

# CELESTE

Funds Management

## Celeste Australian Small Companies Fund

Monthly update 31 March 2013

### Fund Performance

The Fund was down 3.1% in March, with its benchmark, the ASX Small Ordinaries Accumulation Index down 3.3%.

Key global equity indices mostly rose during March. While the ASX All Ordinaries was down 2.2%, the S&P 500 rose 3.6% and NASDAQ was up 3.4%. The FTSE and DAX rose a more modest 0.8% and 0.7% respectively. The Nikkei was up a strong 7.3%, while Korea's KOSPI was down 1.1%, and the Shanghai Composite down a more substantial 5.5%.

In the past year the Fund is up 8.7%, net of all fees, compared to a 5.8% decline 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

**Specialty Fashion Group** returned 19.0% over the month benefiting from the afterglow of a very solid 1H13 interim result. In its FY13 interim result Specialty Fashion Group grew its gross profit margin to 62.4%, from 57.6%, on a relatively modest 1.3% increase in sales. EBITDA margins grew to 12% from 7.1% with the group balance sheet finishing the half in a net cash position of \$45.6m, equivalent to 63% of period end shareholders' funds. We believe Specialty Fashion Group is well positioned to garner additional returns from further operational improvements currently in train with shareholders well placed to benefit from any medium term improvement in sales and consumer confidence.

**Nufarm Limited** fell 29.6% in March. In reporting its interim result Nufarm delivered a result largely to expectation with the bulk of variances slightly positive. In 1H13 Nufarm grew revenues 8.3% and underlying EBITDA by 21.5%. What precipitated the sharp selloff in Nufarm at month end was the company adjusting its earnings guidance for the financial year to an EBIT now expected to sit between \$180m and \$200m. Whilst Nufarm is performing well in North America, Europe & South America operating conditions in Australia remain challenging. In its domestic business Nufarm is finding climactic conditions poor, with consequent sales weak and competitive dynamic elevated. Whilst the result likely in 2H13 may be disappointing we remain attracted to the medium term fundamentals of Nufarm and expect that it will be a major beneficiary of a return to more normal weather patterns.

With market sentiment over March gravitating towards a "de-risk" mindset a number of resource and mining service companies were sold off. Those harshly dealt with over March include: **BC Iron** down 19.3%, **Independence Group** off 10.9%, **Western Areas** down 14.1%, **Imdex** down 21.8% and **NRW Holdings** off 19.5%. We remain positively disposed to the companies noted above given cost curve positions, robust balance sheet structures, and attractive valuation given a medium term investment time horizon.

### Portfolio Top 5 Holdings

Stock	% of Fund
1 TRANSPACIFIC INDUSTRIES GROUP	5.8
2 SKILLED GROUP	4.9
3 BREVILLE GROUP	4.4
4 NRW HOLDINGS	3.9
5 MERMAID MARINE AUSTRALIA	3.8

### Monthly Commentary

The market fell in March as international concerns weighed on investor confidence.

The Eurozone crisis took a surprising turn in March as the depositor base of the Cyprus and the EU bailed out the Cypriot banking sector. Up until March 2013 the cost of bailing out the euro banking sector had been levied on taxpayers with bank depositors spared of any funding obligation. In Cyprus the banking sector bail out has been forced on (insured) depositors with the action without recent global precedent. The impact of enforcing banking sector recapitalisation on depositors is potentially a game changer within the Eurozone and for the global banking sector.

In a post Cypriot bail out world the potential for deposits to leak from already weak Eurozone member banks to stronger Eurozone nations has increased significantly, as has the potential for runs on banks within more troubled Eurozone members. Critically in a post Cypriot bail out world bank depositors can no longer believe that their savings are safe from raids to avoid banking sector collapse, if governments deem this the path of least resistance.

Domestic economic data remained broadly positive in March. The local economy continued to create full and part time jobs with the unemployment rate stable at 5.4%. Consumer confidence data continues to firm and retail sales, whilst anaemic, are positive with January +1.2% month on month.

