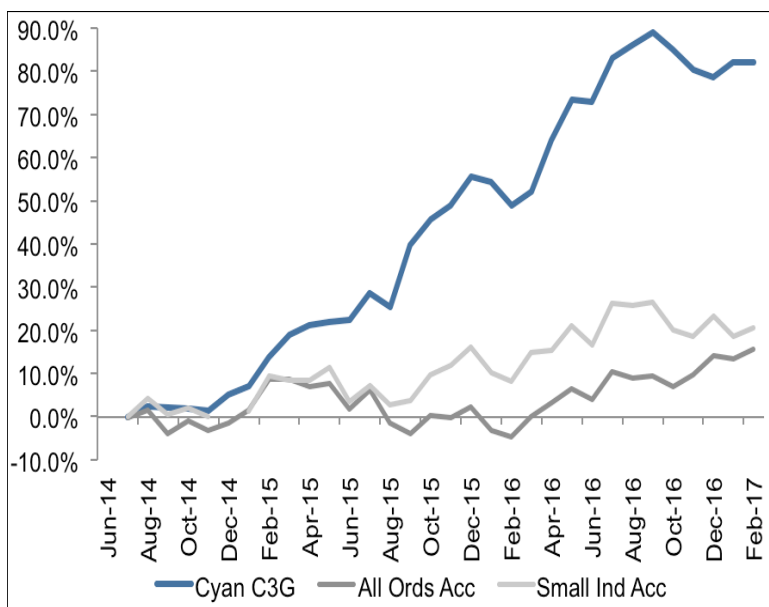


Cyan aims to invest in the most promising and highest quality smaller companies listed on the ASX.

## C3G Fund Update 28 February 2017



<b>Fund Incep: 24 Jul 2014</b>	<b>1.000</b>		
<b>Unit price: 28 Feb 2017</b>	<b>1.660</b>		
Performance	Cyan C3G	All Ords Acc	Small Ind Acc
1 mth	0.1%	2.1%	1.7%
3 mths	0.9%	5.5%	1.7%
1 Year	22.4%	21.3%	11.4%
2 Year (p.a.)	26.5%	3.2%	5.0%
<b>Since Incep (p.a.)</b>	<b>25.9%</b>	<b>5.8%</b>	<b>7.5%</b>
<b>Volatility</b>	<b>11.6%</b>	<b>12.5%</b>	<b>13.6%</b>



The Cyan C3G Fund managed to eek out a small gain in February taking the Fund's one year return to 22.4%, ahead of the All Ords' 21.3% and well in excess of the Small Industrials' 11.4% return.

### February Review

Despite the slightly positive results reflected in the market indices over February, the situation on the ground appeared a lot tougher up close, with downgrades aplenty.

A number of retailers had a particularly rough time with **Godfreys (GDY)**, **Grays Online (GEG)**, **Shaver Shop (SSG)**, **Redbubble (RBL)**, **Retail Food Group (RFG)**, **RCG Corporation (RCG)** and **The Reject Shop (TRS)** all posting disappointing results, to which investors pulled out the red Texta and aggressively marked down their prices.

Some other former 'high flyers' shot down during reporting season included **Ardent Leisure (AAD)**, **CSG Group (CSV)**, **Eureka Group (EGH)**, **iSentia (ISD)**, and **Hills Industries (HIL)** all of which have endured declines of 25% or more.

Some of the better results came from the likes of **McMillan Shakespeare (MMS)**, **Blue Sky Alternative Investments (BLA)**, **NextDC Ltd (NXT)**, **Costa Group (CGC)** and **Monadelphous Group (MND)**.

The outcome for the C3G Fund of a basically flat result in February was disappointing in light of the generally strong results our core holdings posted.

**Blue Sky (BLA)** [www.blueskyfunds.com.au](http://www.blueskyfunds.com.au) announced a 130% increase in 1H17 NPAT to \$10.1m and a 59% growth in assets under management over the pcp to \$2.7bn. In light of this outstanding performance, the shares pushed almost 20% higher in February.

