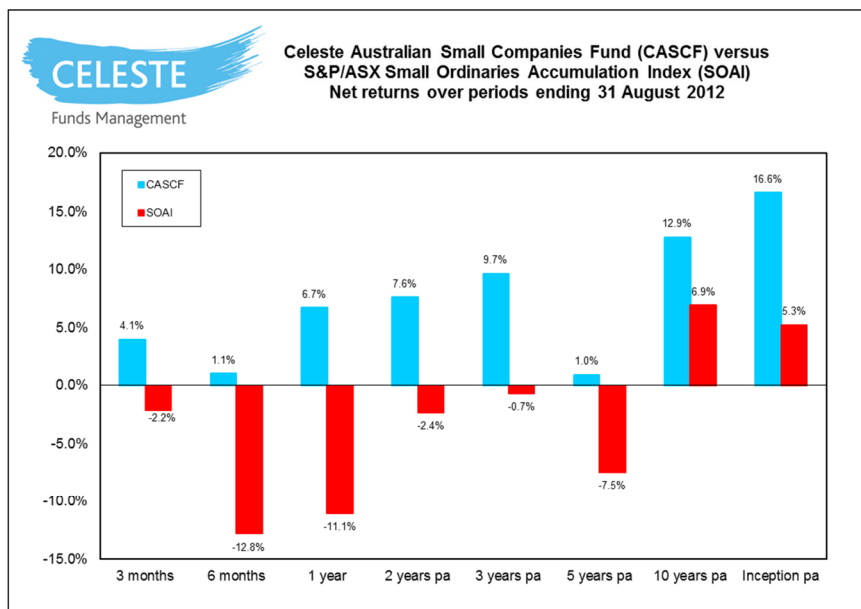
| | |
|--|---|
| Primary Investments | Shares in listed Australian smaller companies |
| Investment objective | Small Ordinaries Acc Index + 5% p.a. over rolling 3 years |
| Unit price (redemption) as at 31.08.2012 | \$2.9872 |
| Unit price (application) as at 31.08.2012 | \$3.0113 |
| Fund Size as at 31.08.2012 | \$144m |
| 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 |
| June 12 | 4.07 | 1.4 |

*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