

CELESTE

Funds Management

Celeste Australian Small Companies Fund

Monthly update 31 December 2013

Fund Performance

The Fund was up 0.8% in December, with its benchmark, the ASX Small Ordinaries Accumulation Index up 2.6%.

In December the ASX All Ordinaries Accumulation Index was up 0.9%. Most global indices were higher. The S&P 500 was up 2.4% and NASDAQ up 2.9%. The FTSE was up 1.5%, the DAX up 1.6% with the Nikkei up 4.0%. Other Asian markets declined with Korea's KOSPI down 1.6%, Hong Kong's Hang Seng down 2.4% and the Shanghai Composite down 4.7%.

In the past year the Fund is up 5.2%, net of all fees, compared to a 0.8% decline 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 5.2% pa.

Portfolio Commentary

RCR Tomlinson delivered a strong return, up 22.8%. It was announced that the Novo Rail Alliance signed a five year contract extension with Transport for NSW. The alliance comprises RCR's subsidiary O'Donnell Griffin, Aurecon and Laing O'Rourke, in providing infrastructure upgrades to the Sydney rail network.

NRW Holdings rose 16.1% in December. The Roy Hill iron ore project received debt funding support from export credit agencies of several countries including the Export-Import Bank of the United States & the Korea EximBank. Progress in debt funding for Roy Hill is a major step for the project and positive for NRW, who announced in Sept. a \$620m rail earthworks contract with Roy Hill.

Crowe Horwath declined 42.0% over the month on the back of an earnings downgrade. Ongoing weakness in corporate advisory workflow has meant that the profit for FY/14 will be significantly below the previous year. While management are working hard to lower the groups cost base the decline in revenues has negated cost adjustment initiatives. We expect that some of the recent revenue weakness will be arrested by increased stability amongst key executives post several years of major internal change. In the medium term we expect that a leaner and more profitable Crowe Horwath will emerge from this metamorphosis.

Data #3 provided a trading update in Dec. noting that it was unlikely to achieve its first half budget. Data #3 highlighted challenging trading conditions and delays in decision making for IT capital expenditure would lead to weak FY'14 H1 earnings.

In December **Reece Australia** announced that it was to spend \$280m in acquiring Actrol Parts Holdings. The business is a specialist industrial parts distributor servicing the heating, ventilation, air-conditioning and refrigeration sectors. The Actrol business is an excellent synergistic fit with Reece and will be strongly earnings accretive in the medium term.

Portfolio Top 5 Holdings

Stock	% of Fund
1 TRANSPACIFIC INDUSTRIES	6.0
2 SKILLED GROUP	4.9
3 BREVILLE GROUP	4.5
4 RCR TOMLINSON	4.4
5 NUFARM	4.1

Monthly Commentary

Whilst weak in early December the Australian equity market finished calendar 2013 on a positive note with the ASX Small Ordinaries Accumulation Index up 2.6%, and the ASX All Ordinaries Accumulation Index up 0.9%.

The decision by the US Federal Reserve (US Fed) to modestly adjust its asset purchase program was the critical economic data point for investors in December.

With investors hanging onto each and every word uttered by the US Fed the release by the Federal Open Market Committee (FOMC) on Dec. 18th was particularly pertinent, noting, "...if incoming information broadly supports the Committee's expectation of ongoing improvement in labour market conditions and inflation moving back toward its longer-run objective, the Committee will likely reduce the pace of asset purchases in further measured steps at future meetings...". To assuage concerns of significant policy drift the US Fed. also noted that, "...the Committee today reaffirmed its view that a highly accommodative stance on monetary policy will remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens...".

Data on the US economy continued the trend of recent months, suggesting economic activity is expanding at a moderate pace. In the US household spending is growing, business investment is advancing, and the housing market is significantly improved on levels of 12 to 18 months ago. The US unemployment rate showed further improvement in December and fell to 7%, compared to a post GFC peak of 10% in October 2009.

The Bank of Japan's most recent Tankan survey noted that business confidence is at the highest level seen in six years as 'Abenomic' stimulus initiatives and a weak yen boost sentiment. Economic data from China saw year on year growth in factory output of 10%, and in retail sales of 13.7%. China's electricity consumption in the Jan. to Nov. period grew 7.5% year on year (YOY), with Nov. showing growth of 8.5% YOY. Eurozone factory orders rose for a fifth consecutive month in November, with activity accelerating at its fastest pace for more than two years.

We believe that small company valuations currently look quite reasonable given where we sit in the earnings cycle, and with levels of profitability unlikely to worsen materially from here. We acknowledge that the pending FY 2014 interim reporting season may lead to some trimming of earnings expectations and test the resolve of some investors. At Celeste we apply our investment process in a methodical manner and will look to add to the portfolio when stock specific fundamentals are appropriately compelling.

Performance Statistics (Net of fees)

	Celeste Australian Small Co. Fund	ASX Small Ord Acc Index	ASX Performance	ASX Small Ind Acc Index	ASX Small Res Acc Index
1 month %	+0.8	+2.6	-1.8	+2.4	+3.3
1 year %	+5.2	-0.8	+6.0	+18.5	-42.3
3 years % pa	+4.5	-6.0	+10.5	+8.3	-31.6
5 years % pa	+15.9	+8.1	+7.8	+13.5	-4.7
10 years % pa	+10.8	+5.1	+5.7	+6.2	+3.0

Past performance is not necessarily indicative of future returns.

Fund at a Glance

Fund Information

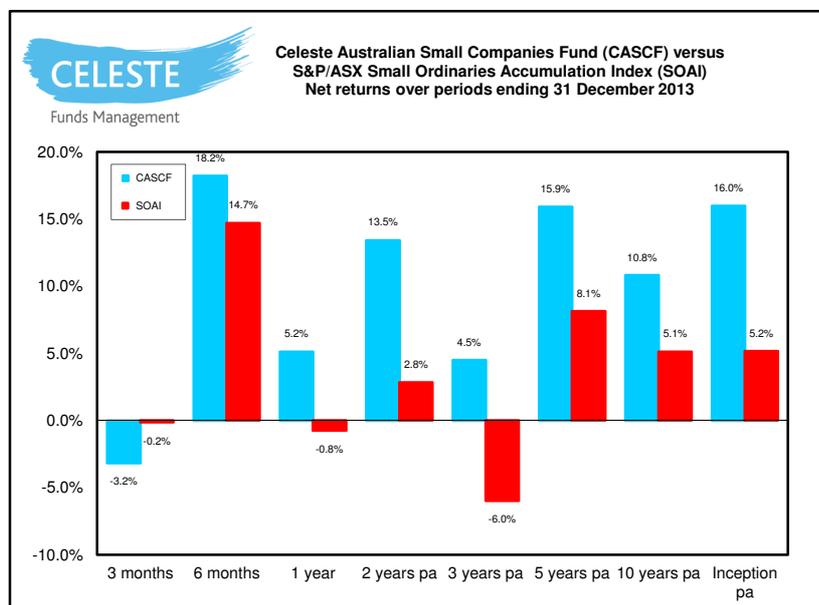
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 31.12.2013 (ex-dist. 2.5 cpu)	\$3.1713
Unit price (application) as at 31.12.2013 (ex-dist. 2.5 cpu)	\$3.1905
Fund Size as at 31.12.2013 (ex-dist. 2.5 cpu)	\$200m
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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