

Celeste Australian Small Companies Fund

Monthly update 31 October 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	-2.5	-10.7	+3.8	+4.6	+6.4
Performance (relative to Index)	-2.0	-7.4	+4.8	+4.8	+3.5
S&P/ASX Small Ords Acc Index	-0.5	-3.3	-1.0	-0.2	+2.9
S&P/ASX Small Inds Acc Index	+1.4	+2.4	+12.7	+6.8	+4.3
S&P/ASX Small Res Acc Index	-8.6	-23.9	-29.7	-17.1	-0.7

Past performance is not necessarily indicative of future returns.

The Fund fell 2.5% in October, with its benchmark, the ASX Small Ordinaries Accumulation Index down 0.5%. Since inception (May 1998) the Fund's return is 14.7% pa, net of all fees, against the Index's 4.9% pa.

Portfolio Commentary

NIB rose 12.4% over the month. The \$4b IPO of Medibank is focusing investors on the private health insurance sector, a sector with growth at least 2 X the rate of inflation. We are attracted to NIB given likely strong profit growth and excess capital generation.

Monash IVF (MVF) declined 11.9% over the month with first quarter IVF volumes a little weaker than expected. The 2015 result will be around \$3m short of revenue and \$2.5m short of EBITDA expectations, some 2.3% & 5.5% respectively. Whilst IVF cycles can be volatile when viewed over short time periods, the IVF industry appeals given underlying demand and opportunities for growth available to MVF, domestically and internationally.

SMS Mgt. & Tech. (SMX) rose 6.8%, after reporting at its AGM that its H1 FY2015 EBITDA would grow 40% - 50% on last year.

Beadell Resources (BDR) declined 37.0% impacted by the softer gold price & a disappointing Sept. quarterly prod. report. BDR needs to produce a very strong final quarter to deliver on its CY14 forecast. Cash costs are anticipated to improve materially as higher grade ore is accessed & the processing of lower grade stockpiles reduces. Future periods should see materially improved productivity following the appointment of a mining contractor.

MACA Ltd (MLD) fell 12.4% despite being awarded a sizable 5 year mining contract in Brazil. A financial update was also provided with FY 15 revenue forecast to exceed \$650m, from \$595m in FY 14. The share price weakness at MACA may possibly be due to weaker gold and iron ore prices which represent the company's largest commodity exposures.

Independence Group (IGO) rose 11.8% with the company reporting a sound quarterly production report. IGO's 100% owned Long Nickel & Jaguar Zinc-Copper mines are well placed to deliver at, or better than, guidance in FY15. The 30% owned Tropicana Gold Mine is providing meaningful cash flow and has ramped up well. With its corporate debt fully repaid, there is scope for IGO to grow dividends or target new project opportunities.

Portfolio Top 5 Holdings

Stock	% of Fund
1 REECE AUSTRALIA	5.1
2 STEADFAST GROUP	5.1
3 BREVILLE GROUP	4.9
4 SKILLED GROUP	4.8
5 ARB CORPORATION	4.3

Global Index Performance (Accumulation)

	1 month %	1 year %	3 years % pa
Australia – S&P/ASX All Ordinaries	+4.0	+5.9	+12.9
USA – S&P 500	+2.3	+14.9	+17.2
USA – NASDAQ Composite	+3.1	+18.1	+19.9
Europe – FTSE (UK)	-1.2	-2.7	+5.7
Europe – DAX (Germany)	-1.6	+3.2	+14.9
Asia – Nikkei (Japan)	+1.5	+14.6	+22.2
Asia – Shanghai Composite (China)	+2.4	+13.0	-0.7

Monthly Commentary

October started with equity markets being sold off, locally and internationally. Investor sentiment at the start of the month was tempered by weakening global growth expectations across Asia and in the EU. As the month progressed growth fears moderated and high yield, non-cyclical, liquid equity exposures recovered.

