



Funds Management

Celeste Australian Small Companies Fund

Monthly update 30 June 2013

Fund Performance

The Fund was down 7.0% in June, with its benchmark, the ASX Small Ordinaries Accumulation Index down 7.2%.

In June the ASX All Ordinaries Accumulation Index was down 2.6%. Most global indices were down, with the S&P 500 and NASDAQ both down 1.5%. The FTSE was down 5.5% and the DAX down 4.7%. The Nikkei was down by 0.7%. Korea's KOSPI was down 6.9%, while the Shanghai Composite fell 14.0%.

In the past year the Fund is up 0.3%, net of all fees, compared to a 5.3% decline in the S&P/ASX Small Ords Accumulation Index.

Since inception in May 1998 the Fund's return is 15.3% pa, against the Index's 4.4% pa.

Portfolio Commentary

Skilled Engineering was up 3.2%. It announced the acquisition of the Northern Territory based Broadword Marine Contractors. The acquisition is expected to be 10% eps accretive in FY'14. Broadword was established in 2004 and is an oil & gas sector service provider offering crewing and shallow water vessels, from Exmouth WA to Gladstone Qld.

Virtus Health was up 13.6% on its IPO price. The Fund established a position in Virtus Health, which is an assisted reproductive services provider. It is the largest IVF provider in Australia, with approximately 35% market share. Importantly, a number of its fertility specialists are pioneers in the assisted reproductive services field and Virtus Health boasts high fertilisation success rates. This is not only an advantage in winning customers, but also for attracting extremely scarce new talent amongst the Fertility Specialists. We view medium term growth prospects for Virtus Health as compelling, with company fundamentals and valuation attractive.

ASG Group rose 13.6%. It announced \$25m in new contract wins and is preferred contractor for another \$60m worth of contracts. These contract wins are particularly pleasing given the otherwise subdued ICT sector operating environment.

Data#3 was down 9.7%. It provided the market with an FY '13 earnings update and like many listed IT services providers had to trim earnings expectations. However, it committed to maintaining its FY'12 dividend suggesting management confidence in the medium to long term prospects of the business.

Resource stocks and mining services companies once again took a beating in June as concerns about global growth prospects persisted, with the **ASX/S&P Small Resources Index** down 18.7% during the month. This saw stocks like **Imdex** marked down 27.1%, **Independence Group** down 30.0%, and **NRW Holdings** down 21.9%. A few companies bucked the sector sell off in June including **Lycopodium** (up 2.6%), **Mermaid Marine** (up 2.0%) and **BC Iron** (up 8.4%).

Portfolio Top 5 Holdings

Stock	% of Fund
1 TRANSPACIFIC INDUSTRIES	6.4
2 SKILLED GROUP	5.6
3 MERMAID MARINE AUSTRALIA	5.5
4 BREVILLE GROUP	5.4
5 NUFARM	5.2

Monthly Commentary

Equities were sold off in June, across the size spectrum, and across the globe. Investor interest in risk assets fell away with the switch to defensive counters unrelenting over the month.

On the local front the recent slew of company downgrades continued at pace with companies exposed to the domestic consumer and resource sector bearing the brunt of a slowing Australian economy.

The Reserve Bank of Australia (RBA) summed up the tone of the Australian economy succinctly in its June Monetary Policy Meeting Minutes when it noted that "...Overall, conditions in the business sector remained somewhat subdued, with survey measures for all industries at, or below, average levels..". At the June Monetary Policy Meeting the RBA concluded that the cash rate would be held at 2.75%, but, as has been the case in recent months, the RBA noted that, "...the inflation outlook as currently assessed might provide some scope for further easing, should that be required to support demand....".

A number of indicators suggested further slowing in the Australian economy in June with labour market conditions subdued and consumer confidence falling. Business investment declined in the March quarter, in both mining and non-mining sectors. Recent wages growth data was below the average of the last decade with the wage price index up 0.7% in the March quarter. The RBA notes that "...the moderation in wages growth has been broad based, across industries and states, with notable declines to the mining sector...".

On the international front sentiment in June was driven by BRIC growth fears, Bank of Japan policy announcements and the question of if, and when, the US Federal Reserve would turn off the quantitative easing tap. The World Bank lowered its 2013 forecast for Chinese economic growth to 7.7% in 2013, from an earlier expectation of 8.4%. Taking a somewhat differing view the Bank of China noted that "...despite the recent credit crunch the governments full-year target of 7.5% expansion can be achieved..." and that "...if any new stimulus policy is introduced this year, growth might even reach 8%...". The Bank of China went further and stated that, "...acceleration of urbanisation, a rally in consumption, an export recovery and base factors will support economic stability in coming months...".

We expect that the forthcoming reporting season will lead to a trimming of earnings expectation for FY 2014. Importantly we believe that a significant portion of this earnings disappointment is already baked into current share prices and that current valuations are compelling for investors with a medium to longer term time horizon. Whilst we expect that markets will remain volatile in the short term we remain alert to opportunity and will continue to apply our investment process in a consistent manner.

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 %	-7.0	-7.2	+0.2	-3.9	-18.7
1 year %	+0.3	-5.3	+5.6	+16.7	-47.8
3 years % pa	+5.6	-2.0	+7.6	+9.5	-25.3
5 years % pa	+7.2	-5.7	+12.9	+2.6	-21.3
10 years % pa	+11.6	+5.7	+5.9	+6.3	+5.6

Past performance is not necessarily indicative of future returns.

Fund at a Glance

Fund Information

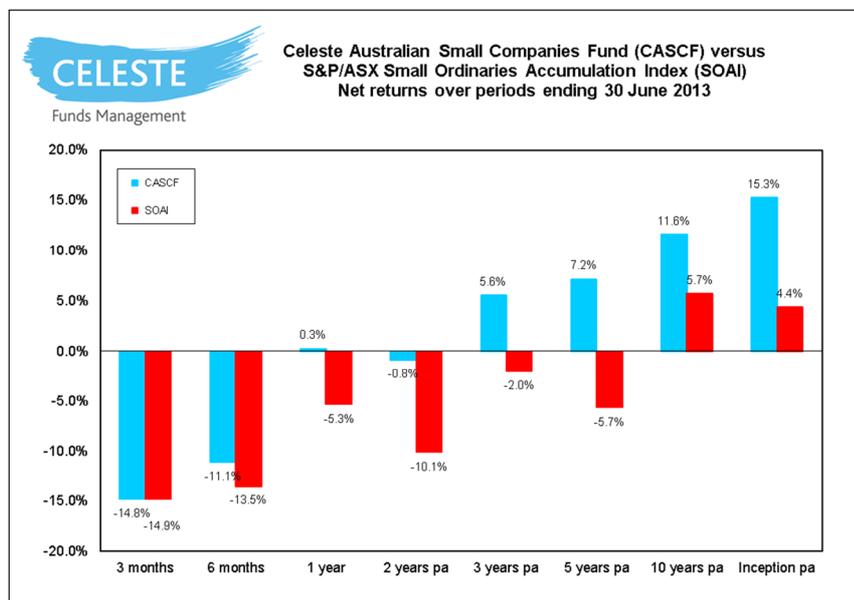
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 30.06.2013	ex - Distribution \$2.7031
Unit price (application) as at 30.06.2013	ex - Distribution \$2.7194
Fund Size as at 30.06.2013	ex - Distribution \$174m
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
June 13	15.81	5.5

*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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