

# CELESTE

Funds Management

## Celeste Australian Small Companies Fund

### Monthly update 31 October 2012

#### Fund Performance

The Fund was up 1.1% in October, with its benchmark, the ASX Small Ordinaries Accumulation Index up 1.3%.

Key global equity indices put in a mixed performance in October. The S&P 500 was down 2.0% and NASDAQ down 4.5%. The FTSE was up a modest 0.7%, and the DAX up 0.6%. Asian markets also displayed a mixed performance. The Nikkei was up 0.7%, while the Shanghai Composite was down 0.8%.

In the past year the Fund is up 10.2%, net of all fees, compared to a 2.5% fall in the S&P/ASX Small Ords Accumulation Index.

Since inception in May 1998 the Fund's return is 16.7% pa, against the Index's 5.6% pa.

#### Portfolio Commentary

**IOOF Holdings** was up 10.1% as it reported positive Sept. quarter net inflows into its Funds Under Management (FUM), taking total FUM to \$11.1b. IOOF's acquisition of PlanB was finalised during October, adding some \$2.1b to group FUM.

**WHK Group** rose 9.9% on media speculation that it was in merger discussions with SFG Australia. In October both companies confirmed that discussions had taken place, but that these discussions were preliminary in nature.

Container hire company, **Royal Wolf Holdings**, was up 9.1%, reiterating an expectation of earnings growth in FY'13 at its AGM. During the 1<sup>st</sup> qtr of FY'13 Royal Wolf made 2 acquisitions - one in NZ and one in Queensland - adding 600 containers to the company's 36,500 container rental fleet.

**ASG Group** was up 4.0% as it shored up its balance sheet via a 1 for 6 non-renounceable issue at 52cps, raising \$15.4m. At the same time ASG disclosed an approach by a multinational corporation with an indicative, non-binding and highly conditional takeover offer at \$1.03 per share.

**Transpacific Industries Group (TPI)** was marked down 14.0% late in the month. TPI's AGM noted a 6% decline in Q1 EBITDA driven by waste volume declines in manufacturing, construction and industrial sectors on the eastern seaboard.

#### Portfolio Top 5 Holdings

Stock	% of Fund
1 SKILLED GROUP	4.8
2 NRW HOLDINGS	4.4
3 TRANSPACIFIC INDUSTRIES GROUP	4.3
4 WESTERN AREAS NL	3.7
5 IOOF HOLDINGS	3.6

#### Monthly Commentary

AGM commentary during October highlighted a challenging operating environment for Australian corporations with revenues anaemic and earnings under pressure. Despite the subdued tone of the October AGM season markets managed to move forward with the ASX Small Ordinaries Accumulation Index up 1.3% in the month.

During October Australia's unemployment rate rose to 5.4% and consumer sentiment remained fragile. The Australian Treasury released their 'Mid-Year Economic and Fiscal Outlook' (MYEFO), confirming a projected 2013 budget surplus of \$1.1b.

Data points from the Chinese economy during October were positive. During Q3 China's GDP grew by 7.4%, with inflation easing to an annualised 1.9% in September, compared to 6.1% 12 months ago.

Eurozone news remained problematic in October with Greece's draft 2013 budget reminding all of the difficult position the nation finds itself in. The draft budget noted that the Greek economy would shrink by a further 4.5% in 2013, which if correct would mean that the Greek economy has shrunk by a cumulative 22% since 2008. Unemployment data from Greece continues to worsen with a July unemployment rate of 25.1%, up from 24.8% in June, and a youth unemployment rate of 54.2%. With Greece's debt to GDP forecast at 189% in 2013 it seems likely that the outworking of Greece's economic plight will have a major bearing on the Eurozone crisis during 2013.

On November 6th the US Presidential election will occur, to be followed shortly thereafter by the 18<sup>th</sup> National Congress of the Communist Party of China on November 8<sup>th</sup>, with both events to significantly influence investor perception, and global economic reality, in the medium term. Whilst we expect market volatility levels to be elevated in the next few months we see valuations as compelling and will look to add to portfolio exposures, in a process consistent manner, when opportune.

#### 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 %	+1.1	+1.3	-0.2	+3.0	-1.9
3 month %	+8.4	+8.9	-0.5	+6.4	+15.0
1 year %	+10.2	-2.5	+12.7	+11.1	-22.3
3 years % pa	+7.2	-0.1	+7.3	+2.6	-4.4
5 years % pa	+0.4	-8.2	+8.6	-7.9	-8.1
10 years % pa	+13.3	+8.1	+5.2	+6.5	+14.2

Past performance is not necessarily indicative of future returns.

## Fund at a Glance

### Fund Information

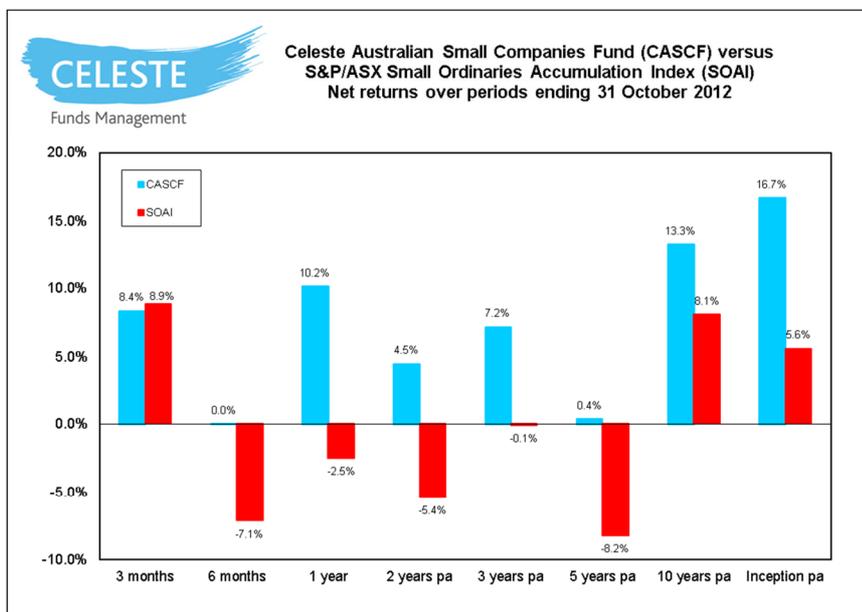
<b>Primary Investments</b>	Shares in listed Australian smaller companies
<b>Investment objective</b>	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
<b>Unit price (redemption) as at 31.10.2012</b>	\$3.0978
<b>Unit price (application) as at 31.10.2012</b>	\$3.1228
<b>Fund Size as at 31.10.2012</b>	\$155m
<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



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### 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.

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