CELESTE

Funds Management

Celeste Australian Small Companies Fund

Monthly update **31 May 2013**

Fund Performance

The Fund was down 4.3% in May, with its benchmark, the ASX Small Ordinaries Accumulation Index down 3.8%.

In May the ASX All Ordinaries Accumulation Index was down 4.4%, while the S&P 500 rose 2.1% and NASDAQ was up 3.8%. The FTSE rose 2.4%, while the DAX was up a more substantial 5.5%. The Nikkei was down 0.6% after peaking nearly 16% higher intra-month, ending its recent strong rise. Korea's KOSPI was up 1.9%, while the Shanghai Composite rose 5.6%.

In the past year the Fund is up 7.0%, net of all fees, compared to a 2.9% decline in the S&P/ASX Small Ords Accumulation Index.

For the 15 years since inception in May 1998 the Fund's return is 16.0% pa, against the Index's 4.9% pa.

Portfolio Commentary

Breville Group was up 8.7% as it unveiled its long-awaited new UK brand - "Sage by Heston Blumenthal", entering the UK market this month with 16 new small electrical appliances.

Nufarm rose 8.6% on little company specific news flow. A May analyst investor day focused on Nufarm's global seed operation and provided insight into this small, but growing business unit.

Fleetwood was down 53.6% as it culled 2H'13 earnings expectations. Lower client activity and increased competition has led to an oversupply of available accommodation in North East WA, impacting its Searipple Village in Karratha. Uncertainty in relation to major LNG projects in SE Queensland saw construction deferral on its Gladstone village. Despite an improved order book, earnings recovery in its Recreational Vehicle division has also moved from FY'13 into FY'14.

Coffey International fell 37.5% after providing an FY '13 trading update. Contract delays and cancellations driven by weakness in the resource sector led Coffey to reduce its GeoSciences and Projects divisional headcount by approximately 8%, and close a number of offices. The International Development division continues to deliver steady earnings and now accounts for over half of group earnings.

Service companies to the resources sector were hit hard in May with **Lycopodium** down 18.8%, **Maca** down 18.5%, **Southern Cross Electrical Engineering** down 11.3% and **Mermaid Marine** down 10.6%. We believe a number of share price corrections in the sector are overdone with company medium term prospects not reflected in current pricing.

Portfolio Top 5 Holdings

Stock	% of Fund
1 TRANSPACIFIC INDUSTRIES GROUP	5.6
2 BREVILLE GROUP	5.3
3 MERMAID MARINE AUSTRALIA	4.9
4 SKILLED GROUP	4.8
5 NUFARM	4.7

Monthly Commentary

Australian equity market participants had a character testing May with stocks sold off and investor mindset increasingly pessimistic.

A flurry of earnings warnings from the Australian corporate sector, from both large and small companies, led to a market selloff and gravitation back to risk averse safe harbours. Corporates that downgraded FY '13 earnings expectations during May included: United Group, WorleyParsons, Transfield Services, Fantastic Holdings, Service Stream, Cabcharge, Cardno, Korvest, Adelaide Brighton Cement, and K & S Corporation.

The RBA cut the cash rate by 25 basis points (bp) to 2.75% in May, an all-time low since RBA rate targeting started in the early 1990's. The cash rate move need be viewed in the context of a slowing domestic economy, and one where recent economic indicators have shown a degree of deterioration. With the cut, the RBA stated that, "….the inflation outlook would afford some scope to ease further, should that be necessary to support demand. At today's meeting the Board decided to use some of that scope…".

In the US, Federal Reserve Chairman Ben Bernanke's testimony to the Joint Economic Committee contemplated the possibility of some moderation in the pace of the quantitative easing program. Chairman Bernanke noted that should the outlook for the US economy continue to improve, and should confidence in the recovery remain on track, then it would be possible for the quantitative easing purchases to moderate. It need be remembered that the US Federal Reserve has been buying up to $85b per month in Treasury and mortgage debt to support the US economy. The impact of the Bernanke comments can be seen in the selloff in US 10 year Treasuries, with the yield rising by some 46bp in May to over 2.1%.

Global growth expectations were trimmed in May. The OECD now believes that the Eurozone will shrink some 0.6% in 2013, having thought that the contraction would only be some 0.1% six months ago. The OECD also forecast that Eurozone unemployment would continue to rise during the course of 2013, before stabilising in 2014. The IMF cut its growth forecast for China and now expects that the economy will grow at around 7.75%, compared with 8% growth forecast in the IMF's World Economic Outlook earlier in 2013.

Coming out of May, domestic growth expectations for FY '13 and FY '14 have been trimmed and nervousness as to the June 30th reporting season has become elevated. Whilst we share a level of nervousness as to corporate earnings in FY '14 we remain process consistent and aware of the opportunity for wealth creation presented by skittish markets, that have little sensitivity to valuation.

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	-3.8	-0.5	-3.4	-5.4
1 year %	+7.0	-2.9	+9.9	+19.2	-42.7
3 years % pa	+7.4	-0.8	+8.2	+9.1	-20.3
5 years % pa	+5.6	-6.5	+12.1	+0.3	-19.2
10 years % pa	+12.7	+6.8	+5.9	+7.2	+8.0
15 years % pa	+16.0	+4.9	+11.1	+5.2	+6.0

Past performance is not necessarily indicative of future returns.

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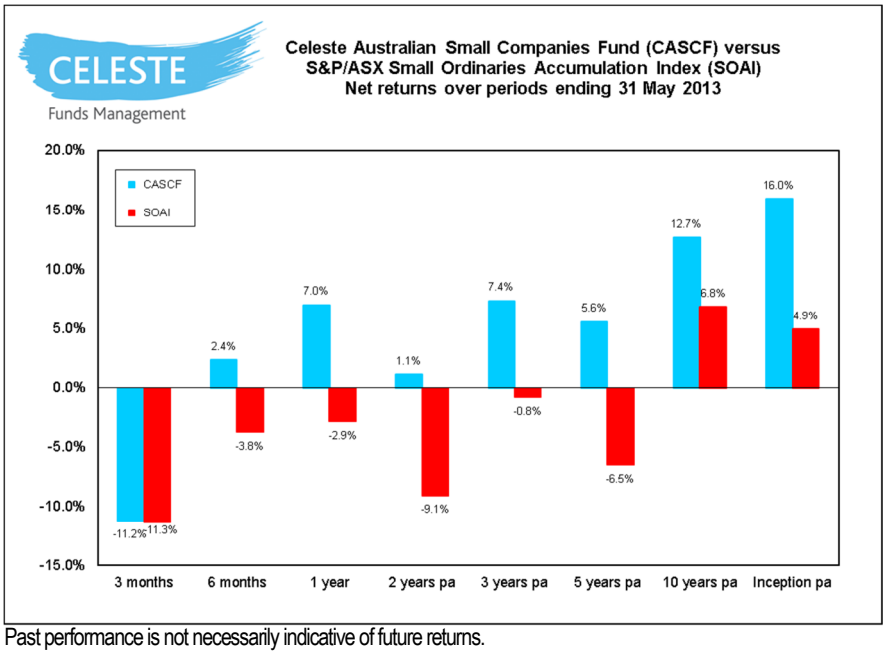
Fund at a Glance

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 31.05.2013	$3.0540
Unit price (application) as at 31.05.2013	$3.0725
Fund Size as at 31.05.2013	$190m
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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