

CELESTE

Funds Management

Celeste Australian Small Companies Fund

Monthly update 28 February 2014

Fund Performance

The Fund rose 3.2% in February, with its benchmark, the ASX Small Ordinaries Accumulation Index up 5.0%. In February the ASX All Ordinaries Accumulation Index was up 4.8%. Global indices were generally higher in February with the S&P 500 up 4.3%, the FTSE up 4.7% and the DAX up 3.5%. The Nikkei fell 0.5% whilst other Asian markets rose with Hong Kong's Hang Seng up 3.6% and the Shanghai Composite up 1.1%. In the past year the Fund is down 3.1%, net of all fees, compared to a 3.6% decline in the S&P/ASX Small Ords Accumulation Index. Since inception in May 1998 the Fund's return is 15.8% pa, against the Index's 5.3% pa.

Portfolio Commentary

Breville Group was up 19.4%. Breville revenue growth in North America was an impressive 29.9% during the half year. In constant currency terms, and excluding Keurig distribution income, North American revenues grew by 15.2%. The UK product launch of the 'Sage' brand has gone to expectation with 18 Breville products now available in that market. A focus on innovative product development positions Breville Group well for future global growth, with two thirds of earnings now being generated overseas.

Transpacific Industries Group rose 5.4% as the clean-up of the business continued with the sale/ closure of 31 businesses. Divestments made during the first half & sale proceeds from the Commercial Vehicles Group will be applied to debt reduction. With the March 3rd sale of all NZ assets for \$880m, the TPI balance sheet will start financial year 2015 debt free, with acquisitions to be contemplated and dividend payments to resume in the near future.

MACA rose 2.8%. Its half year result was an excellent one. Increases in revenue and profit reflected growth in MACA's core mining & crushing division along with a steady improvement delivered by its civil division. In the period following the interim result, MACA has been impacted by flooding at one of its client's mines, which will adversely impact the 2nd half profitability. Despite this rainfall event, estimated as a 1 in 150 year occurrence, the company expects to report a full year profit outcome ahead of that delivered in financial year 2013. Given the work in hand and prospective tendering opportunities, we have confidence that MACA will deliver strong growth in financial year 2015. It is also noteworthy that in Feb. MACA announced a capital management initiative to release a large part of its accumulated franking credit balance to shareholders.

IT stocks delivered mostly softer results for the 1st half of financial year 2014, with client decision deferral and project delays hampering performance. However, based on current order backlogs and other company specific initiatives, **SMS Management & Technology, Oakton & Data#3** all have good prospects for an improved 2nd half performance. Strong balance sheets provide flexibility with regard to any capital management or acquisition activity they might wish to consider.

Portfolio Top 5 Holdings

Stock	% of Fund
1 TRANSPACIFIC INDUSTRIES	5.8
2 BREVILLE GROUP	4.6
3 SKILLED GROUP	4.6
4 MACA	4.1
5 INDEPENDENCE GROUP	4.0

Monthly Commentary

The December half 2013 reporting season generated little shock and awe. Corporates delivered largely to expectation with forecasts for financial year 2014 the subject of very modest levels of revision, and significantly less than has been the case in recent years. In part acknowledgement of corporate performance, and with modest embedded earnings expectation, equity investor risk appetite increased in February. The change in mindset drove a rise in Australian equity market indices, across the size spectrum.

In February the Reserve Bank of Australia (RBA) noted that, "... in the Board's judgement monetary policy is appropriately configured to foster sustainable growth in demand and inflation outcomes consistent with the target. On present indications, the most prudent course is likely to be a period of stability in interest rates." The 'neutral' position of February is in contrast to the 'easing bias' of the RBA's December minutes.

Australian economic data in the month was mixed. The unemployment rate edged up to a decade high of 6% whilst wages pressure continued to abate. In Q4 the wage price index rose 0.7%, quarter on quarter, to a year on year level of 2.6%, some 1% below the average over the last decade. Interestingly wages growth in NSW is the slowest in the 15 year history of the wage price index. On the local front the RBA notes a recent firming in consumer demand and a solid expansion in housing construction. Some indicators of business conditions and confidence have recently improved, but the RBA acknowledges that signs of improvement in investment intentions in many sectors remain tentative, and that public spending is scheduled to be subdued.

Economic data from the US was on balance weak, somewhat affected by challenging weather conditions in recent months. During the month the US Commerce Department noted that the US economy grew at an annualised rate of 2.4% between October and December, down from an initial estimate of 3.2%. The adjustment to US GDP expectations was due to weaker levels of consumer spending with initial estimates of 3.3% revised down to an annual 2.6%. Jobs growth in the US was also weaker than expected with only 113,000 jobs added in January, against consensus expectations of some 180,000, moving the unemployment rate down to 6.6%, the lowest since October 2008.

In the short term we expect that market volatility levels may remain elevated, globally, as political uncertainty in Ukraine percolates across Europe, and fans nervousness in emerging markets. In this environment we'd expect that periodic bouts of nervousness will buffet the Australian equity market, potentially creating opportunity for investors with a medium to longer term mind set. Celeste remains process consistent and valuation focused, looking to add to the portfolio should risk / reward characteristics be 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 %	+3.2	+5.0	-1.8	+4.8	+5.8
1 year %	-3.1	-3.6	+0.5	+8.1	-34.6
3 years % pa	+2.6	-5.0	+7.6	+8.6	-29.8
5 years % pa	+17.8	+11.2	+6.6	+17.6	-3.7
10 years % pa	+9.8	+5.1	+4.7	+6.2	+3.0

Past performance is not necessarily indicative of future returns.

Fund at a Glance

Fund Information

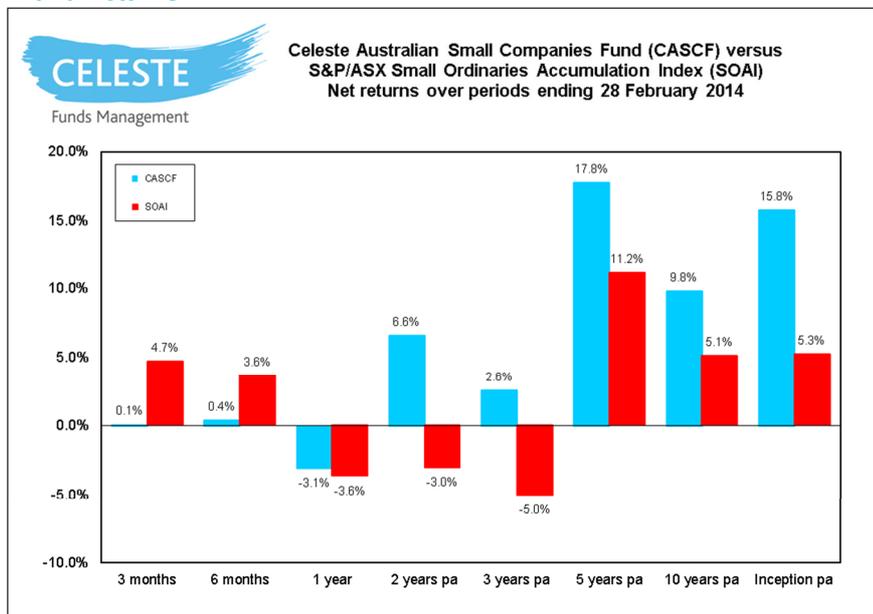
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 28.02.2014	\$3.1482
Unit price (application) as at 28.02.2014	\$3.1672
Fund Size as at 28.02.2014	\$177m
Minimum investment	\$25,000
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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