



Funds Management

## Celeste Australian Small Companies Fund

Monthly update 30 April 2013

### Fund Performance

The Fund was down 4.3% in April, with its benchmark, the ASX Small Ordinaries Accumulation Index down 4.7% driven by the ASX Small Resources Accumulation Index declining by 20.4%.

In April key global equity indices again mostly rose. The ASX All Ordinaries was up 3.8%, the S&P 500 rose 1.8% and NASDAQ was up 1.9%. The FTSE again rose only a modest 0.3%, while the DAX was up a more substantial 1.5%. The Nikkei continued its meteoric rise - up 11.8%, while Korea's KOSPI again was down 2.0%, and the Shanghai Composite also down 2.6%.

In the past year the Fund is up 3.7%, net of all fees, compared to a 9.4% decline 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 5.2% pa.

### Portfolio Commentary

**Breville Group** was up 18.3% as investors focussed on the company's likely medium term growth in sales and earnings, in an environment where both traits are scarce commodities. With the imminent launch of a new Heston Blumenthal endorsed small electrical appliance range in the UK the global sales footprint of Breville Group continues to expand in a logical and measured manner. The fund took the opportunity to increase its holding in Breville Group in recent weeks given the company's growth trajectory, return characteristics and defensive earnings streams.

**Coffey International** fell 42.9 % after advising the market that 2h 13 EBITDA would not equal or exceed 1h 13 EBITDA, as previously advised. With resource sector projects being delayed, and commodity prices falling, Coffey Geosciences has been hit by an extremely challenging market. Whilst the earnings miss is disappointing we expect that Coffey management will adapt to the changing market and position the group for medium term recovery.

**BC Iron** was up 5.9%. The company released a solid production report for its 75% owned Nullagine Iron Ore Joint Venture. It noted that it remains on track to achieve its 5mt target in FY13 and 6mtpa run rate in the 4<sup>th</sup> quarter (100% basis). Operating costs are tracking in line with expectations and are expected to remain in the range of \$45-\$50/t (normalised basis). The company benefitted from a price uplift of 25% for its Bonnie Fines iron ore product compared to the prior quarter. With \$100m cash on hand, BCI is in a robust financial position to sustain a relatively high dividend payout, repay debt or pursue growth options.

**WHK Group** declined by 15.3% after updating the market that the company would not meet earnings expectations in 2h13. Weaker economic conditions put pressure on the revenue line in corporate advisory and management now expect that second half earnings will be below the first half. Cost reduction programs at WHK remain ahead of expectations. Current merger discussions with SFG Australia and are expected to conclude in the next month.

### Portfolio Top 5 Holdings

Stock	% of Fund
1 TRANSPACIFIC INDUSTRIES GROUP	5.7
2 BREVILLE GROUP	5.2
3 MERMAID MARINE AUSTRALIA	4.4
4 SKILLED GROUP	4.3
5 NUFARM	4.3

### Monthly Commentary

The Small Ordinaries Accumulation Index fell in April as investor risk aversion rose and market participants looked towards defensive investment destinations.

On the domestic economic front March quarter inflation was a subdued 0.4%, below market forecasts, and tracking at an annualised 2.5%, year on year. With the inflation outlook benign a further pre-condition to RBA easing is being delivered, increasing the probability of further cash rate easing in coming months.

Sentiment towards the resource sector was dented in April in part due to company specific announcements, and in no small part due to commodity price declines. Woodside Petroleum announced that its Browse development would look to alternatives to the \$40b James Price Point development, and may consider alternate floating LNG processing technology. In April a number of smaller resource companies further impacted sector sentiment with earnings downgrades from Bradken, Emeco and Calibre Group.

The Eurozone economic picture remained problematic with a March Euro area unemployment rate of 12.1%, up month on month, and a Euro wide youth unemployment rate of 24%. Unemployment in Spain, the Eurozone's 5<sup>th</sup> largest economy reached 27.2% in March, having been 7.9% in mid-2007. Auto sales across the Eurozone in March fell 10.2%, year on year, with the March decline the 18<sup>th</sup> consecutive month of decline.