In the US the unemployment rate fell to 7.7% in February, the lowest level since December 2008. It need be remembered that US Federal Reserve Chairman Ben Bernanke has previously stated that US monetary policy would remain "...accommodative.." whilst unemployment stayed above 6.5% and inflation was close to the 2% target of the FOMC. The other noteworthy green shoot on the US economic front were new home sales with the National Association of Realtors noting that February sales of existing homes were at their highest annual sales rate since Nov. 2009.

On the China front markets remained concerned with government efforts to dampen property sector speculation and what this may mean to economic growth expectations. Post Lunar New Year March data suggested that the Chinese Manufacturing sector grew at its fastest pace in 11 months. The Chinese consumer appears to be increasingly comfortable with online shopping as online retail sales in 2012 grew 64.7% year on year to 1.32trillion yuan, some 6.3% of total retail sales.

The recent fall in the market has improved the valuation appeal of many stocks within our investment universe. Whilst we expect the market to remain skittish in coming months we will look to add to the portfolio in a process consistent manner when valuations become appropriately 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 %	-3.1	-3.3	+0.2	-0.9	-9.6
3 month %	+4.4	+1.6	+2.8	+10.1	-16.5
1 year %	+8.7	-5.8	+14.5	+14.0	-37.7
3 years % pa	+7.6	-0.8	+8.4	+7.0	-14.8
5 years % pa	+7.6	-3.5	+11.1	+1.0	-11.6
10 years % pa	+14.4	+8.6	+5.8	+8.3	+11.4

Past performance is not necessarily indicative of future returns.

## Fund at a Glance

### Fund Information

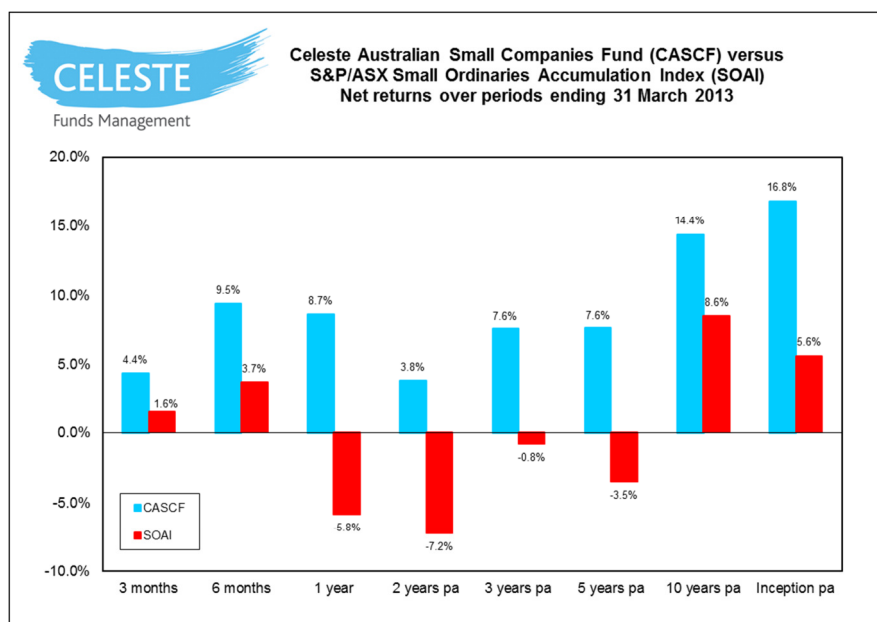
<b>Primary Investments</b>	Shares in listed Australian smaller companies
<b>Investment objective</b>	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
<b>Unit price (redemption) as at 31.03.2013</b>	\$3.3336
<b>Unit price (application) as at 31.03.2013</b>	\$3.3537
<b>Fund Size as at 31.03.2013</b>	\$191m
<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.

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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