

# CELESTE

Funds Management

## Celeste Australian Small Companies Fund

Monthly update 30 June 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	-2.7	+9.0	+2.4	+11.0	+8.6
Performance (relative to Index)	-1.6	-4.1	+5.3	+7.6	+4.1
S&P/ASX Small Ords Acc Index	-1.1	+13.1	-2.9	+3.4	+4.5
S&P/ASX Small Inds Acc Index	-1.7	+13.1	+8.7	+10.4	+5.5
S&P/ASX Small Res Acc Index	+1.5	+12.7	-26.3	-11.9	+2.6

Past performance is not necessarily indicative of future returns.

The Fund fell 2.7% in June, with its benchmark, the ASX Small Ordinaries Accumulation Index down 1.1%.

Since inception (May 1998) the Fund's return is 14.9% pa, net of all fees, against the Index's 4.9% pa.

### Portfolio Commentary

**Nufarm** rose 8.4%. In a presentation lodged with the ASX the company provided an update on segment trading conditions. In Australia good rainfall in key cropping regions had driven strong demand, albeit with limited margin recovery. In the USA adverse weather had significantly impacted sales with reduced demand for pre-plant herbicides, turf products and seed treatment. European conditions were generally positive. In South America, debtor collections were progressing well, which is an important yardstick for Nufarm meeting its <\$1b net working capital objective by financial year end.

**Royal Wolf** rose 9.4% over the month. During June the company announced new employment arrangements with the current CEO that have extended his contract for a further 3 years. The contract included some additional incentives for significant restraint provisions on the CEO post departure.

**Skilled Group** declined by 14.8% over the month as the market weighed on stocks with resource sector exposure. Skilled re-affirmed FY/14 earnings guidance in an ASX release. The company also highlighted the initial mobilisation of the Saipem manning services contract to construct the 889km subsea pipeline for the Ichthys Gas project. The project will connect the offshore central processing facility to the onshore processing facility in Darwin.

**Steadfast Group** declined 13.8% on little news. The company announced that the Chief Operating officer (COO) would retire and was to be replaced with an internal appointment. The new COO has significant international experience running insurance broking businesses and facilitating the aggregation of them into a common corporate entity. Insurance premium growth in the SME space remains supportive of Steadfast profit forecasts.

### Portfolio Top 5 Holdings

Stock	% of Fund
1 TRANSPACIFIC INDUSTRIES	5.4
2 SKILLED GROUP	4.7
3 REECE AUSTRALIA	4.5
4 STEADFAST GROUP	4.2
5 ARB CORPORATION	4.2

### Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	-1.4	+17.6	+9.7
USA – S&P 500	+1.9	+22.0	+14.1
USA – NASDAQ Composite	+3.9	+29.5	+16.7
Europe – FTSE (UK)	-1.5	+8.5	+4.3
Europe – DAX (Germany)	-1.1	+23.5	+10.1
Asia – Nikkei (Japan)	+3.6	+10.9	+15.6
Asia – Shanghai Composite (China)	+0.4	+3.5	-9.5

### Monthly Commentary

The Australian equity market had a lacklustre June, underperforming most comparable global indices.

The earnings downgrade cycle slowed a little over the month with 14 recorded in June. This compares to 21 in May. Hardest hit was the retail sector which was impacted by a sharp decline in consumer confidence post the Federal Budget and an unseasonably warm start to winter. Noni B, Funtastic, The Reject Shop, Super Retail Group, Kathmandu and Pacific Brands all announced lower profit expectations. Dick Smith bucked the sales trend announcing slightly better FY/14 revenues however only reaffirmed profit expectations. The 111 downgrades for the year in total (FY/14) remains significantly better than the 151 downgrades recorded in FY/13 and in line with the 112 in FY/12, 110 in FY11 & 93 in FY/10. FY/09 continues to remain the highest year recorded at 255 corporate downgrades.

Merger and Acquisition announcements continued in June, again spread across the market capitalisation spectrum. Takeovers were announced in June for Australand Property Group, Country Road, Kresta Holdings, Ambassador Oil & Gas, Strategic Minerals Corporation, and Robust Resources.

