

CELESTE

Funds Management

Celeste Australian Small Companies Fund

Monthly update 30 September 2013

Fund Performance

The Fund was up 4.4% in September, with its benchmark, the ASX Small Ordinaries Accumulation Index up 1.7%.

In September the ASX All Ordinaries Accumulation Index rose 2.4%. Most global indices were higher. The S&P 500 was up 3.0% and NASDAQ up a strong 5.1%. The FTSE was up 0.8% and the DAX up 6.1% with the Nikkei up 8.0%. Other Asian markets also rose, with Korea's KOSPI up 3.7% and the Shanghai Composite up 3.6%.

In the past year the Fund is up 13.9%, net of all fees, compared to a 1.4% rise in the S&P/ASX Small Ords Accumulation Index.

Since inception in May 1998 the Fund's return is 16.6% pa, against the Index's 5.3% pa.

Portfolio Commentary

Skilled Group returned 14.7% on the back of a solid FY/13 result, good cash flow generation and early integration success with the Broadsword acquisition. In the month, Skilled was awarded a \$200m manning supply contract for the Ichthys LNG Project and the OMSA JV had its Gorgon LNG contract for marine logistics extended by a further 20 months.

Steadfast Group rose 13.7% in the month as the market digested the mid-August IPO. The FY/13 result was not new news and slightly beat IPO prospectus forecasts. The closure of the broker, agencies & ancillary business acquisitions is a positive. It begins the process of back office cost reduction, increased ability to do tuck in deals and improved ability to facilitate intergenerational change within the businesses.

Oroton Group was down 9.7%. Its full year result was in line with the company's August trading update. In addition to the recently announced joint venture with USA heritage fashion group Brooks Brothers, a \$23m end of year net cash balance will allow the company to continue to pursue its Asian growth strategy and seek out additional joint venture, acquisition or license opportunities.

Southern Cross Electrical Engineering, up 30.0% received a letter of intent for its 50% owned KS Joint Venture on Curtis Island to perform electrical installation services.

NRW Holdings, up 5.8% signed a contract to perform rail earthworks for Samsung C&T Corporation at the Roy Hill project.

Portfolio Top 5 Holdings

Stock	% of Fund
1 TRANSPACIFIC INDUSTRIES	6.0
2 SKILLED GROUP	5.8
3 MERMAID MARINE AUSTRALIA	4.7
4 SAI GLOBAL	4.6
5 BREVILLE GROUP	4.4

Monthly Commentary

Australian equities continued on from August with strong performance in September across the market capitalisation spectrum. Resources again underperformed industrial stocks in the month. The broader market indices lagged most first world and emerging market indices. The market remained preoccupied with FY/13 reporting season, a federal election, US Federal Reserve quantitative easing worries and ongoing Middle East tensions.

The FY/13 reporting season was digested by the market with corporations delivering largely to 'bombed out' expectations. 2h13 results were weak and the impact of the federal election in 1h14 may make 'underlying' business conditions difficult to read in the short term. Most corporates expressed the view that a stable government should benefit both consumer and corporate sentiment. The small industrial market has +9% eps growth factored in for FY/14 with scope for this to slip into FY/15 if the revenue environment remains weak. Operating cost reduction may provide some offset but the well remains deep after years of post GFC trimming.

The Reserve Bank of Australia (RBA) left the cash rate unchanged at 2.50%. The RBA noted it will not close off the possibility of more cuts but that it intends to provide no signal on rate direction going forward. The RBA Financial Stability Report (FSR) highlighted the strength of the Australian banking system citing its ability to meet tighter Basel III capital regulations despite increasing dividend payout ratios over the past 12 months. The FSR did however note that post relaxed regulations, allowing self-managed superannuation funds (SMSF) to borrow and invest in property, the RBA was 'carefully observing' the risks that this posed in creating "speculative demand for property".

In China, industrial production in August grew 10.2%. Fixed asset investment rose 20.3% in the first 8 months of the year. Inflation dipped slightly in August recording 2.7%, a 0.1% annualised decline from July. Inflation remains well below the Chinese government target of 3.5%. The market is looking towards the Third Plenum in November for news on any new reform agenda. Chinese economic data remains supportive of steady growth, assisting investor sentiment. The Japanese inflation rate rose to 0.9% pa in August driven by increased oil imports. This is the third successive monthly increase, reversing the prior 12 months of price declines. US consumer sentiment declined to 77.5, its lowest level since April 2012. Worries of budget funding and the fiscal cliff are likely to cause ongoing uncertainty.

The equity market is likely to remain volatile as some participants crystallise recent healthy gains. We still see attractive investment opportunities and will continue to apply our investment process, adding 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 %	+4.4	+1.7	+2.7	+3.9	-6.1
1 year %	+13.9	+1.4	+12.5	+25.6	-43.0
3 years % pa	+8.4	-2.6	+11.0	+9.7	-25.5
5 years % pa	+11.1	+1.0	+10.1	+6.0	-10.1
10 years % pa	+12.2	+5.6	+6.6	+6.3	+4.7

Past performance is not necessarily indicative of future returns.

Fund at a Glance

Fund Information

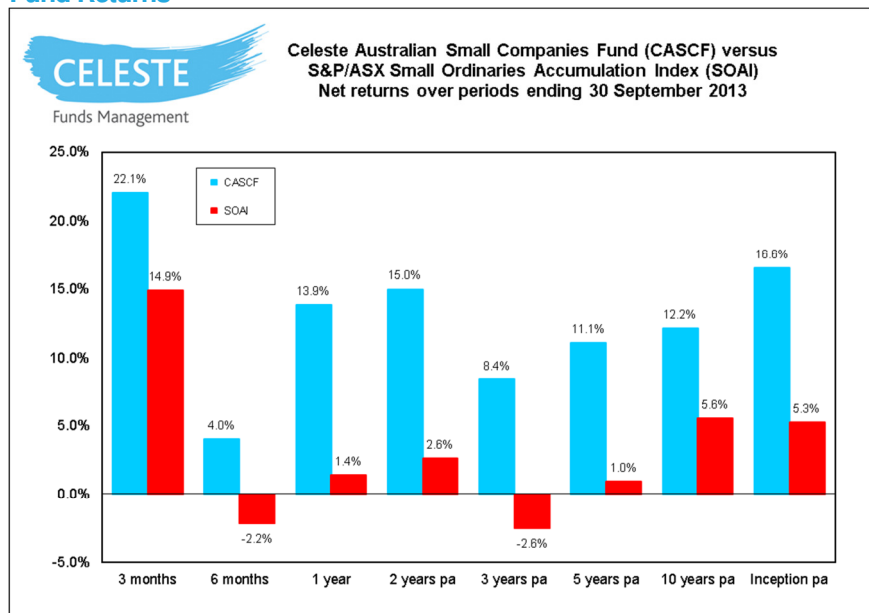
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 30.09.2013	\$3.3000
Unit price (application) as at 30.09.2013	\$3.3200
Fund Size as at 30.09.2013	\$228m
Minimum investment	\$25,000
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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