

Product Assessment

Report data as at 31 Jan 2014
Rating issued on 03 Mar 2014

Celeste Australian Small Companies Fund

VIEWPOINT & RATING

The Celeste Australian Small Companies Fund (the Fund) offers investors a pure exposure to the Australian equities small cap sector, via a style neutral portfolio. Zenith believes Celeste's research, security selection and portfolio construction efforts are well structured and disciplined. Zenith also believes the firm's ownership structure provides a strong alignment of interests between the Fund's investment decision makers and investors in the Fund. **Zenith rates the Fund HIGHLY RECOMMENDED.**

Celeste Funds Management (Celeste) is a boutique Australian small companies specialist. Celeste is majority owned by its staff, with the ASX listed Treasury Group a 39% shareholder.

The business comprises four investment professionals, led by Frank Villante, Chief Investment Officer. Villante, is the portfolio manager responsible for the Fund, and in Zenith's view is a highly experienced and capable small cap portfolio manager. Villante is well supported by a team of three experienced analysts. Zenith believes the investment team to be one of the most experienced and capable within the small cap universe. In addition, the Celeste team has historically experienced an impressive level of consistency and stability. In an under researched sector, Zenith believes the Celeste team's depth of experience and level of industry contacts, particularly Villante's, provides the team with a distinct competitive advantage.

Celeste has experienced an increase of approximately \$108 million in funds under management (FUM) over the last 12 months, bringing FUM within the strategy (and firm) to approximately \$763 million as at 31 December 2013. Celeste takes an active approach to managing FUM and capacity, with Celeste removing the strategy from certain platforms during 2013, in an attempt to curb inflows. In addition, the strategy is hard closed to institutional inflows. While Zenith understands this can create difficulties for financial planners, we believe Celeste's focus on maintaining the outperformance potential for existing clients is to be commended.

Celeste's security selection process is built on the premise that markets are inefficient and occasionally fail to reflect the intrinsic value of stocks. Celeste aims to identify companies that exhibit cash flow stability, a strong business model and a committed board and management. The research effort focuses on assessing the company's financial performance history, senior management capabilities, and the robustness of the business model. Quantitative and qualitative analysis results in a Stock Review report that tabulates the analyst's assessment of the stock's potential return, conviction level, potential portfolio exposure, growth projections, stock milestones and a social, governance and environmental summary.

Celeste's portfolio construction process is a by-product of the stock research process. The analysts' level of conviction and stock return potential generates a portfolio target weight, determined by Celeste's Portfolio Return Matrix. Target weights may vary based on stock liquidity and current portfolio positioning. The Fund is benchmark unaware and reasonably concentrated, typically consisting of between 30 to 40 securities.

FUND FACTS

- Highly experienced investment team
- Expected Tracking Error of 8% p.a. to 12% p.a.
- Portfolio turnover expected to be relatively low at approximately 30% to 40% p.a.

APIR Code

FAM0101AU

Asset Class

Australian Shares

Sub-Asset Class

Small Companies

Investment Style

Neutral

Investment Objective

To outperform the S&P/ASX Small Ordinaries Accumulation Index by 5% + p.a. over rolling three year periods (after fees and expenses and before taxes) by investing in Australian companies outside the S&P/ASX 100 Index.

Zenith Assigned Benchmark

S&P / ASX Small Ordinaries (Accum)

Key People

Frank Villante
Chief Investment Officer

Investment Team Size

4

Net Returns (% p.a.)

	5 yrs	3 yrs	1 yr
Fund	16.74	2.19	-4.41
Benchmark	8.57	-6.17	-7.39
Median	16.95	3.70	6.24

Income (% p.a.)

	Income	Total
FY to 30 Jun 2013	5.55	0.28
FY to 30 Jun 2012	1.38	-1.95
FY to 30 Jun 2011	4.64	19.66

Fees (% p.a.)

Management Fee: 0.95%
Performance Fee: 20% of benchmark outperformance (net of fees) subject to high water mark.

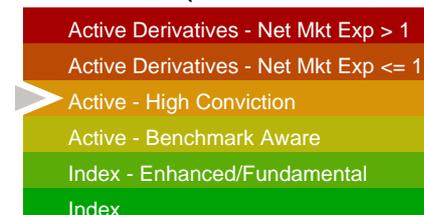
Analyst

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ABSOLUTE RISK (SECTOR)



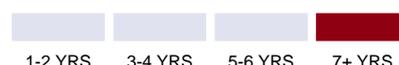
RELATIVE RISK (FUND WITHIN SECTOR)



INCOME DISTRIBUTIONS PER



INVESTMENT TIMEFRAME



APPLICATIONS OF INVESTMENT

SECTOR CHARACTERISTICS

The Zenith "Australian Shares - Small Companies" sector consists of long only funds investing in the small capitalisation (small cap) spectrum of the Australian equity market. That is, companies that fall between the S&P/ASX 100 and S&P/ASX 300. This is a competitive sector of the investment landscape, with the number of managers and strategies available to investors having grown in recent years. Over the longer-term, active management in this sector has historically demonstrated a strong ability to outperform a passive index.

Zenith benchmarks all funds in this sector against the S&P/ASX Small Ordinaries Accumulation index. However, investors should be aware that funds in this sector can have a varying allocation to the micro-cap universe i.e. ex-S&P/ASX 300 stocks. The S&P/ASX Small Ordinaries Accumulation index is market-capitalisation weighted, resulting in those companies with the largest market capitalisations receiving the heaviest weightings.

