

CELESTE

Funds Management

Celeste Australian Small Companies Fund

Monthly update 30 September 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	-4.2	-7.6	+6.9	+5.7	+7.4
Performance (relative to Index)	+1.3	-7.5	+5.2	+6.0	+3.8
S&P/ASX Small Ords Acc Index	-5.5	-0.1	+1.7	-0.3	+3.6
S&P/ASX Small Inds Acc Index	-3.4	+4.2	+14.3	+6.3	+4.8
S&P/ASX Small Res Acc Index	-13.2	-15.9	-25.0	-15.8	+1.0

Past performance is not necessarily indicative of future returns.

The Fund fell 4.2% in September, with its benchmark, the ASX Small Ordinaries Accumulation Index down 5.5%.

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 14.4% in September. The company delivered a solid FY14 result with improvements noteworthy across net working capital, cash conversion and net debt. Group EBIT increased 7% with the South American segment prominent, up 76% and Seed Technologies strong, up 15%. Australia / New Zealand, Asia, Europe and North America all reported a reduced segment contribution.

ASG Group rose 5.4% during the month. ASG announced that it was a participant in a multimillion dollar, 8 year contract, with the Department of Defence to reconfigure and manage its datacentres.

Infomedia rose 7.2% as the company continued to be re-rated post its excellent FY 2014. In September there was little critical new news on the Infomedia front though the company did become part of the S&P / ASX 300 Index during the month.

Burson Group, +6.4%, benefited from continued market reassessment of this recently listed company. The Burson auto parts distribution business is defensive in nature and offers attractive medium term growth, which is funded by operational free cashflows.

Western Areas, Independence Group and **Beadell Resources** all fell >10% in September. The primary revenue driver of these companies are nickel, copper, zinc and gold prices which declined 11%, 4%, 3% and 6% respectively over the period.

SAI Global fell 13.6% as an indicative takeover offer for the company failed to conclude at a price that was acceptable to the SAI board.

Portfolio Top 5 Holdings

Stock	% of Fund
1 REECE AUSTRALIA	5.0
2 STEADFAST GROUP	5.0
3 BREVILLE GROUP	4.8
4 SKILLED GROUP	4.5
5 RCR TOMLINSON	4.5

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	-5.3	+5.9	+14.0
USA – S&P 500	-1.6	+17.3	+20.4
USA – NASDAQ Composite	-1.9	+19.1	+23.0
Europe – FTSE (UK)	-2.9	+2.5	+8.9
Europe – DAX (Germany)	+0.0	+10.2	+19.9
Asia – Nikkei (Japan)	+4.9	+11.9	+23.0
Asia – Shanghai Composite (China)	+6.6	+8.7	+0.1

Monthly Commentary

Equity markets had a challenging September with the bulk of global indices falling sharply during the month. Australian equities suffered from commodity prices falling, bond yields rising and the Australian dollar falling against the US dollar.

Australian economic data during September was mixed. Employment data for August was quite good and led to the unemployment rate falling to 6.1%, from 6.4%. It need be noted that the Reserve Bank of Aust. (RBA) acknowledges that the 6.4% July unemployment rate did have some "measurement issue". Retail sales expanded modestly in the June quarter and wages growth remained subdued. Indicators of business confidence and consumer sentiment remained fragile.

The RBA's September Board Minutes noted that the current stance of monetary policy was appropriate and was contributing to sustainable growth and appropriate inflation outcomes, hence a further period of interest rate stability was envisaged

Further weakening in the Chinese economy was highlighted in September with Industrial Production for August up 6.9%, year on year, the weakest growth rate experienced since December 2008. China's Purchasing Managers Index in August came in at 51.1%, down from July's 51.7%, again highlighting subdued momentum within the Chinese economy.

In the US Q2 GDP data was revised up to an annual rate of 4.6%, from an earlier reading of 4.2%. The US unemployment rate fell to 6.1% in August, having been as high as 10% in October 2009.

The Japanese economy shrank 1.8% in the June quarter, having grown 1.5% in the March quarter. With private consumption accounting for > 60% of Japanese activity, the largest single contributor to the Q2 slowdown was the April increase in Japan's sales tax rate from 5% to 8%.

In coming months we expect that market volatility is likely to increase as investor complacency moderates in tandem with interest rate increases. As globally accommodative monetary policies adjust we anticipate that the pricing of risk will change and that asset values will be subject to greater scrutiny.

Whilst equity market volatility inevitably brings with it investor discomfort it also brings with it opportunity. In periods of volatility Celeste remains focused on application of its investment process, looking to add attractive investment opportunities when valuations become appropriately compelling.

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Funds Management

Fund at a Glance

Fund Information

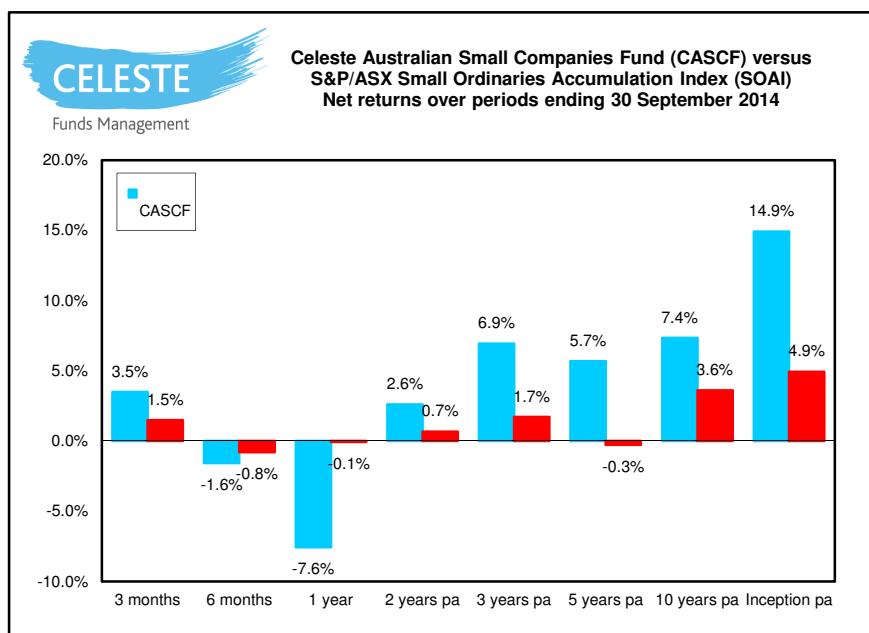
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 30.09.2014	\$2.9024
Unit price (application) as at 30.09.2014	\$2.9200
Fund Size as at 30.09.2014	\$163m
Minimum investment	\$25,000
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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