



Funds Management

Celeste Australian Small Companies Fund

Monthly update 31 January 2013

Fund Performance

The Fund was up 5.8% in January, with its benchmark, the ASX Small Ordinaries Accumulation Index up 4.2%.

Key global equity indices, including the ASX All Ordinaries again mostly rose in January. The All Ordinaries was up 5.1%, the S&P 500 up 5.0% and NASDAQ up 4.1%. The FTSE rose 6.4%, and the DAX up 2.2%. Asian markets were also mostly up. The Nikkei was up 7.2% and the Shanghai Composite rose 5.1%, though Korea's KOSPI was down 1.8%.

In the past year the Fund is up 23.8%, net of all fees, compared to a 3.1% rise in the S&P/ASX Small Ords Accumulation Index.

Since inception in May 1998 the Fund's return is 17.2% pa, against the Index's 5.9% pa.

Portfolio Commentary

Specialty Fashion Group leapt 44.5%, pre-announcing its unaudited 1st half result. NPAT nearly tripled from \$6.2m in 1H'12 to between \$17m to \$18m. EBITDA increased from \$21.9m to between \$37m to \$38m. Sales growth was 1.3% and importantly 2% on a like for like basis. Gross margin expanded by 477 basis points to 62.4% driven by higher selling prices and lower freight costs following a supply chain reconfiguration, as well as currency benefits and lower input costs. Wage and rent increases were contained to 1.2% and 10 stores closed and 9 new ones opened. Finally, net cash of \$45.6m sees the Group well-positioned for future opportunities.

RCR Tomlinson also pre-announced and was up 20.3%. RCR expects at least a 70% increase in NPAT to between \$15m to \$16m on the back of a 16% increase in revenues to \$388.0m. Pleasingly, the improved result was achieved on a good mix between recurring and project revenue. Resumption of the Fortescue King's deposit development at the Solomon Mine should see revenues remain strong throughout CY'13.

IOOF Limited rose by 14.2% over the month on the back of improving market sentiment. Increased FUM will generate future revenues and is expected to lead to improved profitability. Added to this is the opportunity for IOOF to tap the cost base of the recently acquired Plan B. Plan B had a cost base of over \$30m running \$2bn of FUM. Integrating the business into IOOF could lead to savings of around \$20m.

NIB Holdings rose 9.0% over the month as the market continued to evaluate the recent private health insurance acquisition in New Zealand. The acquisition looks to have been done at a price that will generate significant shareholder value. NIB are expected to add their IT systems, insurance processes and product structures to the Tower health business and significantly leverage the opportunity.

Portfolio Top 5 Holdings

Stock	% of Fund
1 TRANSPACIFIC INDUSTRIES GROUP	4.5
2 SKILLED GROUP	4.3
3 SAI GLOBAL	4.2
4 NRW HOLDINGS	4.1
5 IOOF HOLDINGS	4.0

Monthly Commentary

The IMF updated the World Economic Outlook (WEO) in the month and downgraded global growth expectations. Global growth forecasts in 2013 and 2014 have both been trimmed by 0.1% and are now predicted to be 3.5% and 4.1% respectively. The biggest growth downgrade occurred in the euro zone with 2013 & 2014 growth now expected to be an anaemic -0.2% - 1.0% respectively.

The Australian December 2012 unemployment rate rose from 5.3% to 5.4% with the composition of full-time employment down and part-time up. Hiring intentions remained soft with the ANZ job ads data declining for the 10th consecutive month. December credit growth remained soft, at a 3.6% annualised figure. This remains well below the pre-GFC run rate around 8%, muted by the ongoing high savings rate.

US Housing starts surprised the market, rising by 12.1% to an annual run rate of 954,000. This increase continues the upward trend in housing starts which began in the middle of 2011. The 4th quarter GDP surprised on the downside, noting that the US market contracted by 0.1% over the 3 months. There is increasing concern that this growth downtrend will intensify into 2013 as the budget sequester is imposed as anticipated in March. Uncertainty over the debt ceiling is also likely to cause increased levels of market uncertainty over the next several months.