March quarter growth in China of 7.7%, compares with a Q4 2012 of 7.9%. Further highlighting the sluggish state of the Chinese economy in Q1 of 2013, industrial production grew at a rate of 9.5%, down 0.5% year on year, whilst retail sales grew at 12.4%, down 1.9% year on year.

In the US the unemployment rate fell to 7.6% in March though it need be noted that a participation rate of 63.3% is the lowest recorded since 1979. US Q1 growth of 2.5% marks the 15<sup>th</sup> consecutive quarter of growth for the US economy. In coming months the impact of \$85b of 'sequester cuts' on March 1<sup>st</sup> are expected to weigh on sentiment and Q2 economic growth

On the domestic front the focus on FY 2013 earnings will increase in coming weeks. Companies will tweak and adjust earnings expectations where appropriate, inevitably leading to a little more volatility and skittishness. On balance the potential for earnings to be trimmed modestly into the June 30<sup>th</sup> reporting season appears high, with some inevitable spill over into FY 2014 expectations. Even with a little further trimming of expectation we note that broader sector valuations are not stretched, global liquidity levels are at unprecedented levels and consumer/business confidence may be way too pessimistic. In the short, medium & longer term we continue to apply our investment process in a consistent manner, and will add to the portfolio when valuation is 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 %	-4.3	-4.7	+0.4	+0.8	-20.4
3 month %	-5.6	-7.0	+1.4	+4.3	-33.2
1 year %	+3.7	-9.4	+13.1	+14.9	-49.2
3 years % pa	+6.0	-2.3	+8.3	+7.3	-21.2
5 years % pa	+6.5	-5.1	+11.6	+0.7	-16.4
10 years % pa	+13.3	+7.6	+5.7	+7.8	+8.8

Past performance is not necessarily indicative of future returns.

## Fund at a Glance

### Fund Information

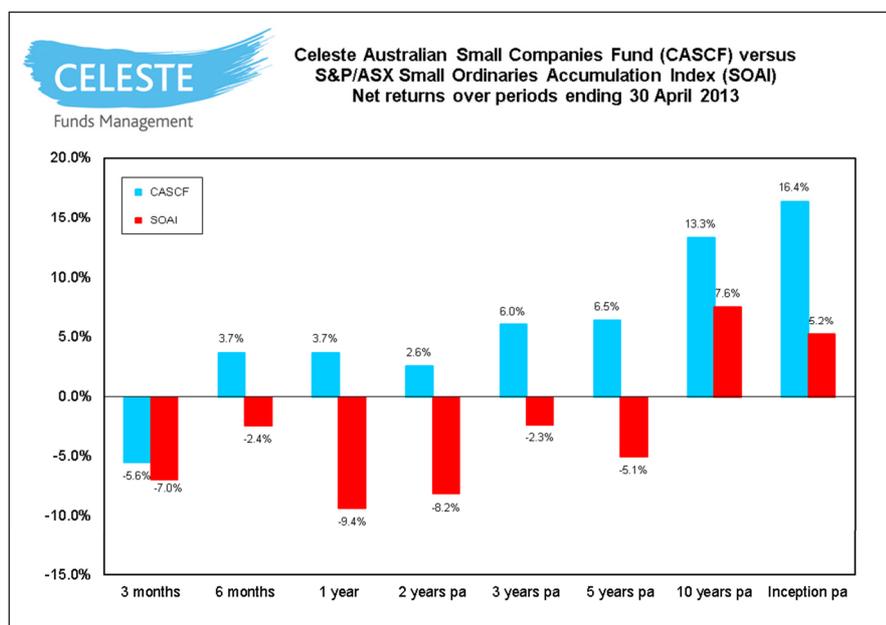
<b>Primary Investments</b>	Shares in listed Australian smaller companies
<b>Investment objective</b>	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
<b>Unit price (redemption) as at 30.04.2013</b>	\$3.1920
<b>Unit price (application) as at 30.04.2013</b>	\$3.2113
<b>Fund Size as at 30.04.2013</b>	\$190m
<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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