

CELESTE

Funds Management

Celeste Australian Small Companies Fund

Monthly update 31 May 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	-2.0	+4.2	+2.1	+12.1	+9.2
Performance (relative to Index)	-2.1	-2.0	+6.4	+7.8	+4.4
S&P/ASX Small Ords Acc Index	+0.1	+6.2	-4.3	+4.3	+4.8
S&P/ASX Small Inds Acc Index	-0.2	+10.5	+8.7	+11.9	+5.9
S&P/ASX Small Res Acc Index	+1.4	-9.7	-29.2	-12.2	+2.7

Past performance is not necessarily indicative of future returns.

The Fund fell 2.0% in May, with its benchmark, the ASX Small Ordinaries Accumulation Index up 0.1%.

Since inception (May 1998) the Fund's return is 15.2% pa, net of all fees, against the Index's 5.0% pa.

Portfolio Commentary

SAI Global received an indicative non-binding offer from a private equity entity of between \$5.10 to \$5.25/ share and post other expressions of interest are now conducting a formal process to review all of SAI's options. The company also announced that the CEO had been terminated with the Chairman to become interim CEO.

Lycopodium declined 23.6%. The company provided a business update with FY14 earnings adversely impacted by slower activity. A combination of delayed tender conversions, a slower ramp up in new work and reduced commitments to capital expenditure by mining companies has motivated Lycopodium to reduce its staffing. Redundancy costs of \$3.6m have been incorporated into the revised profit guidance. The recalibration of the cost base should improve the company's competitive position with offices in Manila and potentially Cape Town, following the acquisition of ADP Holdings, assisting in this regard.

Western Areas rose 9.7% on the back of a strengthening nickel price. In a presentation lodged with the ASX the company noted that its free cashflow had improved by \$70mpa.

Ozforex Group reported a FY/14 profit result, slightly better than IPO prospectus on net operating income & NPAT. New dealing clients (NDC) were below IPO expectations. 45% of this was from weaker performance from the Travelex & MoneyGram customer bases. Management are working to lift conversion rates and maintain improved retention rates. Despite weaker NDC's for FY/14, Ozforex re-affirmed 1h15 prospectus forecast.

Reece Australia was down 0.7% in May. The company announced that in the 10 months to April 30th its sales were 13.5% above last year, and that it expected that EBITDA for FY 2014 would be up in the order of 15%

Portfolio Top 5 Holdings

Stock	% of Fund
1 TRANSPACIFIC INDUSTRIES	5.5
2 SKILLED GROUP	4.7
3 STEADFAST GROUP	4.3
4 MACA	4.1
5 REECE AUSTRALIA	4.1

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+0.6	+16.2	+9.3
USA – S&P 500	+2.1	+18.0	+12.7
USA – NASDAQ Composite	+3.1	+22.8	+14.4
Europe – FTSE (UK)	+1.0	+4.0	+4.5
Europe – DAX (Germany)	+3.5	+19.1	+10.9
Asia – Nikkei (Japan)	+2.3	+6.2	+14.7
Asia – Shanghai Composite (China)	+0.6	-11.4	-9.4

Monthly Commentary

The Australian equity market had a lacklustre May, delivering performance below comparable global indices.

For Australian investors the Federal Budget was the focus of attention during the month, with the FY 2014-2015 budget deficit forecast to reach \$29.8b. The first budget to be delivered by Federal Treasurer Joe Hockey was weighted towards delivering cuts in forward expenditures and moving the budget to a structural surplus in the medium term. Australian consumer confidence fell precipitously in May, post budget, with the measure for 'family finances 12 months forward', down 23% month on month, the largest month on month decline in some 30 years. Consumer confidence is now some 15% lower than was the case around the Federal election in September 2013, and 9% lower than when the Reserve Bank of Australia (RBA) last cut rates in August 2013.

Merger and Acquisition announcements were noteworthy in May, across the market capitalisation spectrum. Amongst ASX listed companies, takeovers were announced in May for SAI Global, SFG Australia, Aquila Resources, PanAust, Goodman Fielder, Papillon Resources, Envestra and Treasury Wine Estates.

On the domestic economic front an April unemployment figure of 5.8% provided some confirmation of the improving trend of recent months. Labour market data also need be considered in light of a 'wage price index' that increased 0.7% in Q1, quarter on quarter, or 2.6% year on year, the lowest rate of growth since 1998. With the wage growth backdrop increasingly benign, inflationary pressures appear to moderating and hence RBA commentary that, "...inflation is expected to be consistent with the 2-3% target over the next two years..." Critically for the RBA to continue its accommodative monetary policy, and for interest rates to remain stable, inflationary expectations need remain muted and within the stated target range.

In the US the April unemployment rate fell to 6.3%, having peaked at 10.2% in October 2009. US Federal Reserve (FR) Chairwoman Janet Yellen announced during the month that the US FR would decrease its bond buying program to \$45b per month, but that, "...in light of the considerable degree of slack that remains in labour markets and the continuation of inflation below the Committee's 2% objective, a high degree of monetary accommodation remains warranted..."

In the short term we expect that domestic economic considerations and the pending reporting season will add a degree of volatility to equity markets. At Celeste we remain process consistent, with a focus on the medium to longer term, and opportunistic should valuations become appropriately attractive.

Fund at a Glance

Fund Information

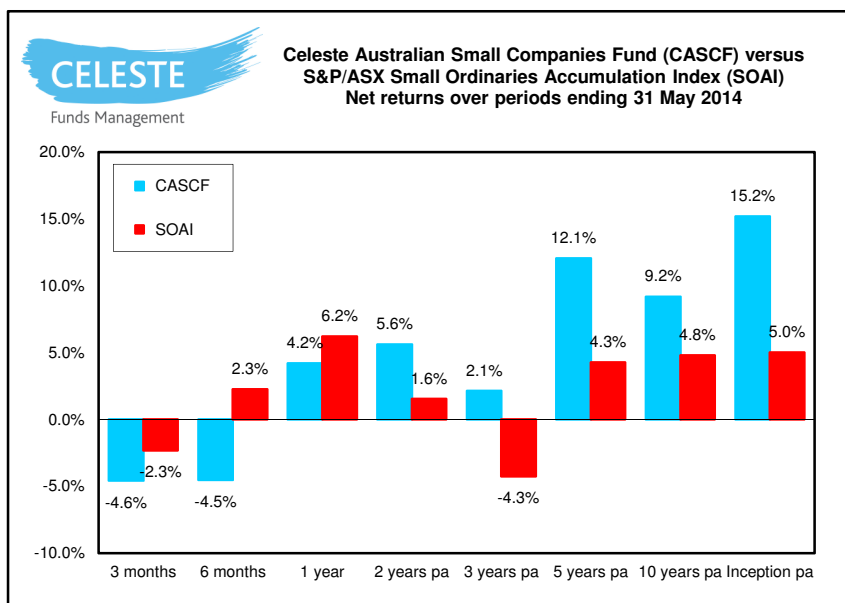
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 31.05.2014	\$3.0044
Unit price (application) as at 31.05.2014	\$3.0226
Fund Size as at 31.05.2014	\$169m
Minimum investment	\$25,000
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

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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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