



Funds Management

Celeste Australian Small Companies Fund

Monthly update 31 October 2013

Fund Performance

The Fund was up 0.9% in October, with its benchmark, the ASX Small Ordinaries Accumulation Index up 2.7%.

In October the ASX All Ordinaries Accumulation Index rose 3.9%. Global indices delivered mixed performances. The S&P 500 was up 4.5% and NASDAQ up 3.9%. The FTSE was up 4.2% and the DAX up 5.1%. Elsewhere in Asia, Korea's KOSPI was up 1.7% while the Shanghai Composite was down 1.5% and the Nikkei was down 0.9%.

In the past year the Fund is up 13.6%, net of all fees, compared to a 2.9% rise in the S&P/ASX Small Ords Accumulation Index.

Since inception in May 1998 the Fund's return is 16.5% pa, against the Index's 5.4% pa.

Portfolio Commentary

Transpacific Industries Group rose 16.8% in October and announced that Mr Robert Boucher had been appointed CEO, and the company is considering the potential sale of its New Zealand operations. Robert Boucher is a 24 year veteran of the waste industry and was most recently EVP Operations at Republic Services Inc., a US listed company with a market capitalisation of > US \$12b. Republic Services Inc. operates in the non-hazardous waste sector, has operations in 39 US states and > 30,000 employees. We remain positively disposed to TPI, to its cash generative characteristics, to its operational leverage, and to its potential to drive significant long term operational improvement.

Oakton was up 14.6%. Whilst market conditions remain sluggish AGM commentary suggested revenues were at forecast levels and first half earnings on track to match the 1H FY'13. Oakton expect further improvement for the 2H of FY'14. This is the second time the company released commentary where expectations were not lowered, suggesting that earnings may have bottomed. Strong growth in Indian employee numbers suggests increasing client acceptance of Oakton's offshore delivery model.

ARB Corporation fell 8.0% in October as the market reacted adversely to the Q1 update provided at its 2013 AGM. In Q1 ARB saw sales up 1% whilst earnings were off 10%. We believe that Q1 of FY 2014 at ARB will not be representative of what FY 2014 will deliver as an abnormally high level of costs have been absorbed by the company, ahead of medium term sales being delivered. ARB did also report some positive Q1 news with its export sales from Australia/Thailand up 20.4%, and exports from the US up 17.8%. We believe ARB is an exceptional small company and note that over the last decade it has grown sales at a compound 12.5% per annum, whilst over the same period net profit has grown at 14.9% per annum. We took the opportunity to build our exposure in ARB Corporation during the October sell off.

Portfolio Top 5 Holdings

Stock	% of Fund
1 TRANSPACIFIC INDUSTRIES	6.8
2 MERMAID MARINE AUSTRALIA	5.2
3 SKILLED GROUP	5.0
4 NUFARM	4.6
5 SAI GLOBAL	4.3

Monthly Commentary

Australian equities performed strongly in October 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 was focused on AGM commentary, the US Govt. shutdown & any mooted changes to the quantitative easing stance of the US Federal Reserve.

With little in the way of outlook statements in the FY/13 reporting season the market looked to AGM commentary for a view on first quarter performance. Commentary to date has not suggested economic activity has improved dramatically and economic conditions remain difficult to read in the short term. Most corporates have expressed the view they are still focused on maintaining a frugal cost base in what remains a fragile revenue environment. The AGM statements are not supportive of the 9% eps growth forecast for the small industrial market for FY/14. It is likely that this growth will slip into FY/15. Operating cost reduction may provide some profit support but further significant gains remain elusive after years of post GFC trimming.

The Reserve Bank of Australia (RBA) left the cash rate unchanged at 2.50%. The RBA noted that economic growth in Australia remained 'a bit below' trend and was likely to remain so for the near term until the economy adjusted to lower levels of mining capex. Consumer sentiment eased 2% in October reversing some of the 8% gain since July. Sentiment however remains at a 3-year high, 7% above average and 9% above last year. Consumers continue to see current conditions as 'improving'. Inflation surprised on the upside reporting a 1.2% increase in the September quarter equating to an annualised rate of 2.2%. The increase reflected higher food inflation and price increases driven by the fall in the \$A over the quarter.

In China, GDP rose 7.8% in the 3rd Quarter reflecting stimulatory measures undertaken since July. In the month of September, industrial production rose 10.2%, retail sales rose 13.3% and fixed asset investment jumped 20.2%. President Xi Jinping has noted the need for "deeper economic reform" and the market is looking towards November when the Third Plenum will bring news on an anticipated range of new reform proposals for the Chinese economy. The US government reopened as the house approved a suspension of the debt ceiling until 7th February 2014, delaying another confrontation until March 2014. The unemployment rate declined slightly to 7.2% in September however industrial production remained sluggish at 0.6%. FOMC minutes seem to suggest that the pace of asset purchases will not slow though the remainder of the calendar year.

The equity market is likely to consolidate over the next few months given year to date performance. 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 %	+0.9	+2.7	-1.8	+3.2	+1.0
1 year %	+13.6	+2.9	+10.7	+25.8	-41.3
3 years % pa	+7.5	-2.7	+10.2	+10.1	-26.5
5 years % pa	+15.3	+7.5	+7.8	+11.9	-2.7
10 years % pa	+11.4	+5.5	+5.9	+6.4	+4.1

Past performance is not necessarily indicative of future returns.

Fund at a Glance

Fund Information

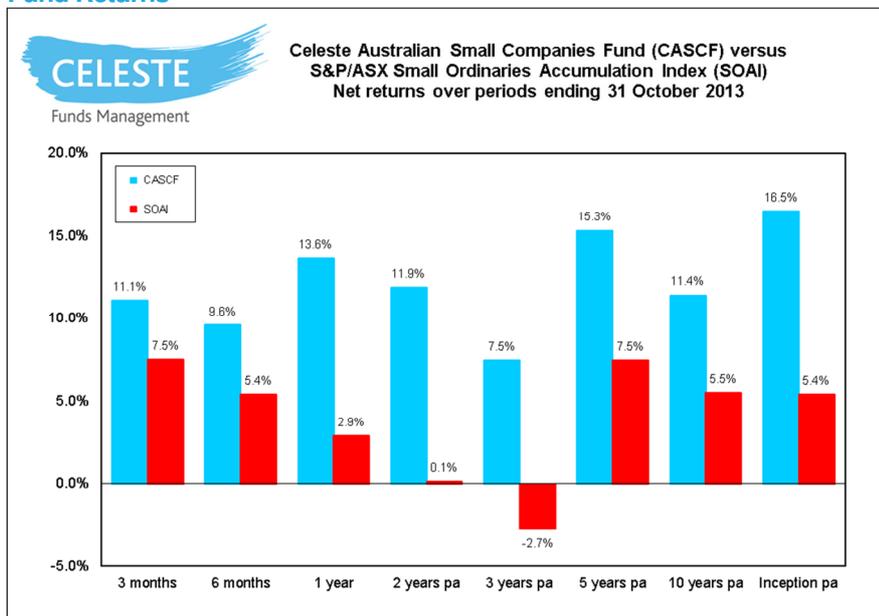
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 31.10.2013	\$3.3290
Unit price (application) as at 31.10.2013	\$3.3491
Fund Size as at 31.10.2013	\$206m
Minimum investment	\$25,000
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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