

CELESTE

Funds Management

Celeste Australian Small Companies Fund

Monthly update 30 April 2014

Performance Statistics (Net of fees)

| | 1 mth % | 1 yr % | 3 yrs % p.a. | 5 yrs % p.a. | 10 yrs % p.a. |
|---------------------------------|---------|--------|-----------------|-----------------|------------------|
| Celeste Aust. Small Co. Fund | -0.3 | +1.7 | +2.3 | +13.1 | +9.1 |
| Performance (relative to Index) | +0.9 | -0.4 | +7.2 | +7.3 | +4.2 |
| S&P/ASX Small Ords Acc Index | -1.2 | +2.1 | -4.9 | +5.8 | +4.9 |
| S&P/ASX Small Inds Acc Index | -1.3 | +7.0 | +8.1 | +12.4 | +5.9 |
| S&P/ASX Small Res Acc Index | -1.2 | -15.7 | -29.9 | -9.7 | +2.9 |

Past performance is not necessarily indicative of future returns.

The Fund fell 0.3% in April, with its benchmark, the ASX Small Ordinaries Accumulation Index down 1.2%.

Since inception (May 1998) the Fund's return is 15.4% pa, against the Index's 5.0% pa.

Portfolio Commentary

Western Areas rose 24.4% on the back of a strengthening nickel price and a solid March quarter production report. Cash costs were well contained and the company remains soundly placed to exceed its full year production guidance. The Flying Fox and Spotted Quoll underground nickel mines have consistently delivered high grade ore, quarter after quarter, at unit cash costs in the lowest quartile of the industry.

NRW Holdings rose 5.7% in April. The company was awarded a \$200m contract at the Roy Hill iron ore project in the Pilbara. The scope of works includes concrete and earthworks for the processing plant, stockyard, overland conveyors and crushing areas. The contract builds on previous work awarded to NRW Holdings by Samsung C & T Corporation and Roy Hill for rail and bulk earthworks.

Southern Cross Electrical Engineering declined 23.7%. The company provided a business update with FY14 earnings adversely impacted by project delays. The award and mobilisation of contracts has taken place later than originally envisaged which has increased overhead levels. The company noted that the pipeline of opportunities remained strong and that tendering activity was at a high level.

Whilst **Infomedia** fell 4.9% over the month its news flow during April was positive. Late in the month IFM announced that it had signed the 105 strong Kia Spain dealer network to its 'Superservice Connect' software offering. The software allows the dealerships to quote service activity with precision and transparency, potentially leading to a stronger relationship between the dealer and end customer.

Portfolio Top 5 Holdings

| Stock | % of Fund |
|---------------------------|-----------|
| 1 TRANSPACIFIC INDUSTRIES | 5.3 |
| 2 SKILLED GROUP | 4.5 |
| 3 MACA | 4.5 |
| 4 STEADFAST GROUP | 4.3 |
| 5 BREVILLE GROUP | 4.2 |

Global Index Performance (Accumulation)

| | 1 month % | 1 year % | 3 years % pa |
|------------------------------------|-----------|----------|--------------|
| Australia – S&P/ASX All Ordinaries | +1.3 | +10.4 | +8.4 |
| USA – S&P 500 | +0.6 | +17.9 | +11.4 |
| USA – NASDAQ Composite | -2.0 | +23.6 | +12.7 |
| Europe – FTSE (UK) | +2.8 | +5.4 | +3.8 |
| Europe – DAX (Germany) | +0.5 | +21.3 | +8.5 |
| Asia – Nikkei (Japan) | -3.5 | +3.2 | +13.2 |
| Asia – Shanghai Composite (China) | -0.3 | -7.0 | -11.4 |

Monthly Commentary

Investor nervousness and intra month volatility were evident in April, both domestically and globally. On the international stage investors fretted over the worsening political situation in the Ukraine. The effect of economic sanctions on the Russian economy and its 140m+ consumers remains unknown, though is a likely inhibitor to global growth. Local investors were reminded of the fragile earnings environment with formal downgrades from companies across the size spectrum, including Goodman Fielder, Coca-Cola Amatil, K & S Corporation and MaxiTRANS Industries.

