



Funds Management

Celeste Australian Small Companies Fund

Monthly update 31 March 2014

Fund Performance

The Fund fell 2.3% in March, with its benchmark, the ASX Small Ordinaries Accumulation Index down 1.2%. In March the ASX All Ordinaries Accumulation Index was up 0.3%. Global indices put in a mixed performance in March with the S&P 500 up 0.7%, the FTSE down 3.2% and the DAX down 0.8%. The Nikkei was down 0.1%, Hong Kong's Hang Seng down 3.0% and the Shanghai Composite down 1.1%. In the past year the Fund is down 2.3%, net of all fees, compared to a 1.5% decline in the S&P/ASX Small Ords Accumulation Index. Since inception in May 1998 the Fund's return is 15.5% pa, against the Index's 5.1% pa.

Portfolio Commentary

Crowe Horwath rose 23.6% in the month on the back of increased corporate activity. CRH announced they had been approached by a private equity firm with a non-binding indicative & highly conditional privatisation proposal. The potential privatisation deal hopes to align the accounting principals of CRH to become more proactive in driving the top line while limiting the growth in costs. At this stage no transaction is certain.

NIB Insurance returned +9.7% over the month. In March the Federal Government announced its intention to sell 100% of Medibank Private. Medibank Private is the biggest private health insurer in Australia with a 30% market share (NIB has 8%). With the biggest player set to become listed, the market is highly likely to remain focused on lowering claims inflation as a means to assist industry profitability. We expect rational industry pricing post the float with competitive behaviour driven by product differentiation.

Oroton Group returned +4.4% as it released its half-year result. It generated +3% like-for-like sales growth with margin impacted by increased promotional activity and mix shift. The International store roll-out continues, with new stores opening in Hong Kong and Shanghai. Oroton's healthy net cash position allows it to invest in its GAP joint venture and the roll-out of Brooks Brothers stores.

Nufarm delivered +2.1% return. During the month the company announced a reorganisation of its Australian operations. The review process included the company's manufacturing footprint, supply chain, customer service, product development and administration support. Cost savings of at least \$13m p.a. are expected to be realised within 2 years. Towards the end of the month Nufarm announced its interim result with Group EBIT increasing 20%. This outcome reflected unfavourable seasonal conditions in Australia with hot and dry weather prevailing over the summer. Contrastingly, South America delivered a stronger result with Brazil in particular, performing well.

Independence Group declined 4.6%. The company announced the appointment of Peter Bradford as its Managing Director (MD). Bradford is an experienced executive with a 35 year career covering exploration, development and mining operations. His appointment followed the retirement of the company's long-standing MD Chris Bonwick in November 2013.

Portfolio Top 5 Holdings

Stock	% of Fund
1 TRANSPACIFIC INDUSTRIES	5.4
2 SKILLED GROUP	4.5
3 STEADFAST GROUP	4.3
4 MACA	4.2
5 BREVILLE GROUP	4.1

Monthly Commentary

March was a lacklustre month with investors exhibiting little appetite for equities, and risk assets generally. A combination of issues weighed on investor psyche with geopolitical concerns post Crimean annexation, nervousness on the Chinese economy, and with the US Federal Reserve reducing its purchases of Treasury Securities by \$10b per month to \$55b.

In March the Reserve Bank of Australia (RBA) released its semi-annual 'Financial Stability Review' (FSR). The FSR noted that economic activity amongst advanced economies has generally been favourable, despite ongoing concerns in Europe. The FSR noted that risks within emerging markets were a little elevated, though on balance these risks were viewed as relatively benign.

In the FSR RBA Governor Stevens was positive, seeing "...encouraging early evidence that the so called handover from mining led growth to broader private demand growth is beginning...". February employment data, released in March, showed over 80,000 full time jobs created and an unemployment rate of 6%. Given poor job creation data in recent months the February jobs report was positive and may be a further indicator that the non-mining recovery is gaining momentum.