The Australian share market, as represented by the S&P/ASX 300 Accumulation index, is relatively narrow and highly concentrated, with the Materials and Financials sectors representing a material proportion of the index. In comparison to the S&P/ASX 300 index, the S&P/ASX Small Ordinaries Accumulation index has a much lower weighting to the Financials sector and is represented by a larger weighting to the Resources sector, which reflects the importance of resources related industries to the small-cap sector. A significant proportion of these resource companies are classified as "exploration" companies, and in many cases are not cash flow positive, can be highly volatile and their fortune can be linked to whether (or not) a resource body is discovered.

PORTFOLIO APPLICATIONS

For investors seeking to achieve a well-blended exposure to Australian equities, Zenith suggests Australian small capitalisation funds are best used in combination with a large capitalisation Australian equities fund.

Zenith believes small capitalisation funds are most appropriate for investors with an investment time horizon of seven or more years.

The Fund's style neutral investment approach makes the Fund an attractive option for investors seeking a single fund exposure to Australian small companies.

Investors should note that whilst the Fund considers resource companies as part of its investment universe, it has historically maintained a strong industrials bias.

Celeste's low portfolio turnover approach, approximately 30% to 40% per annum with an average holding period of three to four years, makes the Fund ideal for investors on higher marginal tax rates.

RISKS OF THE INVESTMENT

SECTOR RISKS

The broad risks of investing in Australian small cap equities include:

MARKET RISK: A sustained downturn in the Australian equity market could lead to negative performance. Furthermore, in market downturns, the small cap sector tends to underperform the large cap sector due to its higher "beta" characteristic. The Resources sector also currently represents approximately one quarter of the S&P/ASX Small Ordinaries index. Small resources companies are highly correlated to commodity prices, as such, a fall in commodity prices is likely to have a negative impact on performance returns.

CONCENTRATION RISK: Many small capitalisation funds tend to be concentrated and high conviction, with relatively few risk management constraints. Performance may therefore diverge from that of the index, and competitors, over the short-term.

CAPACITY/LIQUIDITY RISK: Excessive levels of funds under management (FUM), particularly in the small capitalisation sector of the market, has the potential to inhibit a manager's ability to trade portfolio positions effectively, and therefore limit outperformance or alpha generation potential. As a general 'rule of thumb' Zenith believes approximately 1% of the market capitalisation of the S&P/ASX Small Ordinaries index is an appropriate capacity target for an Australian small cap strategy, and that above this level it becomes increasingly difficult to generate alpha. Zenith is cognisant that assessing FUM capacity as a percentage of market capitalisation is a relatively crude measure and that capacity constraints can vary depending on the underlying investment style and approach. Zenith will therefore assess capacity limits for each manager and strategy on an individual basis.

FUND RISKS

Zenith has identified the following key risks associated with the Fund; this is not intended to highlight all possible risks:

CAPACITY RISK: Celeste has indicated a target capacity limit of approximately \$850 million or 0.8% of current market capitalisation of the S&P/ASX Small Ordinaries Index. As at 31 December 2013, FUM in the strategy was approximately \$763 million. Celeste takes an active approach to managing FUM and capacity, with Celeste removing the strategy from certain platforms during 2013, in an attempt to curb inflows. In addition, the strategy is hard closed to institutional inflows.

KEY PERSON RISK: As with most small cap investment teams, key person risk is high. In particular, the departure of Villante would trigger a review of the Fund and its rating. Overall, Zenith believes the current equity arrangement negates the risk of his departure.

QUALITATIVE DUE DILIGENCE

ORGANISATION

In November 2009, Treasury Group (Treasury) acquired Souls Funds Management (Souls) from Washington H. Soul Pattinson, the transaction included the Small Companies Fund and existing investment team. Frank Villante remained as Chief Investment Officer and retained a majority of the existing investment team based on their respective small cap experience. Treasury and the investment team entered into an equity agreement resulting in the investment team acquiring a 59% stake in Celeste, Treasury retaining 39%, with 2% retained by historic minorities. Souls Funds Management was renamed Celeste Funds Management Limited in December 2009. Zenith is comfortable with the current ownership structure and is satisfied sufficient incentives are in place to ensure staff retention and stability within the investment team.

On 1 May 2012, the Celeste Australian Equity Fund was wound up, leaving the Small Companies Fund Celeste's only offering. Zenith believes this is a positive outcome as it allows for the investment team to focus entirely on small cap stocks, its core competency.

Celeste is in a profitable position, pre performance fees, with firmwide FUM of approximately \$763 million as at 31 December 2013. Celeste has experienced an increase of approximately \$108 million in FUM over the last 12 months.

Celeste takes an active approach to managing FUM and capacity, with Celeste removing the strategy from certain platforms during 2013, in an attempt to curb inflows. In addition, the strategy is hard closed to institutional inflows. While Zenith understands this can create difficulties for financial planners, we believe Celeste's focus on maintaining the outperformance potential for existing clients is to be commended.

INVESTMENT PERSONNEL

Name	Title	Tenure
Frank Villante	Chief Investment Officer	10 Yr(s)
Scott Armstrong	Analyst	6 Yr(s)
Andreas Stephens	Analyst	14 Yr(s)
Paul Biddle	Analyst	8 Yr(s)

Celeste's investment team consists of four investment professionals, led by Villante, Chief Investment Officer, who has in excess of 30 years industry experience. Villante joined Celeste (formerly known as Souls Funds Management) in 2004 after previously working at the NAB, BT, Bridges Son & Shepherd, and NRMA investments in a range of analytical and portfolio management roles. In Zenith's view, Villante is a highly experienced and capable small cap portfolio manager.

The remaining three members of the team are investment analysts Andreas Stephens, Scott Armstrong and Paul Biddle, who between them have an average of close to 20 years of investment experience. In the absence of Villante, portfolio management responsibilities are assumed by one of Armstrong or Biddle, on a rotational basis. The acting portfolio manager will perform this duty for the whole period of absence, providing individual responsibility and accountability. Pleasingly, both

Armstrong and Biddle have prior portfolio management experience. To date, the Celeste team has historically experienced an impressive level of consistency and stability. Zenith believes the investment team to be one of the most experienced and capable within the small cap universe.

