



Funds Management

## Celeste Australian Small Companies Fund

Monthly update 28 February 2013

### Fund Performance

The Fund was up 1.8% in February, with its benchmark, the ASX Small Ordinaries Accumulation Index up 0.9%.

There was no clear direction in key global equity indices during February. The ASX All Ordinaries was up a strong 5.2%. The S&P 500 rose 1.2% and NASDAQ was up 0.6%. The FTSE rose 1.3%, while the DAX was down 0.4%. Asian markets were also mixed. The Nikkei was up 3.8%, Korea's KOSPI up 3.3%, but the Shanghai Composite was down 0.8%.

In the past year the Fund is up 17.2%, net of all fees, compared to a 2.4% decline 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

**Skilled Group** rose 24.1% over the month driven by a solid 1h13 interim result. Revenue rose 4.1% despite tough operating conditions, EBITDA increased by 7.2% driven by ongoing work to prune the cost base. Stronger underlying performance drove a 2c per share increase in the dividend to 7c fully franked. We expect that the payout ratio will trend towards 70% over the next few reporting periods. Skilled remains well placed to see further efficiency gains as well as improved volumes from mining and oil & gas related activities in Qld & WA. We expect further growth from the OMSA vessel & manning JV over the next several years.

**Coffey International** was up 18.1% with EBITDA stronger, cash generation higher and net debt lower. In the half, key financial variables at Coffey improved across the board with working capital levels lower, staff turnover rates down and with utilisation rates edging up. Increasingly transparent reporting of operational metrics also lends credibility to the positive cultural change taking place within Coffey. We remain positively disposed to the operational turnaround at Coffey & to the company's medium term prospects.

**Transpacific Industries Group** was up 15.2%, delivering robust cashflows and debt reduction in a difficult operating environment. Management continues to focus on operating costs and have mapped out a further \$50m in incremental savings out to FY15. Procurement savings will emerge from renegotiating gas, electricity and fuel prices with labour hire suppliers to be consolidated. Management actions at TPI bode well for long term performance.

**NRW Holdings** returned 11.5%. The company's Civil Contracting segment delivered strong revenue and earnings growth whilst the contribution from Mining Services reduced due to losses generated on a Qld coal contract. The contract has since been renegotiated, which should provide for an improved outcome in FY14. Whilst contract timing issues may impact H2 revenue NRW has a very robust balance sheet, is highly cash generative and has a solid pipeline of tender prospects.

### Portfolio Top 5 Holdings

Stock	% of Fund
1 TRANSPACIFIC INDUSTRIES GROUP	5.2
2 SKILLED GROUP	4.9
3 NRW HOLDINGS	4.4
4 MERMAIND MARINE AUSTRALIA	4.1
5 SAI GLOBAL	4.0

### Monthly Commentary

The market took the FY 2013 interim reporting season in its stride with the S&P/ASX All Ordinaries Accumulation Index up 5.2%, and the ASX Small Ordinaries Accumulation Index up a relatively meagre 0.9%. The performance of the ASX Small Ordinaries Index continues the pleasing trend of recent months with the index now up 8.5% in the last quarter.

The FY 2013 interim reporting season provided few surprises with positive earnings delivery outweighing negative earnings shock. Most corporates continue to bemoan the lack of revenue momentum evident in the Australian economy and see little prospect of this improving in the short term. It appears that the recent history of earnings improvement being substantially driven by cost reduction initiatives will remain a feature of the Australian small company sector for some time. Small company balance sheets are generally in good shape with access to debt funding not problematic, and the cost of debt extremely low. Pleasingly there did appear to be some evidence of stabilisation in the operating environment for many companies, with this a particular feature amongst many mining service companies.

In late February Reserve Bank Governor Glenn Stevens provided an update to the House of Representatives Standing Committee on Economics. In his presentation Governor Stevens noted that the Australian economy is growing at close to trend, that the slowdown in the Chinese economy had come to an end and that the US had continued its gradual recovery. In the Eurozone it was noted that sovereign borrowing costs had fallen and that concern as to a euro area disintegration had abated. Stevens highlighted that there existed a good deal of interest rate stimulus in the pipeline and that the inflation outlook, "... would provide scope to ease further, should that be necessary to support demand...".

In the US, Federal Reserve Chairman Ben Bernanke spoke to the US Senate Banking Committee. Whilst Ben Bernanke acknowledged that a prolonged period of low interest rates could damage financial stability his speech overall retained a dovish tone. More specifically Bernanke noted that "... monetary policy is providing important stimulus to the (US economic) recovery while keeping inflation close to the FOMC's 2% objective...".

With the ASX Small Ordinaries Accumulation Index up over 8.5% in the last 3 months we expect that markets may take breath and consolidate in coming months. We see valuations in the small company sector as broadly supportive though earnings growth remains an elusive element on the horizon. In coming months we will remain alert to opportunity and will look to add to positions in a process consistent manner when valuations are compelling.

### 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 %	+1.8	+0.9	+0.9	+4.4	-7.1
3 month %	+15.3	+8.5	+6.8	+17.4	-9.2
1 year %	+17.2	-2.4	+19.6	+19.4	-34.8
3 years % pa	+10.8	+2.6	+8.2	+8.5	-8.0
5 years % pa	+7.6	-3.8	+11.4	+0.2	-10.7
10 years % pa	+14.8	+9.0	+5.8	+8.6	+12.5

Past performance is not necessarily indicative of future returns.

## Fund at a Glance

### Fund Information

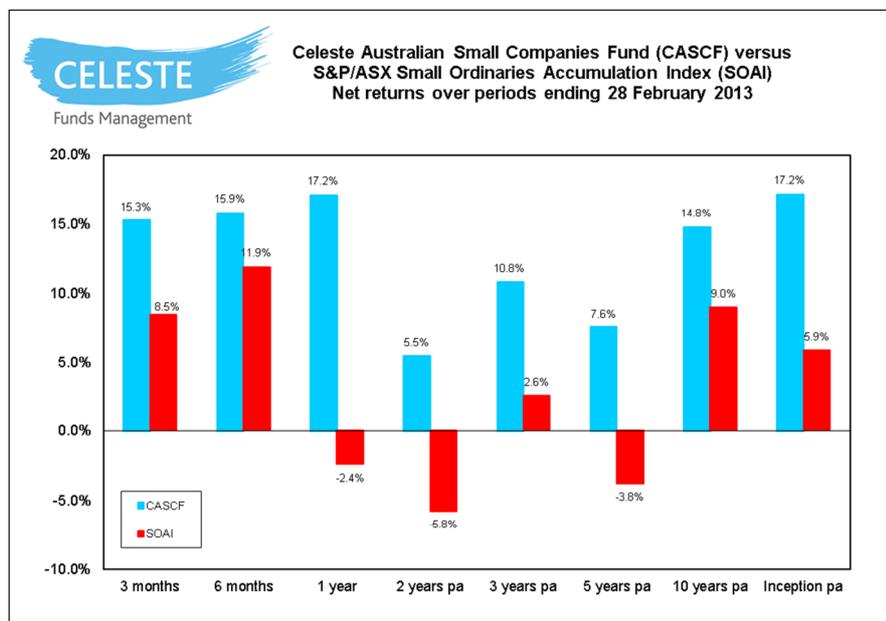
<b>Primary Investments</b>	Shares in listed Australian smaller companies
<b>Investment objective</b>	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
<b>Unit price (redemption) as at 28.02.2013</b>	\$3.4394
<b>Unit price (application) as at 28.02.2013</b>	\$3.4602
<b>Fund Size as at 28.02.2013</b>	\$189m
<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>	0.30%
<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.

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