

CELESTE

Funds Management

Celeste Australian Small Companies Fund

Monthly update 31 July 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	+4.9	+3.2	+4.5	+10.0	+8.6
Performance (relative to Index)	+0.0	-4.9	+6.3	+7.4	+4.1
S&P/ASX Small Ords Acc Index	+4.9	+8.1	-1.8	+2.6	+4.5
S&P/ASX Small Inds Acc Index	+4.1	+10.6	+10.8	+9.6	+5.4
S&P/ASX Small Res Acc Index	+8.1	-1.6	-26.0	-12.5	+3.0

Past performance is not necessarily indicative of future returns.

The Fund rose 4.9% in July, with its benchmark, the ASX Small Ordinaries Accumulation Index also up 4.9%.

Since inception (May 1998) the Fund's return is 15.2% pa, net of all fees, against the Index's 5.2% pa.

Portfolio Commentary

MACA Limited (MLD) rose 10.5%. During the month the company was awarded a contract with Karara Mining which is expected to generate \$90m over a 17 month period. A financial update was also provided with the FY/14 profit anticipated to comfortably exceed that generated in FY/13.

Western Areas (WSA) rose 9.5% with the company delivering a solid June quarter production report. 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.

Beadell Resources (BDR) declined 14.8% with the company delivering a disappointing June quarter production report. Operations at the Tucano mine were impacted by severe rainfall. As a consequence site costs were higher than anticipated reflecting reduced mining activity, the processing of lower grade stockpile ore and reduced access to the high grade Duckhead deposit. The company expects to deliver much improved production and lower cash costs in the second half.

Transpacific Industries (TPI) rose 6.9% in the month after confirming the sale of its New Zealand business to Beijing Capital Group. TPI realised \$880m in sale proceeds from the divestment, leading to debt being all but repaid, and new syndicated debt facilities being repriced. With lower debt and sharper pricing TPI will save over \$15m pa in interest costs from FY/15 onwards.

Data #3 (DTL) rose 19.9% in July after updating its FY/14 guidance. DTL confirmed that it had had a very strong fourth quarter and that net profit in the second half would be approx. \$4.9m, compared to \$2.6m in the first half. DTL also noted that cashflow generation in FY/14 was very healthy, with the company to maintain the 90% dividend payout ratio in line with FY/13.

Portfolio Top 5 Holdings

Stock	% of Fund
1 SKILLED GROUP	5.0
2 REECE AUSTRALIA	4.3
3 MACA LIMITED	4.2
4 STEADFAST GROUP	4.2
5 TRANSPACIFIC INDUSTRIES	4.1

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+4.5	+16.6	+12.6
USA – S&P 500	-1.5	+14.5	+14.3
USA – NASDAQ Composite	-0.9	+20.5	+16.6
Europe – FTSE (UK)	-0.2	+1.6	+5.0
Europe – DAX (Germany)	-4.3	+13.7	+9.5
Asia – Nikkei (Japan)	+3.0	+14.3	+16.7
Asia – Shanghai Composite (China)	+7.5	+10.4	-6.6

Monthly Commentary

The geo-politics of the Middle East remained increasingly challenging and tragic in July, whilst the EU reacted to the situation in the Ukraine by placing sanctions on Russia. In West Africa an ebola outbreak worsened and has now affected Liberia, Sierra Leone, and Nigeria, a population base of over 194m. Argentina defaulted on \$1.3b of its debt, having previously defaulted in 2001.

Domestic economic news was broadly positive in July. Dwelling activity remained strong with Q1 housing starts up 9% quarter on quarter. On an annualised basis housing starts are now at 196,000, up 45% on the 136,000 starts of 2 years ago. Credit growth improved in June showing a 0.7% month on month lift, or on a year on year basis, a rise of 5.1%. Australia's inflation rate in Q2 was 0.5% quarter on quarter, now annualising at 3% year on year, at the top end of the Reserve Bank of Australia's 2% to 3% inflation target band. Whilst the headline inflation data may cause some concern a weak labour market, modest wage growth, and softer GDP growth suggest inflation may moderate slightly.

The US economy grew at an annualised rate of 4% in Q2. Business spending rose 14% between April to June and the employment market continued to create new jobs at over 200,000 per month. Having peaked at 9.9% in April 2010 the US unemployment rate fell to 6.1% in June 2014. Consumer spending rose 2.5% in Q2, a critical economic variable as it drives some 2/3 of US economic activity. The growth rate of the Chinese economy lifted in Q2 expanding at an annualised rate of 7.5%, up from a Q1 7.4%. In July the data out of China highlighted improved fixed asset investment, growth in factory output and rising retail sales.

We expect the forthcoming reporting season will highlight a challenging operating backdrop for the bulk of listed companies. The domestic economy in FY 2014 has seen consumers save rather than spend, has seen corporates defer capital expenditure and growth initiatives, and has seen further tweaking and adjusting of operating cost structures. Entering the current reporting season investor earnings growth expectations are modest, whilst sentiment remains washed out. We think the current investment backdrop is in stark contrast to that which has been the case in the last few years, where lofty earnings expectations have ultimately led to disappointment. We expect that market volatility in FY 2015, may be a little more pronounced than was the case in FY 2014. Whilst global growth expectations are likely to remain muted for some time investors will, in coming months, need adapt to risk being repriced upwards and for rates to start edging higher. At Celeste we remain process consistent and opportunistic. We look to periods of uncertainty to build portfolio exposures in high quality companies, with an eye on attractive after tax return generation, in the medium to longer term.

CELESTE

Funds Management

Fund at a Glance

Fund Information

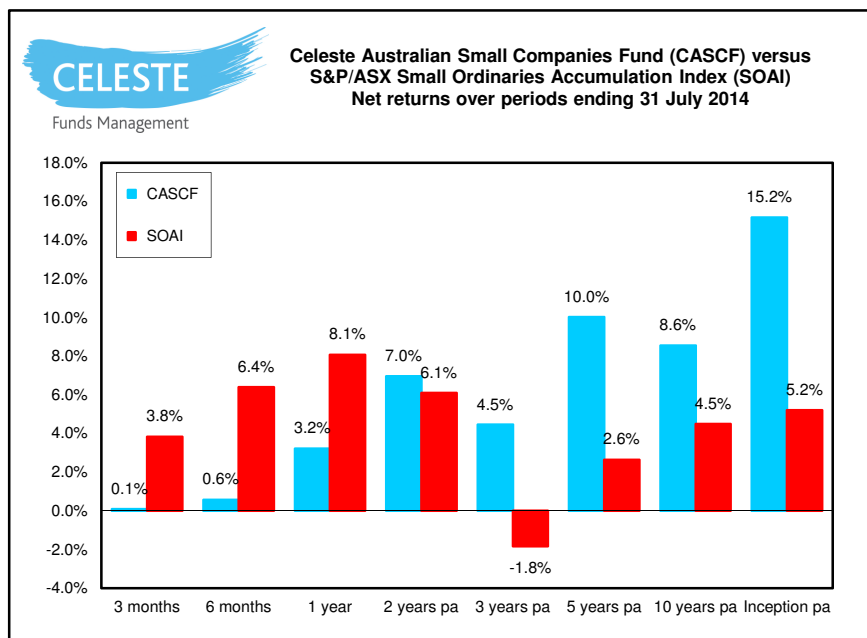
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 31.07.2014	\$2.9415
Unit price (application) as at 31.07.2014	\$2.9593
Fund Size as at 31.07.2014	\$167m
Minimum investment	\$25,000
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
June 14	14.56	5.4

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

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

ABN 78 098 628 605