Stock coverage amongst the team is divided according to sectors. Each sector will have a primary analyst and a backup analyst, which ensures depth of coverage and cultivates robust discussions.

Celeste's remuneration structure incorporates a competitive base salary and dividend stream. The dividend stream is based on the level of equity ownership and is subject to the overall profitability of the business. In Zenith's view, the equity structure further aligns the interests of the investment team to the performance of the Fund and the overall success of the business.

Overall, Zenith believes that Celeste is currently well resourced, with substantial investment and small caps experience. Furthermore, Zenith is encouraged by the transparent nature of communications between Villante and his team.

INVESTMENT PROCESS

The Fund's investment objective is to deliver a return of 5% + p.a. (net of fees) above the S&P/ASX Small Ordinaries Accumulation Index over rolling three year periods, with an estimated Tracking Error within the range of 8% p.a. to 12% p.a. The style neutral portfolio is a by-product of the multifaceted valuation approaches utilised.

Celeste believes the market is inefficient, and at times stock prices do not accurately reflect the true intrinsic value of a company. This view is based on a range of factors which include:

- Investors being swayed by emotion and sentiment
- Not all investors possessing the same level of knowledge and information
- Investors focusing on a short-term time frame

Through a disciplined stock selection and portfolio construction process, Celeste aims to exploit these market inefficiencies in identifying alpha opportunities.

SECURITY SELECTION

The Fund's investment universe includes all stocks within the S&P/ASX Small Ordinaries Index (200 stocks - which are continuously monitored and ranked) plus non-index stocks of interest which possess significant investment opportunity. Attractive micro cap securities may also be included in the portfolio, following a thorough assessment and screening by the whole team.

The initial filtering process focuses on the following factors:

- *Quality of Accounts:* cash flow quality, avoiding accounting engineering
- *Debt:* EBITDA interest cover greater than 2.5 times, EBITDA to debt payback period less than seven years
- *Business Model:* durable, robust and competitive business model
- *Board and Management:* successful track record of value

creation, board commitment, alignment of interest with shareholders

- *Responsible Investment (ESG)*: value at risk awareness

The initial filter process generally screens out listed property trusts, investment companies and speculative stocks. The investment universe will reduce to approximately 200 stocks, marked for further research. Due to the focus on quality, the majority of exploration resources companies are screened out. Historically, Celeste has held underweights to the materials and energy sectors. More recently, Celeste has broadened its coverage on the materials sector.

The research universe is then disseminated amongst the investment team. Analyst research responsibilities are divided by sector, with all stocks having a primary and backup analyst. Both the primary and backup analysts contribute to management meetings and on-site assessments, with buy and sell decisions discussed as a group.

An initial assessment of a company's business segment, operating environment and industry growth projections is conducted, with data and information gathered from a range of sources including company suppliers, customers, competitors, and other stakeholders. Broker analyst data is also used.

The Porter-type framework is applied to assess the company's business model. The factors examined include:

- Financial track record and earnings resilience
- Defining a company's competitive advantage and barriers to entry
- Power of suppliers and buyers
- Product substitution or technological obsolescence
- Environmental, social and governance (ESG) performance

The financial accounts are assessed based on at least five years historical data as well as a forecast of at least two years. Financial statements which exhibit quality, minimise use of provisions, and have a high level of consistency, are favoured. Companies with aggressive accounting methods will be removed from the research universe. Investment analysts draw on broker models or internally constructed models. Zenith would prefer stock models to be constructed internally, however we believe the investment team takes great care in understanding external models if and when they are used.

The subjective evaluation of company management and the Board is determined by one-on-one meetings and includes an assessment of:

- Skill sets
- Track record
- Work load
- Alignment of interests
- Record of board meeting attendance

The team conducts approximately 350 one-on-one meetings a year.

The research process culminates in the production of the Stock Review report, which incorporates:

- A stock assessment

- Valuation and pricing breakdown
- Milestones required to meet the valuation target
- Target price and floor price
- Proposed portfolio weighting (subject to stock liquidity)
- Growth projections
- A summary of the analyst's recommendation of the stock
- Business model factors
- ESG considerations
- Any other factors which are deemed important for long-term value creation

The Stock Review report will be presented by the primary analyst to the investment team for debate and discussion, with Villante maintaining ultimate decision making discretion.

In addition to the Stock Review report, all stock specific research is formally documented within a company File Note, which includes all stock specific information such as management meetings, press and brokerage releases, and historical financial information. Zenith has viewed examples of the firm's File Notes and has been impressed by Celeste's comprehensive and diligent approach to company research.

Celeste utilises a blend of analytical metrics, as detailed below, in the evaluation and assessment of the research universe:

- Discounted Cashflow (DCF)
- Price/Earnings (P/E)
- Enterprise Valuation (EV)
- Life of Mine (LOM) - used in relation to stocks in the materials sector
- Return on Equity (ROE)
- Comparative dividend yields
- Debt and gearing
- Margins and profitability

The range of valuation tools are subjectively applied based on the industry and stock under assessment. Zenith views the use of multiple valuation factors, or more specifically the most appropriate valuation criteria depending on the stock/industry, as a positive.

The investment universe is continually monitored, ranked and discussed within the weekly team meeting.

