



Funds Management

## Celeste Australian Small Companies Fund

Monthly update 30 November 2013

### Fund Performance

The Fund was down 4.8% in November, with its benchmark, the ASX Small Ordinaries Accumulation Index down 5.2%.

In November the ASX All Ordinaries Accumulation Index was down 1.4%. Most global indices were higher. The S&P 500 was up 2.8% and NASDAQ up 3.6%. The FTSE was down 1.2% but the DAX up 4.1% with the Nikkei strongly up 9.3%. Other Asian markets also mostly rose. Korea's KOSPI was up 0.7%, Hong Kong's Hang Seng up 2.9% and the Shanghai Composite up 3.7%.

In the past year the Fund is up 11.7%, net of all fees, compared to a 0.1% decline in the S&P/ASX Small Ords Accumulation Index.

Since inception in May 1998 the Fund's return is 16.1% pa, against the Index's 5.0% pa.

### Portfolio Commentary

**OxForex Limited** rose 12.3% continuing on from its strong IPO debut in October. The company delivers FX products, competitive pricing & high customer service to small businesses & consumers, something usually only available to larger corporates from bigger institutions. A global rollout of a proprietary IT system and several contracts to act as IT provider for global money transfer agents is expected to drive significant profit growth over the next 5 years.

**Specialty Fashion Group** up 1.1% announced the acquisition of the Rivers footwear and apparel business for \$5m plus \$27m in working capital, presenting a discount to book value. Rivers has 160 stores across Australia and is expected to generate FY'14 sales of around \$180m with \$6m of annual sales currently generated online. In FY'13 Rivers generated an EBITDA margin of 5%. While \$10m in annual savings have already been identified, Rivers will also require a \$4m investment to reinvigorate and grow the business.

**Mermaid Marine** fell 12.8% in November. The company issued a trading update noting that its first half result was lower than expectation. Delays in commencing new contracts across both construction and drilling programmes were cited as the primary driver. The second half result is expected to provide much improved earnings.

**Independence Group** was down -25.5% in the month. The company announced an updated December quarter forecast for its 30% owned Tropicana gold project. Whilst the targeted production ounces are below expectations on account of a slightly later first gold pour, the ramp up of the processing plant is progressing as anticipated. It was also announced that the company's Managing Director had resigned on account of ill health.

### Portfolio Top 5 Holdings

| Stock                      | % of Fund |
|----------------------------|-----------|
| 1 TRANSPACIFIC INDUSTRIES  | 6.1       |
| 2 SKILLED GROUP            | 5.0       |
| 3 NUFARM                   | 4.8       |
| 4 MERMAID MARINE AUSTRALIA | 4.7       |
| 5 ARB CORPORATION          | 4.7       |

### Monthly Commentary

The Australian equity market fell in November as investors reacquainted themselves with the concept of risk aversion and banked a portion returns generated in recent months.

With the ASX Small Ordinaries Index up 7.5% in the 3 months to October 31<sup>st</sup>, and the ASX All Ordinaries Index up 8.9% during the same period, the prospect of some local profit taking increased as Annual General Meeting season delivered few glimmers of hope. The bulk of AGM's held thus far have reminded investors that domestic conditions remain lacklustre, with sales growth difficult to achieve and with cost pressures continuing to bite into operating margins. To add further fuel to negative mood encircling investors commodity prices weakened in November and earnings downgrades from the likes of WorleyParsons, Ausdrill, GUD and Emeco increased market scepticism as to the potential for year on year earnings growth in FY 2014.

In Australia the unemployment rate edged up 0.1% to 5.7% in October, with hours worked up 0.4% month on month. The Reserve Bank of Australia left the cash rate unchanged at 2.5% in November but did leave the door open to further cash rate falls stating, "...it is prudent to hold the cash rate steady while continuing to gauge the effects, but not close off the possibility of reducing it further should that be appropriate to support sustainable growth in economic activity..."

The American economy continued its slow recovery in November with Q3 GDP growth at an annual clip of 2.8%, above the 2.5% delivered in Q2. Some 204,000 jobs were created in October, well above analyst expectations, leaving the unemployment rate at 7.3%, compared to a post GFC peak of 10% in October 2009.

In November the European Central Bank cut its benchmark rate to 0.25%, from 0.5%, given a benign inflationary backdrop and anaemic Eurozone economic performance.

