

CELESTE

Funds Management

Celeste Australian Small Companies Fund

Monthly update 31 August 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	+3.0	+0.8	+6.4	+8.3	+8.3
Performance (relative to Index)	+0.7	-6.7	+6.6	+6.4	+3.8
S&P/ASX Small Ords Acc Index	+2.3	+7.5	-0.2	+1.9	+4.5
S&P/ASX Small Inds Acc Index	+3.7	+12.2	+13.0	+8.5	+5.5
S&P/ASX Small Res Acc Index	-2.6	-8.9	-25.7	-13.1	+3.1

Past performance is not necessarily indicative of future returns.

The Fund rose 3.0% in August, with its benchmark, the ASX Small Ordinaries Accumulation Index up 2.3%.

Since inception (May 1998) the Fund's return is 15.3% pa, net of all fees, against the Index's 5.3% pa.

Portfolio Commentary

Infomedia (IFM) delivered an excellent FY 2014 result with sales growth of 17%, net profit up by 22%, and dividends to shareholders up 34%. Infomedia rose 26.7% in August as investors reassessed the medium term prospects of the company's specialist software offering to the global auto industry.

Steadfast (SDF) rose +17.2% over August on the back of a strongly reported full year result. Revenues, profit, and dividends all exceeded IPO prospectus forecasts. Steadfast also announced the proposed \$55m acquisition of Calliden Insurance. Steadfast intend to retain the 8 Calliden insurance agency businesses and on-sell the insurance business to Munich Re. The deal makes logical strategic sense and is expected to be at least 10% earnings accretive.

In August IT services company **Oakton Limited (OKN)** (+35.1%) was the subject of a friendly takeover from Nippon Telegraph and Telephone at \$1.90 per share, with shareholders entitled to keep the FY 2014 final 4c fully franked dividend. The offer price compares with an Oakton share price prior to the offer of \$1.42, and a share price 12 months ago of \$1.20. The Board of Oakton have recommended the offer to shareholders in the absence of a higher offer, with the bid price representing a multiple of over 20 times FY 2014 net earnings.

Breville Group (BRG) fell 12.9% in August as the market reacted to a combination of softer North American sales performance in H2 of FY 2014 and the departure of CEO Jack Lord. We remain attracted to the global sales prospects of Breville Group, to its small electrical appliance product offering, and to the return on capital/return on equity, characteristics of the company. With some weakness in the Breville Group share price we took the opportunity to rebuild our portfolio exposure to the company at prices we believe will prove attractive in the medium term.

Portfolio Top 5 Holdings

Stock	% of Fund
1 SKILLED GROUP	52
2 STEADFAST GROUP	49
3 MACA LIMITED	44
4 REECE AUSTRALIA	44
5 RCR TOMLINSON	43

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+0.7	+14.4	+13.6
USA – S&P 500	+3.8	+22.7	+18.0
USA – NASDAQ Composite	+4.8	+27.6	+21.1
Europe – FTSE (UK)	+1.3	+6.3	+8.1
Europe – DAX (Germany)	+0.7	+16.9	+17.9
Asia – Nikkei (Japan)	-1.3	+15.2	+19.9
Asia – Shanghai Composite (China)	+0.7	+5.7	-4.8

Monthly Commentary

Rising geo-political tensions caused investors some consternation in recent weeks; however, the concern was not enough to stymie positive global equity market performance in August.

Reporting season in Australia came and went with the bulk of listed companies continuing to cite challenging operating conditions. With earnings expectations washed out running into reporting season it appears that subdued expectations were well placed and that the timing for earnings improvement has been pushed out a little further. Domestic corporations continue to note an anaemic revenue backdrop and an ever increasing focus on cost reductions to underpin earnings improvement. Having been in cost cutting mode since the 'global financial crisis' many companies suggest that the avenues for further cost adjustment are incremental in nature with few large cost adjustments still available.

The attractive pricing of debt, and ease of access to it, has led many companies to refinance existing borrowing facilities on better terms and with improved pricing. Many listed companies increased their payout ratios in FY 2014 and it appears that capital management will be an area of increasing focus in the current financial year.

Domestic economic news was patchy in August and provided little basis for short term optimism. Over the month consumer confidence indicators softened and the unemployment rate moved up 0.4% to 6.4%, the second largest monthly increase since mid-2002. On a more positive local note retail sales lifted a little in June, capital expenditure intention surveys are showing improvement and credit growth continues to edge higher.

Economic data points on the Chinese economy have recently taken on a softer tone with industrial production growing at 9% in July compared with 9.2% in June and retail sales off a little. Power consumption in July grew at an annual rate of 3%, compared to 5.9% growth seen in June. In Japan the economy contracted by 6.8% in the second quarter of 2014, as consumer spending weakened in response to the April sales tax jump to 8%, from 5%.

US GDP data for Q2 annualised at a strong 4%. In Q2 personal consumption was up 2.5%, a big lift on the 1.2% reported in Q1. Gross fixed domestic investment rose 17% in Q2, compared to a fall of 6.9% in Q1

In the short term we will continue to be selective with portfolio additions, given an anaemic economy and a challenging valuation backdrop. At Celeste we remain process consistent and opportunistic, looking for attractive after tax returns, in the medium to longer term.

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Funds Management

Fund at a Glance

Fund Information

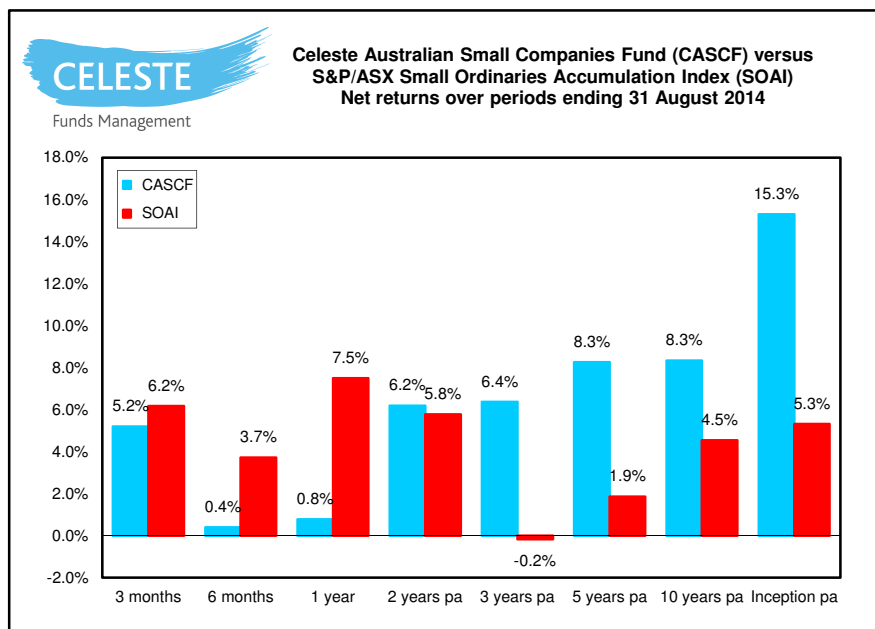
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 31.08.2014	\$3.0306
Unit price (application) as at 31.08.2014	\$3.0489
Fund Size as at 31.08.2014	\$172m
Minimum investment	\$25,000
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
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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