Celeste believes ESG issues can represent both opportunity and risk in a valuation context and therefore includes Responsible Investment considerations throughout all stages of its investment process, which Stephens coordinates. Furthermore, Celeste believes the handling of ESG matters can also serve as a proxy for overall management performance and quality. The firm's ESG related analysis is also documented in the firm's Stock Review report and File Notes. Celeste has been a signatory to the UN-PRI since 2008, and is a member of the Investor Group on Climate Change and Responsible Investment Association Australasia.

In Zenith's view, Celeste's security selection process is comprehensive and well structured.

PORTFOLIO CONSTRUCTION

Celeste's portfolio construction process is a direct outcome of the stock research process. The Stock Review report outlines the stock's characteristics, including expected return, analyst's return confidence, portfolio target weight (based on the portfolio return matrix), index weight and recommended portfolio weight.

Celeste's Portfolio Return Matrix sets guidelines for establishing and managing portfolio positions based on the combination of return potential and confidence. The matrix is designed to allocate a portion of the portfolio, based on a tiered system, to stocks which exhibit a positive return potential (based on discount to fair value) and the return confidence of the analyst (High, Strong or Modest).

- Tier 1 (40%+ potential return) - High (7% allocation), Strong (5%) and Modest (2%)
- Tier 2 (25% to 40% potential return) - High (5%), Strong (4%) and Modest (1%)
- Tier 3 (15% to 25% potential return) - High (3%), Strong (2%) and Modest (0%)

The Portfolio Return Matrix is not rigid and the portfolio manager maintains ultimate discretion in stock selection and portfolio weight allocation, although the average initial weighting allocated would typically be the target weight assigned by the matrix. Factors which are taken into consideration by the portfolio manager at the time of purchase or sale of a stock include:

- Liquidity
- The stocks index weight
- A change of management or board members

Liquidity is a key determinant of a position sizing, with Celeste undertaking great care to ensure ease of turnover. Rather than purely relying on intuition and experience, Celeste also incorporates a more scientific approach to assess liquidity. More specifically, Celeste considers stock turnover over rolling 12 and 24 month periods, after adjusting for abnormal events. Historical liquidity is then assessed against target stock weightings, with positions that exhibit some degree of sensitivity held below implicit target weighting. Zenith believes the consideration of liquidity factors, especially within the small caps space, is paramount. We are encouraged by the initiative that Celeste has shown regarding stock liquidity.

The Fund is constructed based on bottom-up stock research, which may ultimately lead to sector tilts away from the index. The Fund is concentrated, and will generally hold between 30 to 40 securities, with a Tracking Error generally between 8% p.a. to 12% p.a. Portfolio turnover is expected to be within the range of 30% p.a. to 40% p.a., which Zenith considers to be relatively low.

Celeste enforces a strict sell discipline for stocks which enter the S&P/ASX Top 100 Index, by selling them within three months, and typically in less than a month. While Zenith believes this sell discipline ensures the Fund remains a true Australian equities small cap exposure, we would prefer greater flexibility in the removal of these positions.

Overall, Zenith believes Celeste's portfolio construction approach is well structured and that the Fund is positioned in the team's highest conviction ideas. With Villante as portfolio

manager, Zenith believes there is a high level of transparency and accountability for all decisions impacting the portfolio, and ultimately Fund performance. Although the Fund's portfolio turnover is relatively low, Zenith believes Celeste's sell discipline is strong, with stocks the team deems no longer attractive, whether it be for fundamental or valuation related reasons, are sold from the Fund in a timely fashion.

OPERATIONAL DUE DILIGENCE

RISK MANAGEMENT

Portfolio Constraints	Description
Security Numbers	Generally 30 to 40
Stock Limit	Maximum of 10%
Cash (%)	Typically in the range of 0% to 5%, maximum of 10%
Portfolio Turnover (% p.a.)	Typically in the range of 30% p.a. to 40% p.a.
Tracking Error (%)	Typically between 8% p.a. to 12% p.a., not targeted

Celeste's risk management process is implemented at a stock specific level and overlaid by the general portfolio constraints applied (displayed in the table above). The initial filtering process is aimed at eliminating non-investment grade companies from the research universe and identifying stocks that exhibit financial stability, a strong business model with a solid board and management.

The portfolio manager reviews the Fund in accordance with the risk parameters in place on a daily basis through an internally designed risk management system. The Fund is reviewed against the Global Industry Classification Standard (GICS) to assess sector tilts on a monthly basis. The Fund can invest in micro cap securities; however exposure to stocks with a market cap of less than \$100 million is typically between 2% to 5% of the portfolio in aggregate.

Zenith is satisfied that the Fund's risk management processes are embedded throughout the entire investment process and that liquidity of holdings is adequately monitored.

INVESTMENT FEES

The Sector average fee (in the table below) is based on the average management fee of all flagship Australian Small Companies funds surveyed by Zenith.

Fees include a base management fee of 0.95% p.a. plus a 20% performance fee (net of fees) based on positive relative performance of the ASX/S&P Small Ordinaries Accumulation Index. The performance fee is subject to a high watermark, and is based on positive performance and recouped loss of performance.

Zenith views the Fund's fee structure as competitive with its Australian Small Companies fund peers., although Zenith would prefer to see an alpha hurdle (i.e. target return above the index other than base management fee) in place for the performance fee.

There is also a buy/sell spread of 0.3% charged on Fund entry

and exit.

(The fees mentioned above are reflective of the flagship version only, fees may differ when the product is accessed through an alternate investment vehicle such as a platform.)

