

CELESTE

Funds Management

Celeste Australian Small Companies Fund

Monthly update 30 November 2012

Fund Performance

The Fund was down 3.1% in November, with its benchmark, the ASX Small Ordinaries Accumulation Index down 2.4%.

In contrast, key global equity indices mostly rose in November. The S&P 500 was up a modest 0.3% and NASDAQ up 1.1%. The FTSE was up 1.5%, and the DAX up 2.0%. Asian markets were also mostly up. The Nikkei was up a strong 5.8%, while the Shanghai Composite bucked the trend and was down 4.3%.

In the past year the Fund is up 10.3%, net of all fees, compared to a 1.2% fall in the S&P/ASX Small Ords Accumulation Index.

Since inception in May 1998 the Fund's return is 16.4% pa, against the Index's 5.4% pa.

Portfolio Commentary

NIB Holdings, was up 11.6%. During November NIB acquired the New Zealand based TOWER Medical Insurance. The \$81.3m acquisition provides NIB with a 13% share in the New Zealand market. The purchase provides a critical mass beachhead into the New Zealand private health market where we expect NIB will apply its successful Australian business formula. The acquisition has been funded by debt, with no recourse to equity required, and we expect the move will be immediately EPS accretive for NIB shareholders.

Data#3 was down 0.9%. It won a strategic CISCO network infrastructure contract for Perth's Fiona Stanley Hospital. The contract will provide a solid platform from which to further expand Data#3's Western Australian operations. The contract win also highlights its health sector credentials. Against a difficult market backdrop, AGM commentary reiterated the company's objective to beat its FY'12 performance in FY'13.

Market sentiment towards mining services stocks remained poor in November, with **NRW Holdings** down 35.4%. At its AGM the company commented on a healthy tender pipeline, noted a revenue growth expectation for FY'13 of 15% and an NPAT margin target in the range 5% to 6%. 1st half revenue is expected to be ~\$800m and NPAT between \$45m to \$50m. We believe **NRW Holdings** is a well-run company, with an impressive operating track record, whose intrinsic worth is not accurately captured in current market valuation.

Portfolio Top 5 Holdings

Stock	% of Fund
1 TRANSPACIFIC INDUSTRIES GROUP	4.9
2 SKILLED GROUP	4.3
3 SAI GLOBAL	3.9
4 IOOF HOLDINGS	3.8
5 NUFARM	3.7

Monthly Commentary

The remaining AGM's continued to highlight the challenging revenue and cost environment for Australian corporates. An ABS capex survey highlighted significant FY'13 growth downgrades from 27.3% to 15.8%. Mining capex growth of 23.5% implies little sequential growth over the remaining 3 quarters of FY'13 if the actual 1q13 result is backed out. The November RBA Board meeting suggested that the Australian economy had slowed with household consumption weaker and business conditions softer. It noted that further easing of interest rates may be necessary in the period ahead.

During November the OECD forecast 2013 growth in the Australian economy of 3.0%, over double the anticipated global growth rate. Forecast 2013 economic growth has been downgraded across all regions with the US lowered from 2.5% to 2.0%, Japan from 1.6% to 0.7% & the Eurozone from 1.4% to negative 0.1%. Overall 2013 global economic growth expectations have declined from 2.3% to 1.4%.

European data was weak with the recessions deepening in Greece & Portugal. France was downgraded from Aaa to Aa1 by Moody's. Spanish banking data shows that for every \$100 of loans outstanding, \$11 is doubtful of recovery, implying the entire banking system is bankrupt and will need recapitalising.

With the US Presidential election decided the focus turned towards the impending fiscal cliff and the need for politically split houses to reach a resolution by year end. In November, US industrial production was down 0.4% & manufacturing output down 0.9%. Existing home sales rose 2.1%, with shadow inventory around 5.6m homes, versus a peak of 8.8m.

China also decided on their next decade of leadership in November. Property prices rose slightly and there was strong demand for home appliances. Rural subsidies lifted washing machine and refrigerator unit sales by 6.5% and 22% respectively. With inflation subdued, growth initiatives seem likely to occur post Chinese New Year.

Whilst we expect market volatility levels to remain elevated, in the next few months we see valuations and yields 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 %	-3.1	-2.4	-0.7	-0.9	-5.6
3 month %	+0.5	+3.2	-2.7	+2.0	+6.5
1 year %	+10.3	-1.2	+11.5	+13.8	-23.2
3 years % pa	+5.6	-1.5	+7.1	+2.7	-8.4
5 years % pa	-0.1	-8.0	+7.9	-7.4	-8.4
10 years % pa	+13.2	+8.0	+5.2	+6.7	+13.6

Past performance is not necessarily indicative of future returns.

Fund at a Glance

Fund Information

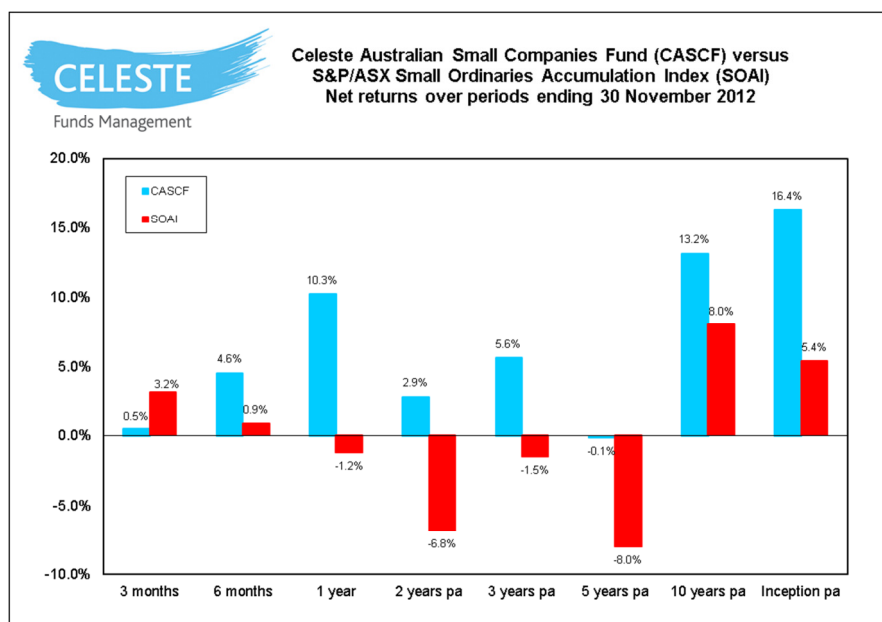
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 30.11.2012	\$3.0019
Unit price (application) as at 30.11.2012	\$3.0261
Fund Size as at 30.11.2012	\$151m
Minimum investment	\$25,000
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*	0.30%
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

ABN 78 098 628 605