Australian economic news was generally positive in June. Q1 GDP rose by an above trend 1.1%, the strongest quarter on quarter (QoQ) growth in 2 years. Composition of the growth was as expected with mining capex falling & consumer and housing activity trending higher. Exports surprised +4.8% QoQ and +10.4% year on year. Over the month the household savings rate was unchanged at 9.7%. The unemployment rate was flat at 5.8% with the participation rate falling slightly to 64.6%. The RBA left official cash rates on hold at 2.5%.

Geopolitical risks heightened in June with uprising in Northern Iraq impacting both financial markets and commodity prices. Oil rose 3.1% over the month with gold and silver both up strongly. Bulk commodities remained in a downward trend with current prices almost back to 2009 price levels. Soft commodities also weakened. Globally the Bank of England stated it may begin raising interest rates earlier than expected. The US Fed tapered asset purchases by a further \$10bn to a monthly pace of \$35bn on rebounding economic activity. China announced a slight credit easing for the agricultural sector.

Ongoing domestic economic considerations and the pending full year reporting season is likely to add some 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

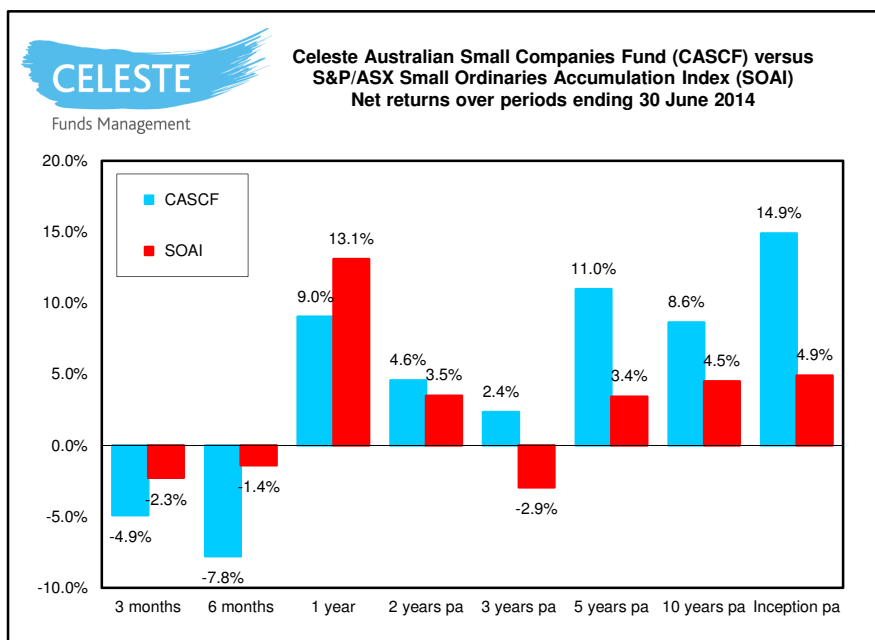
<b>Primary Investments</b>	Shares in listed Australian smaller companies
<b>Investment objective</b>	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
<b>Unit price (redemption) as at 30.06.2014 (ex-distribution)</b>	\$2.8042
<b>Unit price (application) as at 30.06.2014 (ex-distribution)</b>	\$2.8212
<b>Fund Size as at 30.06.2014 (ex-distribution)</b>	\$156m
<b>Minimum investment</b>	\$25,000
<b>Minimum additional investment</b>	\$1,000
<b>Minimum balance</b>	\$15,000
<b>Minimum investment: monthly investment plan</b>	\$500
<b>Redemption will generally be available in</b>	7 days
<b>Distributions</b>	30 June and 31 December
<b>Entry fee*</b>	0%
<b>Exit fee*</b>	0%
<b>Buy/Sell differential*</b>	0.30%
<b>Management fee*</b>	0.95%
<b>Performance fee**</b>	20% of return above benchmark
<b>OGFM***</b>	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
June 14	14.56	5.4

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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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