Fees Type	Fund	Sector Average (Wholesale Funds)
Management Fee	0.95% p.a.	1.15% p.a.
	Description	
Performance Fee	20% of benchmark outperformance (net of fees) subject to high water mark.	
	Buy Spread	Sell Spread
Buy / Sell Spread	0.30%	0.30%

PERFORMANCE ANALYSIS

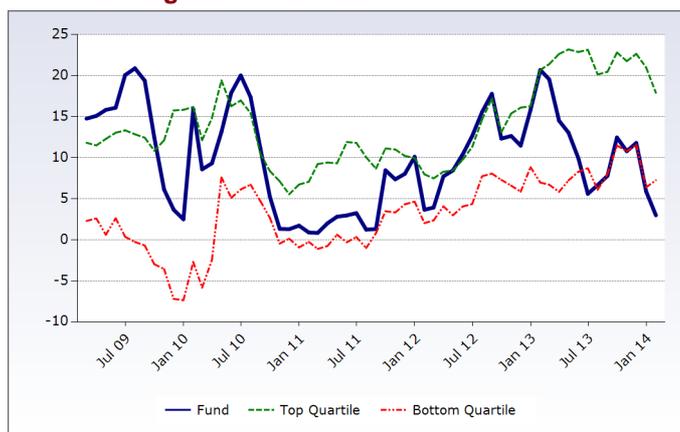
Report data: 31 Jan 2014, product inception: Jun 1998

Monthly Performance History (%)

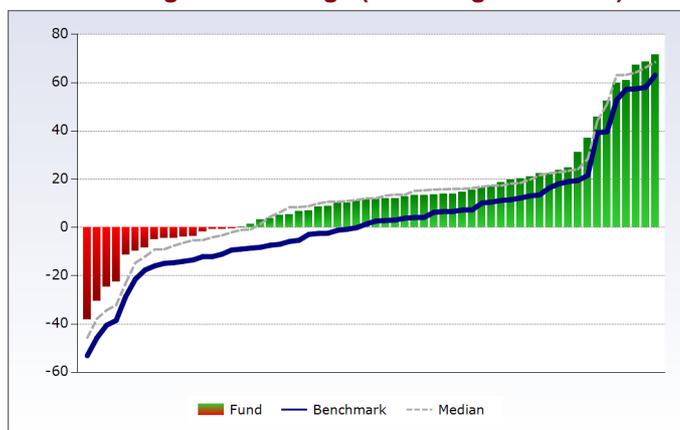
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	FUND YTD	BENCHMARK YTD
2014	-3.82												-3.82	-2.76
2013	5.80	1.77	-3.08	-4.25	-4.32	-6.98	10.82	5.51	4.41	0.88	-4.75	0.79	5.15	-0.76
2012	4.63	7.51	4.47	0.37	-7.32	-0.71	0.27	4.51	2.58	1.09	-3.10	7.08	22.40	6.58
2011	2.87	2.14	0.03	-1.92	-1.56	-3.25	-1.32	-2.43	-5.76	6.60	-3.20	-3.53	-11.31	-21.43
2010	-1.90	0.42	6.01	-0.02	-7.85	-2.13	4.10	1.96	6.16	3.61	0.03	4.36	14.77	13.05

Benchmark: S&P / ASX Small Ordinaries (Accum)

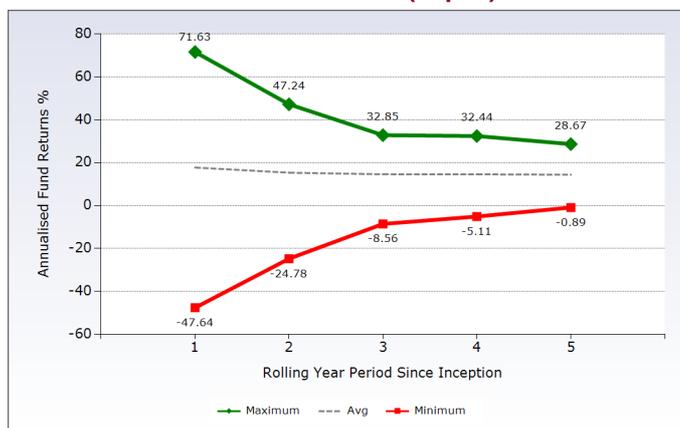
1 Yr % Rolling Excess Return



1 Yr % Rolling Return Range (Date range as above)



Minimum and Maximum Returns (% p.a.)



ABSOLUTE PERFORMANCE ANALYSIS

Return	Incpt.	5 yr	3 yr	1 yr
Fund (% p.a.)	15.65	16.74	2.19	-4.41
Benchmark (% p.a.)	4.95	8.57	-6.17	-7.39
Median (% p.a.)	11.44	16.95	3.70	6.24
Ranking within Sector	Incpt.	5 yr	3 yr	1 yr
Fund Ranking	2 / 10	21 / 38	27 / 41	41 / 42
Quartile	1st	3rd	3rd	4th
Standard Deviation	Incpt.	5 yr	3 yr	1 yr
Fund (% p.a.)	16.55	16.00	15.30	17.40
Median (% p.a.)	17.58	16.23	14.76	13.24
Downside Deviation	Incpt.	5 yr	3 yr	1 yr
Fund (% p.a.)	9.43	7.14	7.56	8.39
Median (% p.a.)	10.81	7.87	7.96	6.42
Risk/Return	Incpt.	5 yr	3 yr	1 yr
Sharpe Ratio - Fund	0.63	0.80	-0.11	-0.42
Sortino Ratio - Fund	1.11	1.79	-0.22	-0.86

All commentaries below are as at 31 January 2014.

The Fund's investment objective is to outperform the S&P/ASX Small Ordinaries Accumulation Index by 5% + per annum (net of management fees) over a rolling three year period.

Celeste has generated an impressive long-term performance track record, with the Fund comfortably meeting its performance objective over the one, three, five and since inception (31 May 1998) periods. Over shorter-term periods, while the Fund has continued to outperform the benchmark, the Fund has underperformed peers. Zenith believes these results have been consistent with the firm's investment philosophy and conservative approach to valuation.