Building approval data released in March showed total residential approvals in January rose 6.8% month on month, 34.6% year on year, with approvals now annualising at over 210,000 p.a. Renovation activity also appears to be improving, though at a more subdued rate with annual growth at a clip of 3.6% p.a. Whilst not specifically directed to investor sentiment some commentary in the recent FSR may assuage housing market nervousness with RBA Governor Stevens noting, "...present conditions in the housing market are not assessed as posing a near term risk to financial stability..." and "...current evidence suggests that lending standards have been broadly steady in aggregate...".

Fourth quarter Australian GDP grew by 0.8%, taking annual year on year growth to 2.8%. Credit growth in Australia rose in February, taking the annual growth rate to 4.3%. Importantly credit growth is broadening with 'business credit' now up 1.1% over the last 3 months. Local consumers saved a little less, late in 2013 with a Q4 household savings ratio of 9.7%, compared to 10.9% one year ago. Australian Bureau of Statistics data released in March noted a rate of population growth that was equal to the fastest historic pace, last seen in late 2009. Australia's population grew 0.4% quarter on quarter, up 1.8% year on year, to 23.3m.

We remain selective in the short term, seeing valuations as reasonable but not exceptional. We will look to add to the portfolio in a process consistent manner should risk and reward characteristics appear 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 %	-2.3	-1.2	-1.1	+0.1	-6.1
1 year %	-2.3	-1.5	-0.8	+9.2	-32.1
3 years % pa	+1.7	-5.3	+7.0	+8.1	-30.8
5 years % pa	+15.3	+8.8	+6.5	+15.6	-7.2
10 years % pa	+9.4	+4.9	+4.5	+6.1	+2.2

Past performance is not necessarily indicative of future returns.

Fund at a Glance

Fund Information

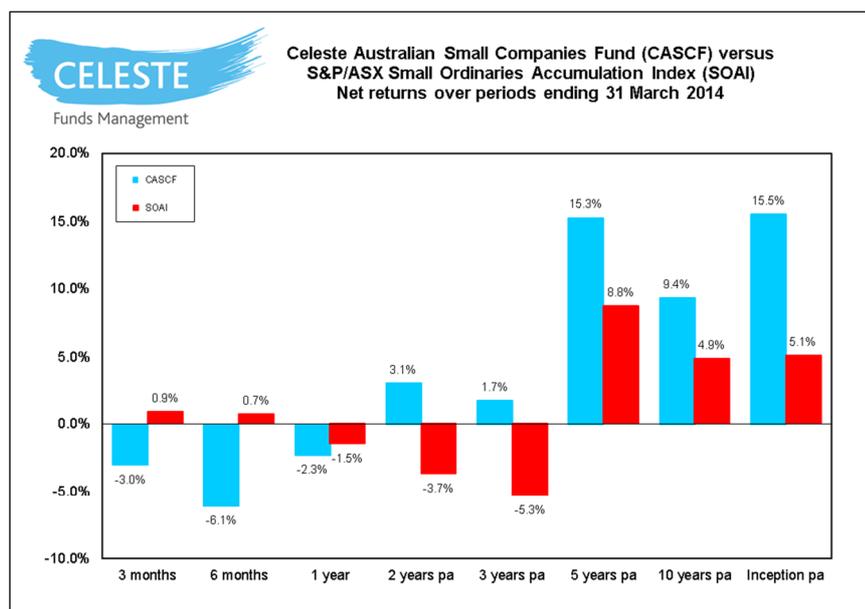
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 31.03.2014	\$3.0751
Unit price (application) as at 31.03.2014	\$3.0937
Fund Size as at 31.03.2014	\$174m
Minimum investment	\$25,000
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

Celeste Funds Management Limited

Level 14, 15 Castlereagh Street, Sydney NSW 2000. GPO Box 4266, Sydney NSW 2001

T 02 9216 1800 F 02 9216 1899 E contact@celestefunds.com.au

www.celestefunds.com.au