In Australia October was a month where demand for equities with yield and defensive traits was rekindled, graphically illustrated by the 6.9% rise in the ASX 200 Financials, ex REITs, index. The de-risk mood can be further noted in the relative underperformance of the Small Industrials, which rose 1.4%, against the 6.2% rise of the ASX 100 Industrials Index. To further highlight the risk averse mindset that was prevailing by month end the Small Resources Index fell 8.6% in Oct., reaching its lowest level since May 2004.

During the month China's Q3 GDP data showed growth of 7.3%, a slight reduction on the 7.5% seen in the previous quarter. The World Bank cut its 2015 growth targets for China forecasting 7.2% growth in 2015 and 7.1% in 2016, against a previous forecast of 7.5% for both years. Interestingly the People's Bank of China relaxed its mortgage rules lowering the minimum down payment from 60% to 30% for second home buyers that have fully repaid their outstanding mortgage loans. These second home buyers will also receive a preferential interest rate 30% below the benchmark rate.

With the proposed change to the Australian corporate tax rate in 2015 we note with interest that some companies are moving to expunge their franking credit balances, before July 1st 2015. During October ARB Corporation, a Celeste portfolio exposure, declared a special dividend of \$1 per share, a move that will provide significant value to shareholders and to unit holders in the Celeste Australian Small Companies Fund. We feel that the Board of ARB Corporation need be highly commended for their capital management sensitivity and hope that other listed corporates move along a similar path over the course of FY 2015.

In the US the unemployment rate fell to 5.9% in September, from 6.1% in August, and is now at the lowest level recorded since July 2008. US Q3 GDP annualised at a healthy 3.5%, compared with consensus at 3%.

We continue to expect that market volatility will increase in coming months, as investor complacency is tempered by rising interest rates and less accommodative monetary policy. At Celeste we remain focused on executing our process, irrespective of prevalent market mood, with a focus on meeting our alpha objective over the medium to longer term.

CELESTE

Funds Management

Fund at a Glance

Fund Information

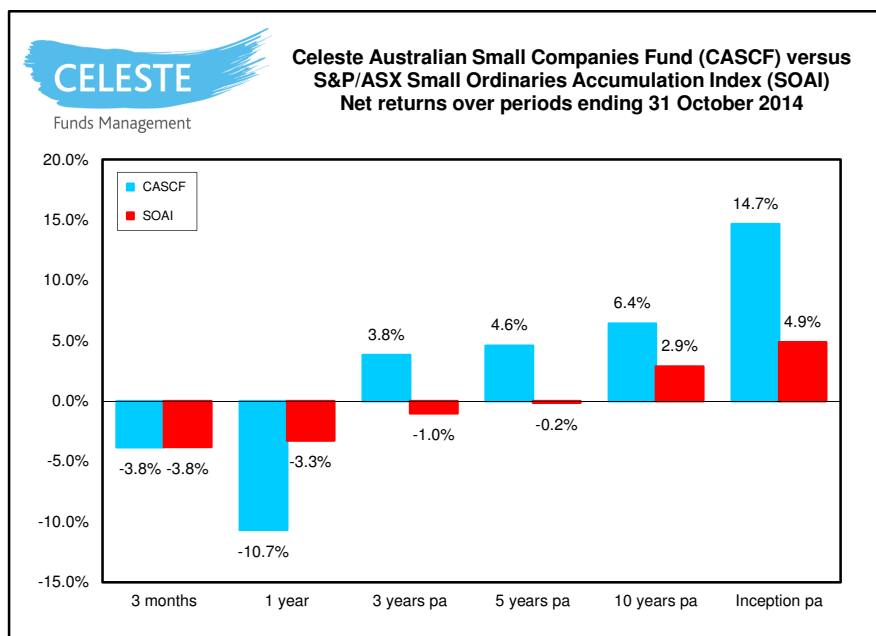
Primary Investments	Shares in listed Australian smaller companies
Investment objective	Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
Unit price (redemption) as at 31.10.2014	\$2.8463
Unit price (application) as at 31.10.2014	\$2.8292
Fund Size as at 31.10.2014	\$158m
Minimum investment	\$25,000
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 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

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