The Fund's absolute risk (as measured by Standard Deviation) remains marginally below the median manager over all time periods assessed. The firm's focus on securities with strong business fundamentals typically helps shield the Fund from highly volatile securities.

In addition, the Fund's downside deviation indicates greater capital preservation in market downturns relative to peers.

RELATIVE PERFORMANCE ANALYSIS

Alpha Statistics	Incpt.	5 yr	3 yr	1 yr
Excess Return (% p.a.)	10.70	8.17	8.36	2.98
% Monthly Excess (All Mkts)	63.30	63.33	72.22	66.67
% Monthly Excess (Up Mkts)	52.14	44.12	58.82	66.67
% Monthly Excess (Down Mkts)	81.69	88.46	84.21	66.67
Beta Statistics	Incpt.	5 yr	3 yr	1 yr
Beta	0.76	0.78	0.86	1.05
R-Squared	0.67	0.80	0.84	0.92
Tracking Error (% p.a.)	10.39	8.15	6.45	4.86
Risk/Return	Incpt.	5 yr	3 yr	1 yr
Information Ratio	1.03	1.00	1.30	0.61

All commentaries below are as at 31 December 2013.

Zenith seeks to identify funds that can outperform in over 50% of months in all market conditions, as we believe this represents consistency of manager skill. The Fund's outperformance statistics illustrate Celeste's strong ability to generate outperformance above benchmark in falling market conditions versus rising market. This is not unexpected given the firm's focus on valuation and earnings quality.

The Fund's Tracking Error has remained within its expected range of 8% to 12% p.a. over the longer-term. More recently Tracking Error has fallen under the lower expected band of 8%, coinciding with Celeste's expanded materials coverage.

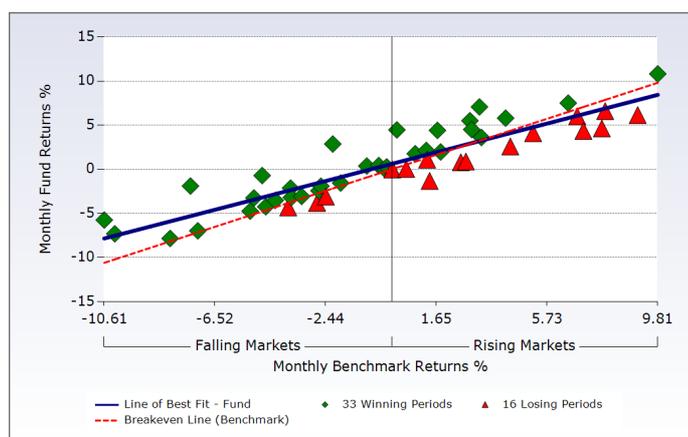
Zenith has a high level of confidence that the Celeste team will continue to deliver benchmark outperformance over the medium to long-term.

Monthly Return Scattergram

The following Monthly Return Scattergram Chart provides an insight into the skill of the manager, the risk profile of the manager (both absolute and relative) and the market conditions which favour the manager. The dot points represent the monthly returns of the fund (y-axis) and benchmark (x-axis) since inception or the past five years for funds with long histories. As a guide:

- A green dot point indicates the fund has outperformed in that month. A red dot indicates the fund has underperformed in that month.
- The blue line is a line of best fit of the fund returns and the red line is the breakeven line or benchmark line of best fit. The blue line crossing the y-axis above zero indicates investment outperformance (and vice versa)
- The slope of these lines provides an indication of the beta (market risk) of the investment and benchmark. The greater the slope the greater the risk.
- Often the blue line will cross with the red line at some point and this indicates that investment outperformance is better in

certain market conditions (and vice versa).



INCOME/GROWTH ANALYSIS

Income / Growth Returns	Income	Growth	Total
FY to 30 Jun 2013	5.55%	-5.26%	0.28%
FY to 30 Jun 2012	1.38%	-3.33%	-1.95%
FY to 30 Jun 2011	4.64%	15.02%	19.66%

Although Celeste considers after tax returns, the Fund does not target specific income levels.

Distributions will be made semi-annually where possible.

Portfolio turnover, whilst not targeted, is expected to be low at approximately 30% to 40% p.a. and therefore the Fund may suit individuals on higher marginal tax rates.

REPORT CERTIFICATION

Date of issue: 3 Mar 2014

Role	Analyst	Title
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RATING HISTORY

As At	Rating
3 Mar 2014	Highly Recommended
14 Feb 2013	Highly Recommended
28 Feb 2012	Highly Recommended
31 Jan 2011	Highly Recommended
28 May 2010	Recommended
1 Mar 2010	Recommended
12 Nov 2009	Under Review
22 Oct 2009	Redeem
7 Aug 2009	Recommended

As At

Rating

Last 5 years only displayed. Longer histories available on request.

ZENITH RESEARCH METHODOLOGY & REGULATORY COMPLIANCE

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CURRENCY OF RATING

This Research Report and Rating is current as at the date it is issued and is valid until it is updated, replaced or withdrawn. Research Reports will be subject to future updates on an ongoing basis unless the Rating is Withdrawn. The Rating may be subject to change without notice and clients are advised to check currency via the Zenith website. Further information on [Currency of Ratings](#) is available on the Zenith website.

COVERAGE POLICY

Zenith’s coverage policy defines the investment universe of products which are potentially eligible to receive an investment rating. This universe primarily focuses on those products available to financial advisers via the major wrap platforms and master trusts. Products predominantly encompass Unlisted Managed Funds and Listed Managed Investments available via the ASX.