Data points from the Chinese economy in October highlighted ongoing year on year economic growth with industrial production up 10.3%, export growth up 5.6% and electricity consumption up 9.5%. In Q3 China's GDP grew at an annualised 7.7%, up from 7.5% in Q2.

We expect that equity markets will remain volatile in the short term, especially in the small cap area. We believe that earnings are unlikely to worsen materially from here, that many companies have honed their cost base post GFC and are well placed to deliver earnings growth. We continue to apply our investment process in a consistent and methodical manner and will look to add to the portfolio should valuations become 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 %     | - 4.8                             | - 5.2                   | +04         | - 3.7                   | - 11.6                  |
| 1 year %      | +11.7                             | - 0.1                   | +11.8       | +22.2                   | - 45.1                  |
| 3 years % pa  | +5.7                              | - 4.6                   | +10.3       | +9.2                    | - 30.1                  |
| 5 years % pa  | +16.2                             | +8.5                    | +7.7        | +13.4                   | - 3.4                   |
| 10 years % pa | +11.1                             | +5.2                    | +5.9        | +6.3                    | +3.1                    |

Past performance is not necessarily indicative of future returns.

## Fund at a Glance

### Fund Information

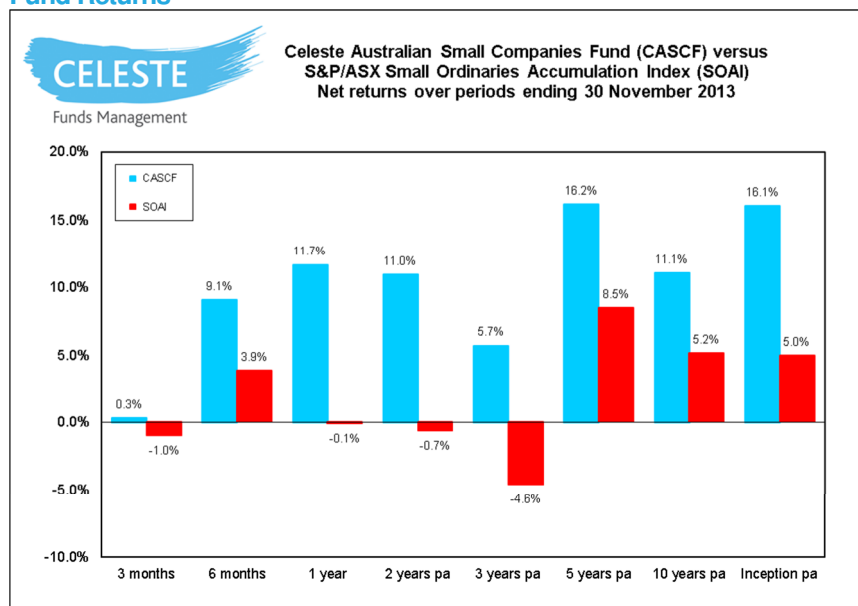
|  |   |
|--|---|
| <b>Primary Investments</b>                         | Shares in listed Australian smaller companies             |
| <b>Investment objective</b>                        | Small Ordinaries Acc Index + 5% p.a. over rolling 3 years |
| <b>Unit price (redemption) as at 30.11.2013</b>    | \$3.1710  |
| <b>Unit price (application) as at 30.11.2013</b>   | \$3.1902  |
| <b>Fund Size as at 30.11.2013</b>                  | \$196m  |
| <b>Minimum investment</b>                          | \$25,000  |
| <b>Minimum additional investment</b>               | \$1,000   |
| <b>Minimum balance</b>                             | \$15,000  |
| <b>Minimum investment: monthly investment plan</b> | \$500   |
| <b>Redemption will generally be available in</b>   | 7 days  |
| <b>Distributions</b>                               | 30 June and 31 December                                   |
| <b>Entry fee*</b>                                  | 0%  |
| <b>Exit fee*</b>                                   | 0%  |
| <b>Buy/Sell differential*</b>                      | 0.30%   |
| <b>Management fee*</b>                             | 0.95%   |
| <b>Performance fee**</b>                           | 20% of return above benchmark                             |
| <b>OGFM***</b>                                     | 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



### 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             |

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\*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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