Unemployment in the Euro Area rose to 11.8% with Greece and Spain topping the list at 26% and 26.6% respectively. More concerning these high rates of unemployment are over 2x higher in the under 25 year old market at 57.6% and 56.5% respectively. The Spanish recession deepened with 4th quarter GDP at -0.7%, the 6th consecutive quarter of negative growth and the worst quarter since the Q2 2009. Eurozone factory output also weakened over the month by 0.3% indicating production was 3.7% lower over the 12 months.

Chinese data pointed to a 14.1% increase in exports in December, with manufacturing activity suggesting the purchasing managers' index would print at the highest level since January 2011. The WEO report forecast unchanged economic growth in China at 8.2% in 2013 and 8.5% in 2014. Over 2012 China exceeded Europe as the #1 auto market in the world selling 14.7m units

South Korean economic growth over 2012 rose 2%, Singapore growth rose by 1.2% while Indian inflation eased to just above 7%, prompting suggestions of official rate reductions.

We anticipate that markets will remain volatile during 2013 and note that the ASX Small Ordinaries Accumulation Index is up over 7.6% in the last 2 months. We retain an opportunistic mindset in the medium term and will look to build positions in a process consistent manner when valuations are 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 %	+5.8	+4.2	+1.6	+6.5	-0.6
3 month %	+9.8	+5.0	+4.8	+11.4	-7.7
1 year %	+23.8	+3.1	+20.7	+24.2	-27.4
3 years % pa	+10.4	+2.1	+8.3	+7.3	-6.7
5 years % pa	+6.0	-3.2	+9.2	-1.0	-6.9
10 years % pa	+14.4	+8.5	+5.9	+7.7	+12.5

Past performance is not necessarily indicative of future returns.

Fund at a Glance

Fund Information

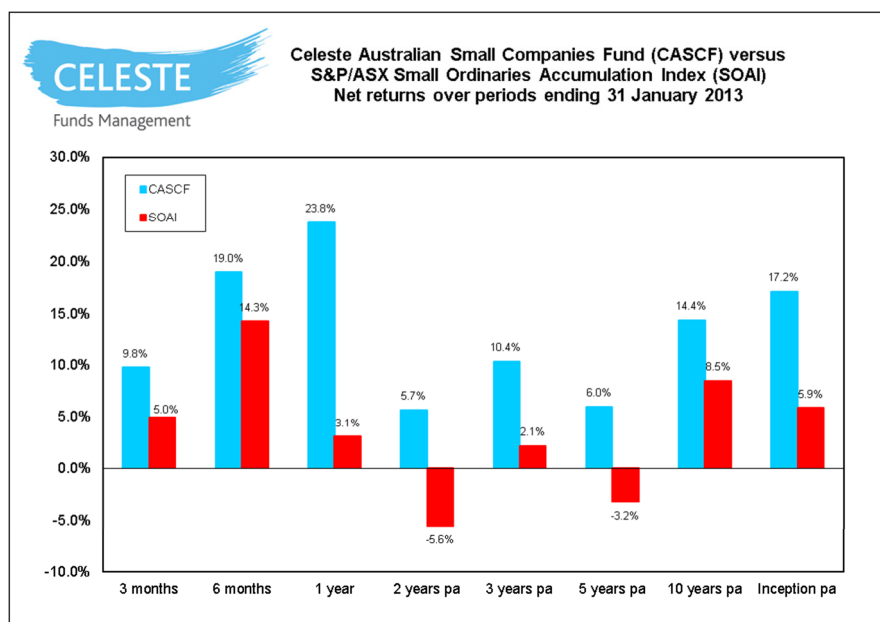
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 31.01.2013	\$3.3797
Unit price (application) as at 31.01.2013	\$3.4002
Fund Size as at 31.01.2013	\$180m
Minimum investment	\$25,000
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.

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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