

CELESTE

Funds Management

Celeste Australian Small Companies Fund

Monthly update 31 December 2012

Fund Performance

The Fund was up 7.1% in December, with its benchmark, the ASX Small Ordinaries Accumulation Index up 3.2%.

Key global equity indices, including the ASX All Ordinaries rose in December. The All Ordinaries was up 3.4%, the S&P 500 was up 0.7% and NASDAQ up a modest 0.3%. The FTSE rose 0.5%, and the DAX up 2.8%. Asian markets were also mostly up. The Nikkei was up an impressive 10.1% and likewise the Shanghai Composite rose a strong 14.6%.

In the past year the Fund is up 22.4%, net of all fees, compared to a 6.6% rise in the S&P/ASX Small Ords Accumulation Index.

Since inception in May 1998 the Fund's return is 16.8% pa, against the Index's 5.6% pa.

Portfolio Commentary

WA nickel miner, **Western Areas**, rose 10.1% and raised \$65m during the month. The funds raised are earmarked for expanding the capacity of its Cosmic Boy Nickel Concentrator to a capacity of 750/- tonnes p.a., and for further delineation of nickel reserves at its New Morning and Sunrise deposits.

BC Iron was up 24.0% after raising \$47m to increase its interest in the Nullagine Iron Ore JV from 50% to 75%. We see the increased interest in the Nullagine JV as an attractively priced, low risk investment in an asset BCI knows well.

Southern Cross Electrical Engineering was down 2.1%. It announced a joint venture with leading LNG project specialist Kentech. This JV positions Southern Cross Electrical Engineering well for winning LNG electrical & instrumentation contracts on Australia's west & east coast in the medium term.

A number of service providers to the resource sector performed strongly during December, having been sold off quite dramatically over the last quarter. Amongst the better performers during the month were: **Index** up 52.5%, **NRW Holdings** up 41.9%, **Fleetwood Corporation** up 9.8% and **RCR Tomlinson** up 11.0%. We see valuations amongst a number of these companies as attractive and expect that further re-rating is likely over the course of 2013.

Portfolio Top 5 Holdings

Stock	% of Fund
1 TRANSPACIFIC INDUSTRIES GROUP	4.9
2 NRW HOLDINGS	4.5
3 SKILLED GROUP	4.4
4 WESTERN AREAS	3.9
5 IOOF HOLDINGS	3.9

Monthly Commentary

The Reserve Bank of Australia (RBA) lowered the cash rate by 0.25% to 3% in December. The cut acknowledges that the short term outlook of the non-resource sector is subdued, credit growth is sluggish and that inflationary pressures are in check. The RBA also recently noted that whilst the Australian economy continues to expand at around 'trend', wages growth had eased of late in tandem with some recent softening in the demand for labour.

Data points on the Chinese economy were positive during December. In November Industrial Production rose 10.1% YOY, Retail Sales jumped 14.9% YOY whilst Fixed Asset Investment grew by 20.7% YOY. The World Bank added to improving China sentiment in December by raising its 2013 growth forecast for the Chinese economy from 8.1% to 8.4%. With China having navigated its leadership transition relatively seamlessly in late 2012, and with the People's Bank of China taking on an increasingly accommodative stance, the Chinese economy remains one of the brighter spots on the global economic stage in 2013.

Euro data remained quite bleak in December with growth contracting in Germany and France whilst unemployment rates worsened across the Eurozone. Of particular concern are Eurozone youth unemployment rates with a United Nations agency recently projecting that the jobless rate amongst those 15 to 24 years old will hover around 22% for the next 4 years.

The US Federal Reserve acknowledged that US "...economic activity and employment had continued to expand at a moderate pace in recent months." Adding some dimension to its previous position that the Fed Funds Rate would remain at its previously stated "exceptionally low range" of 0% to 0.25% the Fed has now stated this range will be appropriate whilst the US unemployment rate is > 6.5%, against November's 7.7%.

We anticipate that markets will remain volatile and skittish during 2013, as the Eurozone crisis continues and as a sustainable solution to the US fiscal cliff imbroglio remains elusive. We see valuations for many small companies as compelling at present with earnings expectations 'washed out', and yields attractive.

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 %	+7.1	+3.2	+3.9	+5.6	-1.7
3 month %	+4.9	+2.0	+2.9	+7.8	-9.0
1 year %	+22.4	+6.6	+15.8	+23.0	-18.7
3 years % pa	+7.6	-1.8	+9.4	+3.1	-10.2
5 years % pa	+1.5	-6.9	+8.4	-5.6	-9.0
10 years % pa	+13.8	+8.2	+5.6	+7.1	+13.1

Past performance is not necessarily indicative of future returns.

Fund at a Glance

Fund Information

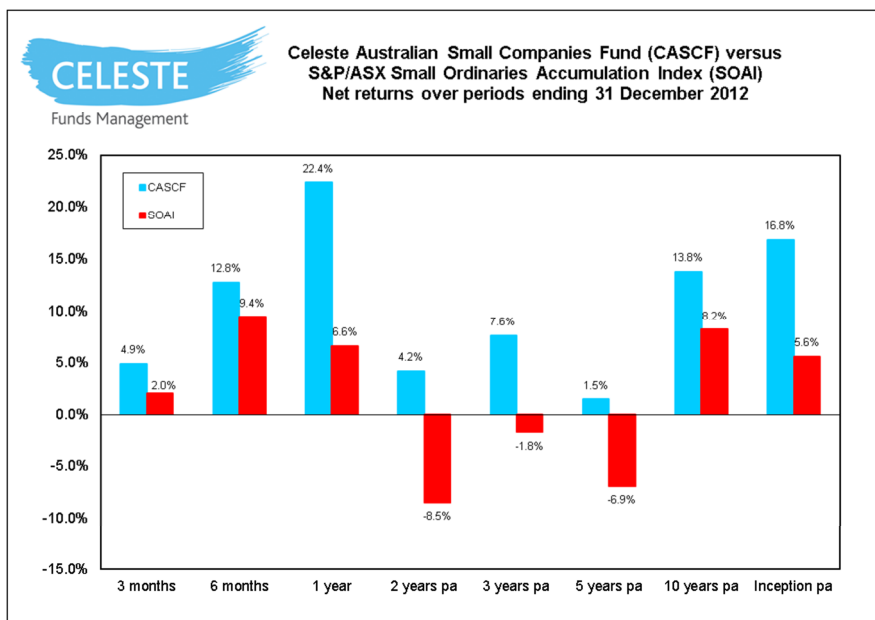
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 31.12.2012 (ex dist. 2.0cpu)	\$3.1944
Unit price (application) as at 31.12.2012 (ex dist. 2.0cpu)	\$3.2137
Fund Size as at 31.12.2012	\$163m
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



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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.

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