



Funds Management

Celeste Australian Small Companies Fund

Monthly update 31 July 2013

Fund Performance

The Fund was up 10.8% in July, with its benchmark, the ASX Small Ordinaries Accumulation Index up 9.8%.

In July the ASX All Ordinaries Accumulation Index was up 5.5%. Most global indices were up, with the S&P 500 and NASDAQ up 5.0% and 6.6% respectively. The FTSE was up 6.5% and the DAX up 4.0%. The Nikkei was down by 0.1%. Korea's KOSPI was up 2.7%, while the Shanghai Composite up 0.7%.

In the past year the Fund is up 10.8%, net of all fees, compared to a 4.2% rise in the S&P/ASX Small Ords Accumulation Index.

Since inception in May 1998 the Fund's return is 16.0% pa, against the Index's 5.0% pa.

Portfolio Commentary

Transpacific Industries rose 6.9% during the month after selling its Commercial Vehicle Distribution business to the US based Penske Automotive Group. The divestment continues the trend of recent years with TPI increasingly going back to its roots of being a focused waste management company. The divestment of the Commercial Vehicle Distribution business for \$219m was achieved on an attractive exit multiple of > 6.5X EBITDA with proceeds applied to debt reduction. Based on FY 2014 forecasts, TPI now has EBITDA interest coverage of some 4 times, and an EBITDA to net debt payback of < 2.5 years. We remain attracted to the medium term prospects of TPI, to the robustness of its underlying cashflows, to its swiftly convalescing balance sheet, and to both its valuation in isolation and compared to its global peers.

Salmat rose 11.9% in July. During the month Salmat hosted an 'investor briefing' and confirmed that it would achieve previously forecast FY 2013 underlying EBITA of between \$25m and \$28m, despite the challenging operational backdrop. Salmat also confirmed that it would pay a final FY 2013 fully franked dividend of 7.5c, and dividends of at least 15c during FY 2014. The dividend intentions acknowledging a desire to expunge franking credits and better utilise cash on the balance sheet.

Beadell Resources delivered a 50.0% return. The company's second quarter production report noted that good progress was being made in ramping up its Tucano gold project. Costs are anticipated to fall further in the coming period due to the mining of high grade ore at the Duckhead deposit. Iron ore credits provide a further cost saving opportunity once payment is received for stockpiled product.

A number of stocks that were sold off in the market recently had strong share price recoveries during July. Amongst the stronger portfolio performers in July were: **Independence Group** up 43.4%, **Western Areas** up 33.6%, **Imdex** up 22.6%, **MACA** up 15.8% and **Skilled Group** up 15.2%.

Portfolio Top 5 Holdings

Stock	% of Fund
1 TRANSPACIFIC INDUSTRIES	6.0
2 SKILLED GROUP	5.6
3 MERMAID MARINE AUSTRALIA	5.5
4 BREVILLE GROUP	5.0
5 NUFARM	4.5

Monthly Commentary

July saw Australian equities move ahead strongly. Investors were happy to put August reporting season apprehension and political uncertainty to one side and instead looked to buy attractively priced equities.

Domestic economic data points softened in July, continuing the sombre tone prevalent in recent months. Sluggish credit growth experienced in 2013 persisted in July with Personal Credit up a miserly +0.2% month on month, and +0.2% year on year. Business Credit grew +0.5% month on month and +0.9% year on year. Residential building approvals fell in June, down 5.9% month on month, with alteration and addition activity levels also depressed. The June unemployment rate crept up slightly by 0.1% to reach 5.9%. The NAB Business Survey for June cited poor retail conditions, with survey results equivalent to the weakest experienced since the survey started in 1997.

The Reserve Bank of Australia (RBA) Governor Glenn Stevens gave a speech at month end that was dovish in tone and touched on a number of important economic issues. On the inflation front he noted that pressures appeared contained and that this assisted the case for further cuts in interest rates. On the Australian dollar Governor Stevens noted that with most people expecting that Australia's terms of trade would fall further, it was indeed possible that the \$AUD would continue to decline. It need be remembered that since April 1st the \$AUD/\$USD rate has fallen from \$1.04 to \$0.90, some 14% in 4 months.

Given the plethora of indicators suggesting slowing in the Australian economy it appears increasingly likely that the next RBA board meeting in August will deliver further interest rate relief from the current cash rate of 2.75%.

We expect that the August reporting season will be lacklustre and lead to some moderation in FY 2014 earnings expectations. With markets forward looking in nature we believe that expectations and sentiment is unlikely to fall materially from current levels and will improve in the medium term. Given a benign interest rate backdrop, attractive fully franked yields on offer, corporate balance sheets in good shape and an earnings environment that is close to its cyclical low, we see the investment case for equities as credible for investors with a medium term time horizon.

Whilst it may be that markets will remain uncomfortably volatile in coming months, this will inevitably lead to attractive opportunities emerging for patient investors. At Celeste we remain focused on alpha capture, irrespective of market volatility, and 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 %	+10.8	+9.8	+1.0	+6.4	+23.8
1 year %	+10.8	+4.2	+6.6	+22.1	-32.4
3 years % pa	+7.8	-0.6	+8.4	+10.1	-21.3
5 years % pa	+10.0	-2.8	+12.8	+3.3	-14.8
10 years % pa	+11.8	+6.0	+5.8	+6.5	+6.4

Past performance is not necessarily indicative of future returns.

Fund at a Glance

Fund Information

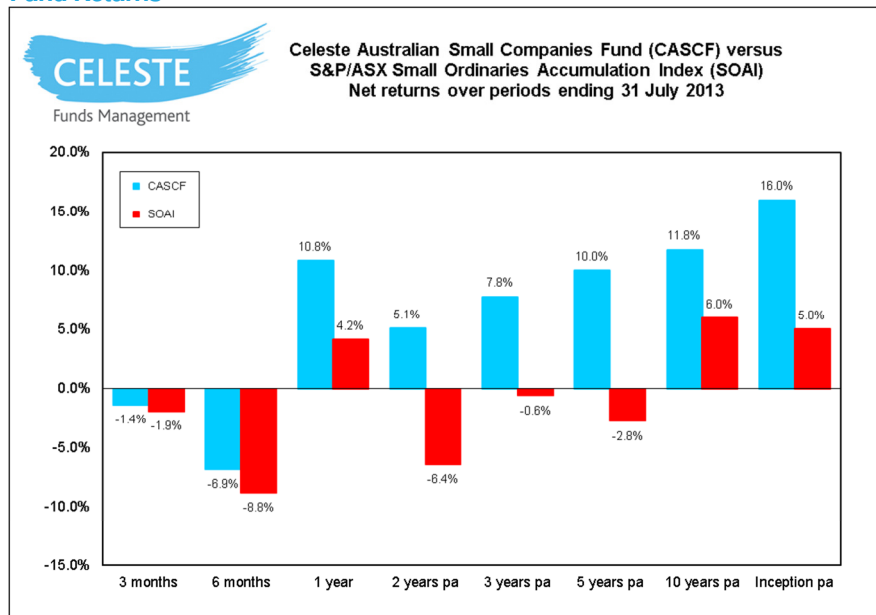
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 31.07.2013	\$2.9955
Unit price (application) as at 31.07.2013	\$3.0136
Fund Size as at 31.07.2013	\$199m
Minimum investment	\$25,000
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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