Zenith also includes in its coverage policy products in several asset classes which are traditionally only available directly ‘off-platform’. These asset classes include sectors such as Unlisted Direct Property Funds and products in the Alternatives asset class including Hedge Funds and Private Equity Funds. Detailed information on Zenith’s coverage policy, processes, sector classifications and current coverage list can be found on the [Research Methodology & Regulatory Compliance](#) page of the Zenith website.

CONFLICT POLICY

Zenith maintains a Conflict Management Policy regarding the provision of non-research services to Product Issuer’s, Fund Managers or other related parties relevant to the investment being rated. This policy relates to the provision of;

- Underwriting, managerial, consultancy or market making services to such parties;
- Whether such parties are a corporate client of Zenith;
- Whether such parties are related or otherwise associated with Zenith.

Any conflicts relating to these issues will be prominently disclosed on the relevant Zenith Product Assessment Report. Further details on Zenith’s Conflict Policy can be found on the [Research Methodology & Regulatory Compliance](#) page of the Zenith website.

FEE FOR SERVICE

Zenith charges an upfront flat fee to the Product Issuer, Fund Manager or other related parties to produce research on funds that conform to our Research Methodology (direct business model). Instances where a fee has been charged will be disclosed. This fee is to compensate Zenith for the work required to undertake the process and is not linked to the rating outcome. Fees are generally standardised within each sector however a small number of sectors (typically those dealing with real assets) are charged based on individual complexity. Further details on how the fee for service arrangement is managed can be found on the [Research Methodology & Regulatory Compliance](#) page of the Zenith website and also in [Zenith’s Financial Services Guide \(FSG\)](#).

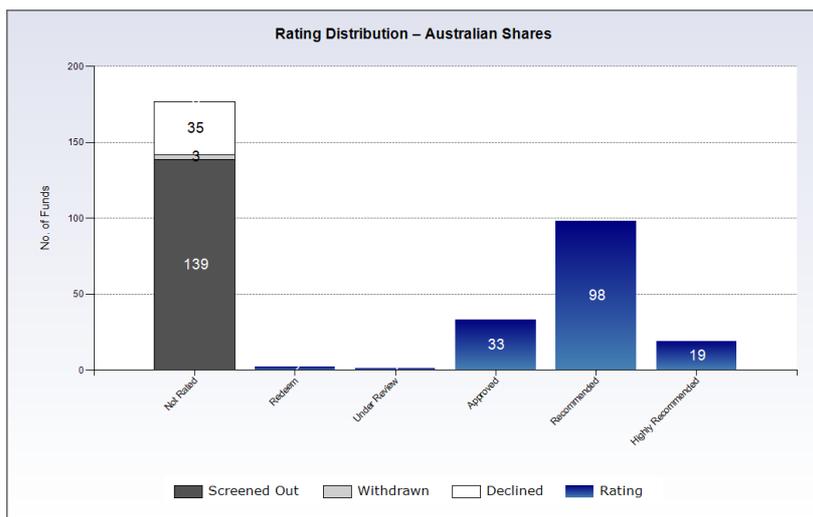
Zenith has charged Celeste (or a related party) a fee to produce this report.

ANALYST CERTIFICATION & DISCLOSURE

Analyst remuneration is not linked to the rating outcome. Analysts holdings in investment products must be non-material and done in accordance with Zenith’s Trading Policy. The Analyst certifies that the views expressed in the Product Assessment accurately reflect their personal, professional opinion about the financial product to which this report refers.