Australian economic news was generally positive in April. Private sector credit growth was 0.4% month on month, an annualised rate of 4.4%; the best growth rate experienced in the last five years. Credit growth to the business sector also rose in April and is now annualising at 2.5%. Whilst credit growth remains anaemic the data trend continues to improve, month on month, year on year.

The Australian economy created 18,000 jobs in March, with net job growth averaging 30,000 per month in the last three months. Some forecasters now believe the current 5.8% unemployment rate is close to peaking and unlikely to worsen materially in the medium term. Residential building approvals fell in April though continue to track at a healthy 200,000 p.a.

Inflation in Q1 rose a modest 0.6% quarter on quarter, to an annualised 2.9%. With the previous Q4 inflation data higher than expected the delivery of a low Q1 CPI was necessary for the Reserve Bank of Australia to maintain its neutral interest rate bias. With inflation data more palatable, wages pressure contained and the employment market stabilising it appears that the interest rate backdrop will remain stable in coming months.

Economic data from China in the month suggests further moderation in economic growth, though this data is distorted by the effect of the Chinese New Year holiday period. In the US Federal Reserve Chairwoman Janet Yellen noted during the period that there was still, "considerable slack in the US economy," and that "the central banks extraordinary commitment to boosting the economy would be needed for some time."

We anticipate that investors will remain skittish in coming months, influenced by earnings uncertainty and the outworkings of the pending Federal Budget. We remain process consistent and will look to add to the portfolio when valuations are compelling.

Fund at a Glance

Fund Information

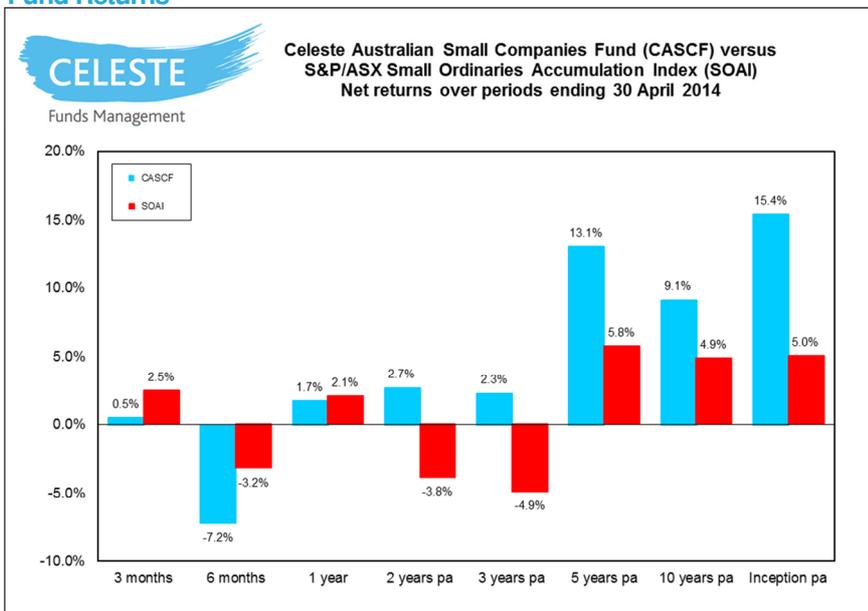
| | |
|--|---|
| Primary Investments | Shares in listed Australian smaller companies |
| Investment objective | Small Ordinaries Acc Index + 5% p.a. over rolling 3 years |
| Unit price (redemption) as at 30.04.2014 | \$3.0652 |
| Unit price (application) as at 30.04.2014 | \$3.0838 |
| Fund Size as at 30.04.2014 | \$172m |
| 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



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 |

Past performance is not necessarily indicative of future returns.

*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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