

# CELESTE

Funds Management

## Celeste Australian Small Companies Fund

Monthly update 30 September 2012

### Fund Performance

The Fund was up 2.6 % in September, with its benchmark, the ASX Small Ordinaries Accumulation Index up 4.4%.

Key global equity indices again mostly rose in September with the S&P 500 up 2.4%, the FTSE up 0.5%, and the DAX up 3.5%. Asian markets were also mostly up, the Hang Seng up 7.0% and Shanghai Composite up 1.9%, whilst the Nikkei rose only 0.3%.

In the past year the Fund is up 16.2 %, net of all fees, compared to a rise of 3.8% the S&P/ASX Small Ordinaries Accumulation Index.

Since inception in May 1998 the Fund's return is 16.7% pa, against the Index's 5.5% pa.

### Portfolio Commentary

**BC Iron**, a WA based iron ore producer, delivered a 19.2% return. In its first full year of production, the company reported FY'12 EBITDA of \$69m, net profit of \$51m and declared a maiden fully franked dividend of 15c per share. Despite iron ore prices dropping materially over the month, the BCI business is robust with a mine life of 9+ years, median industry operating costs and net cash on hand of \$77m.

**Southern Cross Electrical Engineering** returned 4.7% for the month. It announced the award of a contract worth more than \$40m at the Tropicana gold mine (70% AngloGold Ashanti & 30% Independence Group). This followed the award of a \$29m contract with Rio Tinto at the Yandi iron ore project.

**Nufarm** rose 4.1% with the company reporting underlying earnings growth across all geographies excluding Asia. In comparison to the previous year, margins increased, working capital and debt both reduced whilst dividend payments resumed. Nufarm management noted that given at least average seasonal conditions, the company was well positioned to generate improved underlying earnings in FY'13.

**Sunland Group** was up 4.9% announcing the conditional sale of the Gold Coast Palazzo Versace Hotel. If all the required conditions for the sale are met, net proceeds of ~\$40m would see the Group in an enviably strong financial position, while competitors are still suffering balance sheet constraints.

### Portfolio Top 5 Holdings

Stock	% of Fund
1 TRANSPACIFIC INDUSTRIES GROUP	4.9
2 SKILLED GROUP	4.7
3 AUSTBROKERS HOLDINGS	4.4
4 BREVILLE GROUP	4.0
5 WESTERN AREAS NL	3.7

### Monthly Commentary

The market performed strongly in September, fuelled by the quantitative easing initiatives of global central bankers. A rise of 4.4% in the ASX Small Ordinaries was composed of a flat Small Industrials Index and the ASX Small Resources up 15%.

During the month the US Federal Reserve announced it would extend its purchase of mortgage backed securities, QE3#, and suggested that interest rates were likely to remain low until at least mid 2015. The European Central Bank (ECB) also announced that it was prepared to purchase bonds, issued by Eurozone sovereigns, subject to their adherence to certain financial criteria. In essence the ECB is extending and expanding their Eurozone debt 'swap meet', allowing sovereigns and banks to swap higher risk debt instruments for lower risk ECB securities. The outworking of this process will lead to less bank sector balance sheet stress and lower debt funding costs for European sovereigns.

Global growth expectations were subject to further pruning during September. In the US the Commerce Department downgraded Q2 growth from 1.7% to 1.3%. The World Trade Organisation (WTO) dropped its 2012 global trade outlook to growth of 2.5%, from a previous 3.7%. Australian Q2 GDP was a positive 0.6%, taking year on year growth to 3.7%. The Australian GDP data suggests some slowing from Q1, when annualised growth was tracking at 4.4%.

Unemployment data around the globe remained problematic in September. Across the Eurozone the unemployment rate was a record 11.4%, with Spain at 25.1%, Ireland at 15%, and Greece at 24.4%. Youth unemployment remains a significant social & political issue with unemployment amongst those under 25 in Spain & Greece over 50%. Unemployment in the USA at 8.1% compares to a long term average of 5.8%.

However, with equity prices for some small cap stocks at historic lows, we see considerable opportunity in the current market and will look to add to the portfolio in a process consistent manner.

### 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 %	+2.6	+4.4	-1.8	-0.0	+15.0
3 month %	+7.5	+7.3	+0.2	+5.0	+12.2
1 year %	+16.2	+3.8	+12.4	+14.1	-12.0
3 years % pa	+7.8	-0.9	+8.7	+1.2	-4.1
5 years % pa	+1.3	-7.5	+8.8	-7.7	-6.3
10 years % pa	+13.2	+7.8	+5.3	+6.1	+14.6

Past performance is not necessarily indicative of future returns.

## Fund at a Glance

### Fund Information

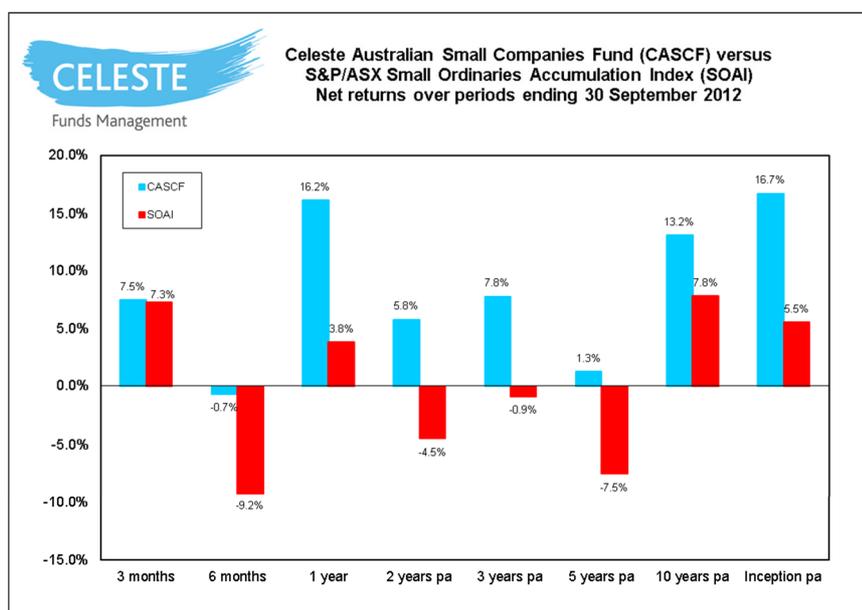
<b>Primary Investments</b>	Shares in listed Australian smaller companies
<b>Investment objective</b>	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
<b>Unit price (redemption) as at 30.09.2012</b>	\$3.0644
<b>Unit price (application) as at 30.09.2012</b>	\$3.0891
<b>Fund Size as at 30.09.2012</b>	\$150m
<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
June 12	4.07	1.4

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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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