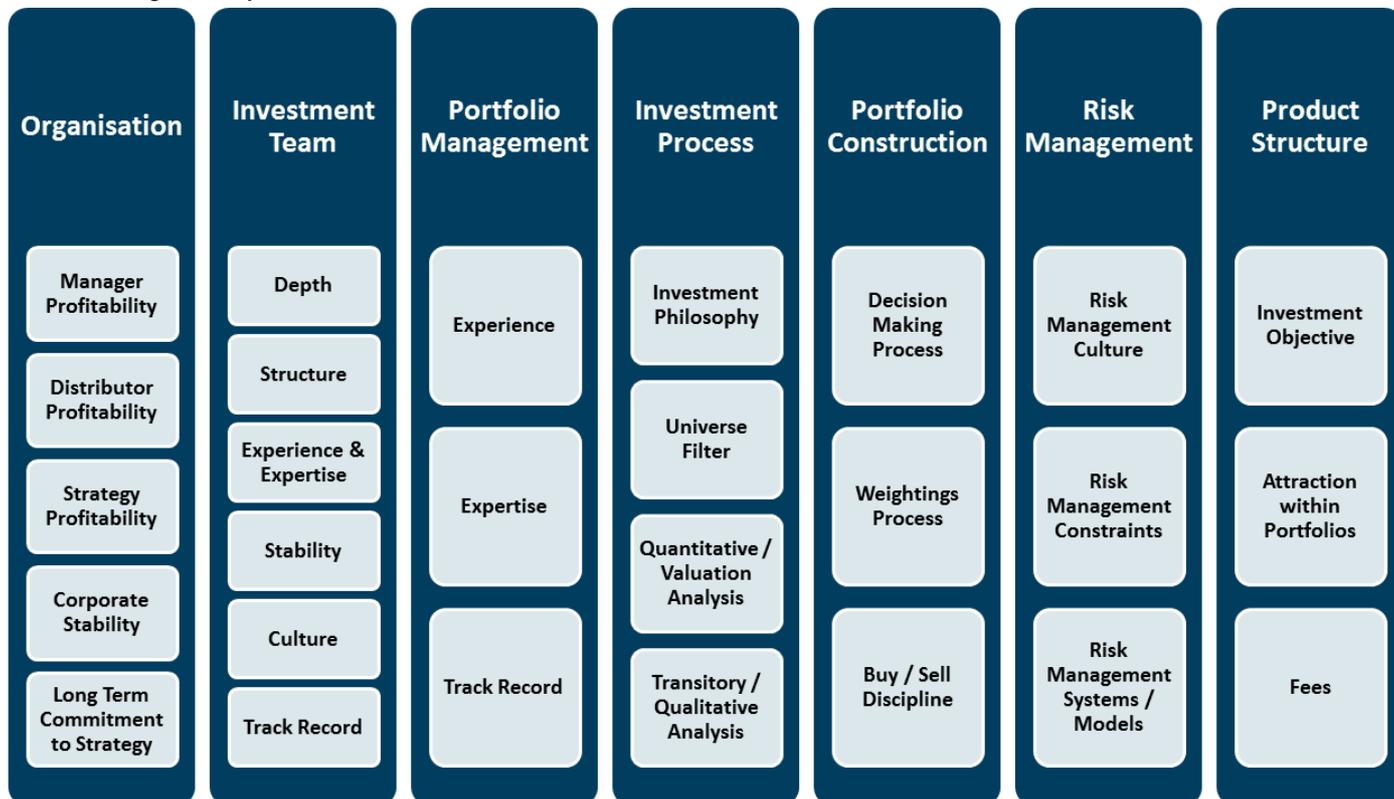
ZENITH RATING DISTRIBUTION

The following chart shows the current breakdown of Zenith’s ratings as at the date of viewing. Ratings are based on the relevant fund asset class as determined by Zenith and include Parent funds only. Users can access more detailed information on ratings spreads by sub-asset class on the Regulatory Compliance page of the Zenith website.



Ratings Methodology

Zenith’s ratings are based on the output of a proprietary scoring model. This model and its broad factors are shown in the following diagram. Please note we do not disclose the weightings of factors and sub-factors change for each sector. This information should be used as a guide only.



Ratings Bands

Based on the scores assigned by Zenith's analysts for the above mentioned proprietary scoring model, a rating of Highly Recommended, Recommended, Approved or Not Approved is applied to all funds that have undergone full due diligence by the Zenith research team. As shown in the following table the ratings are determined based on the overall score out of 100. Funds may also be screened prior to conducting full due diligence based on qualitative or quantitative concerns as Zenith's research model aims to focus on the best investments in each sector.

Rating	Scoring Output (%)	Confidence in Meeting Objectives	Zenith Approved List
Highly Recommended	>= 80	Very High	YES
Recommended	>= 70 - 79	High	YES
Approved	>= 55 - 69	Moderate	YES
Not Rated - Declined	N/A	No previous rating held. The fund has passed Zenith's preliminary screen however the issuer has declined to participate in a full due diligence review.	
Not Rated - Withdrawn	N/A	Previous Zenith rating withdrawn due to either: Zenith downgrading the rating to below investment grade; the issuer electing to cease ongoing coverage; the fund has been closed to investment; or the fund has been terminated and wound up.	
Not Rated - Screened Out	< 55	No previous rating held. The fund has either passed Zenith's preliminary screen but failed the full due diligence process; failed Zenith's preliminary screen making it ineligible for a full due diligence review; or is yet to be included in Zenith's preliminary screen or sector review process.	
Redeem	N/A	Previous rating removed where there has been a significant event that Zenith strongly believes will severely impacts the product to such an extent that investors are advised to redeem (withdraw) their investment.	

The performance of the investment in this report is not a representation as to future performance or likely return.

ABSOLUTE RISK RATING

The Absolute risk rankings should be viewed as a guide to potential capital volatility (in both gains and losses) of the relevant investment strategy (Zenith Asset Class / Sub Asset Class classification) of this product. A number of factors have been considered in setting this risk level. For liquid asset classes, we have typically used the underlying historical return volatility of the product's benchmark if the benchmark is a reasonable proxy for returns for this strategy. Where the risk of an investment cannot be reasonably estimated by historical benchmark return analysis, we have made a qualitative assessment of absolute risk and considered factors such as illiquidity risk, transparency, strategy risk, operational risk etc.

VERY HIGH

Funds classified as Very High risk are exposed to sectors with very high historical absolute volatility (16+% p.a. plus standard deviation over 20 years to June 30, 2011). Where the risk of an investment cannot be reasonably estimated by historical return analysis, we have considered a range of qualitative risks in assigning a Very High absolute risk level.

HIGH

Funds classified as High risk are exposed to sectors with high historical absolute volatility (8-16% p.a. standard deviation over 20 years to June 30, 2011). Where the risk of an investment cannot be reasonably estimated by historical return analysis, we have considered a range of qualitative risks in assigning a High absolute risk level.

MODERATE

Funds classified as Moderate risk are exposed to sectors with moderate historical absolute volatility (4-8% p.a. standard deviation over 20 years to June 30, 2011). Where the risk of an investment cannot be reasonably estimated by historical return analysis, we have considered a range of qualitative risks in assigning a Moderate absolute risk level.

LOW

Funds classified as Low risk are exposed to sectors with low historical absolute volatility (2-4% p.a. standard deviation over 20 years to June 30, 2011). Where the risk of an investment cannot be reasonably estimated by historical return analysis, we have considered a range of qualitative risks in assigning a Low absolute risk level.

VERY LOW

Funds classified as Very Low risk are exposed to sectors with very low historical absolute volatility (<2% p.a. standard deviation over 20 years to June 30, 2011). Where the risk of an investment cannot be reasonably estimated by historical return analysis, we have considered a range of qualitative risks in assigning a Very Low absolute risk level.

RELATIVE RISK RATING

The relative risk rankings should be viewed as a guide to the relative risk of a product within its sector. The relative risk levels are listed from high to low and are intended to provide some insight into the potential divergence of the investment's return profile relative to its assigned benchmark.