

CELESTE

Funds Management

Celeste Australian Small Companies Fund

Monthly update 31 August 2013

Fund Performance

The Fund was up 5.5% in August, with its benchmark, the ASX Small Ordinaries Accumulation Index up 2.9%.

In August the ASX All Ordinaries Accumulation Index rose 2.6%. Most global indices were down, with the S&P 500 and NASDAQ down 3.1% and 1.1% respectively. The FTSE was down 3.1% and the DAX down 2.1%. The Nikkei was down by 2.0%. Some Asian markets rose, with Korea's KOSPI up 0.6% and the Shanghai Composite up 5.3%.

In the past year the Fund is up 11.9%, net of all fees, compared to a 4.1% rise in the S&P/ASX Small Ords Accumulation Index.

Since inception in May 1998 the Fund's return is 16.3% pa, against the Index's 5.2% pa.

Portfolio Commentary

RCR Tomlinson delivered +38.7% return. RCR reported an excellent full year result with higher profit outcomes achieved across all divisions. Highlights included solid cash flow generation, margin improvement and a 35% increase in the final dividend. Post year end, RCR has increased its infrastructure capability through the acquisition of Norfolk Group. This transaction is anticipated to drive further earnings growth.

NRW Holdings was up 40.5%. At month end the company advised that it had received a letter of intent from Samsung Corporation in respect to an earthworks contract at Roy Hill. This project is expected to contribute meaningfully to the workload of its Civil Division in the coming period. In FY 2013 this division, NRW's largest, grew its revenue by 18% and its contribution by 13%. This was in contrast to its Mining and Drill & Blast activities which delivered lower contributions.

Breville Group rose 16.5% after it delivered another solid result. Performance in FY 2013 was characterised by healthy revenues across the globe with year on year sales growth of 4.9% in Australia, 26.4% in North America and 8.1% in other international markets. In FY 2013 North America accounted for 49% of Breville Group EBITDA, which compares with 32% as recently as FY 2010. The Breville Group balance sheet remains in good order with net cash on hand of \$43m, ample to fund medium term growth. FY 2013 ROE was a robust 24.7%. We see prospects at Breville as bright, underpinned by its product development pipeline, new appliance releases, and growing global sales.

Oakton was up 26.1%. With offshore contribution to production growing from 10% to 20% over the year and forecast to increase to 30% at the end of FY 2014, this model is gaining meaningful traction. A strong increase in long-term committed backlog reflects successful bidding for multi-year Managed Services contracts. The company expects to deliver modest revenue growth and improved margins in FY 2014.

Portfolio Top 5 Holdings

Stock	% of Fund
1 TRANSPACIFIC INDUSTRIES	6.3
2 SKILLED GROUP	5.5
3 MERMAID MARINE AUSTRALIA	5.0
4 BREVILLE GROUP	4.9
5 SAI GLOBAL	4.7

Monthly Commentary

Australian equities performed well in August, across the market capitalisation spectrum, outperforming first world and most emerging market indices. The resilience of the Australian equity market in August is especially notable given US Federal Reserve quantitative easing concerns, rising tensions in the Middle East, elevated US bond yields and capital flow pressures in emerging markets leading to rate increases in Indonesia, Brazil and Turkey.

Whilst investors entered FY 2013 reporting season with a healthy degree of fear, corporations delivered largely to 'washed out' expectations. The theme amongst domestic corporations remains consistent in a post GFC world with the revenue backdrop anaemic and earnings improvement driven by an ongoing focus on operating cost reduction.

The Reserve Bank of Australia (RBA) cut the cash rate by 0.25% in August to 2.50%, continuing its easing bias, consistent with its actions over the last 18 months. In the minutes to the August RBA Monetary Policy Meeting it was noted that growth in the June quarter had been below trend, that consumer sentiment had declined since the start of the year and that retail sales in the June quarter were flat in real terms. At 5.7% the June unemployment rate edged up a little with the RBA noting that businesses were reluctant to take on new risk, given conditions were generally below average.

In China manufacturing activity rebounded in August with the official Purchasing Managers Index (PMI) rising to a 16 month high of 51.0, compared to 50.3 in July. With China growing at a rate of 7.5% annualised, in the April to June quarter, investor sentiment towards the growth trajectory of the Chinese economy appears to be improving.

Data from the Eurozone in August had a generally better tone. In the second quarter of 2013 GDP grew at 0.3%, quarter on quarter, after contracting for the prior six quarters. August factory orders grew at a rate last seen in May 2011 with manufacturers in 17 Eurozone countries noting order backlogs. It appears that some of the extreme risk embedded within the Eurozone has reduced in recent months, a factor likely to buoy investor sentiment during FY 2014.

In coming weeks we feel that equity market may be volatile as participants take some time to digest recent healthy gains, and to contemplate a changed domestic political landscape. We still see attractive investment opportunities within our universe and will continue to apply our investment process, adding to the portfolio when risk and reward scenarios are 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 %	+5.5	+2.9	+2.6	+2.2	+5.3
1 year %	+11.9	+4.1	+7.8	+20.8	-30.2
3 years % pa	+9.0	-0.2	+9.2	+10.3	-20.5
5 years % pa	+9.2	-2.6	+11.8	+2.8	-13.4
10 years % pa	+11.9	+5.8	+6.1	+6.2	+6.5

Past performance is not necessarily indicative of future returns.

Fund at a Glance

Fund Information

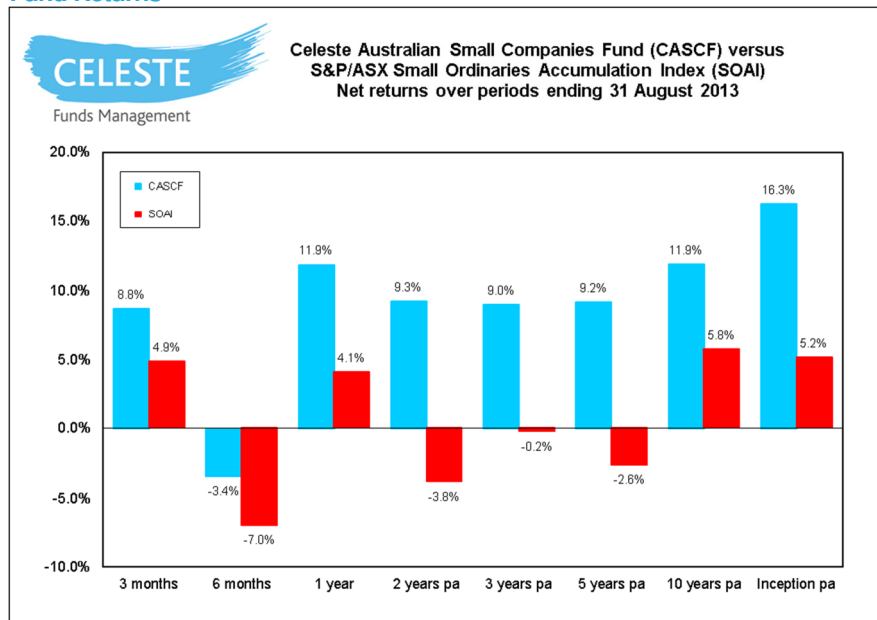
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 31.08.2013	\$3.1606
Unit price (application) as at 31.08.2013	\$3.1797
Fund Size as at 31.08.2013	\$216m
Minimum investment	\$25,000
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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