**Afterpay (AFY)**, [www.afterpay.com.au](http://www.afterpay.com.au) a provider of interest-free payment solutions for retail customers, produced some

truly astonishing trading metrics: underlying sales of \$145m (+370%); revenue of \$6m (+417%) and an inaugural operating EBITDA profit of \$0.6m. Post their result, AFY announced a proposed merger with 26% shareholder, **Touchcorp (TCH)** [www.touchcorp.com](http://www.touchcorp.com). Partially due to a flagged founder sell-down in AFY (which was effected on 1 March), the stock ended the month down 15% however we remain extremely upbeat about the outlook for the combined businesses.

One of our more recent investments, equipment financier **Axesstoday (AXL)** [www.axesstoday.com.au](http://www.axesstoday.com.au) posted an inaugural result ahead of market expectations. In the 6 months to December 16, NPAT was \$1.6m, up 186% on the pcp. In addition, AXL upgraded its FY17 NPAT prospectus guidance from \$3.3m to \$3.6m.

Domestic credit provider **Money3 (MNY)** [www.money3.com.au](http://www.money3.com.au) posted a solid 1H17 NPAT of \$13.7m, well ahead of market expectations. All business metrics looked outstanding: bad debts have fallen from 3.5% to 2.5%; EBITDA margins are over 45%; and a further 2.5c dividend has been declared and full year guidance upgraded to \$27.5m NPAT. MNY ended February down 5%.

Whilst Cyan avoided all the significant downgrades (of which there were many) the only slight disappointment was financial services software provider **Praemium (PPS)** [www.praemium.com.au](http://www.praemium.com.au) which reported a 39% increase in underlying 1H17 EBITDA of A\$2.6m, (against A\$1.8m in the pcp) which was impacted slightly by sales and marketing investment. The stock fell 20% in the month, no doubt impacted by the sudden departure of the Managing Director, Michael Ohanessian. We have spoken with the PPS board and are comfortable the company is well progressed in their search for a replacement.

## Outlook

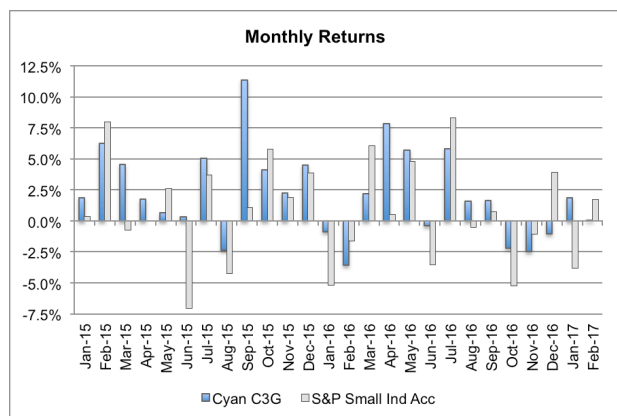
Since the run-up to the US election last year, the Cyan C3G Fund has been conservatively positioned with the cash weighting occasionally touching 50%.

The weightings of our core positions in the Fund are always being tweaked with respect to underlying company fundamentals, daily movement in share prices and changes in market sentiment.

Broadly, in the past month, our weightings have been increased as the Fund's companies have performed ahead of expectations and prices have been relatively unchanged. The market has also experienced a significant rotation out of smaller companies, and whilst this appears yet to have ceased, we certainly believe it is losing momentum. Hence the risk/opportunity balance is beginning to swing back in favour of the small-cap sector.

We continue to focus on growth and note that 7 of our top 10 holdings generate what we believe to be maintainable return on equity above 20% and are reinvesting at least half of their earnings back into the business.

In terms of size, approximately half of our holdings are in companies with a market capitalisation between \$200m and \$750m.



The longer-term track record of the Fund remains outstanding. Over the past two years the C3G Fund has exceeded comparable indices by 20%+ p.a. and has achieved this with lower volatility (i.e. risk).

At Cyan, we have been meeting with management teams of potential new investments during reporting season. We are seeing a number of emerging businesses well positioned to continue their strong performances and hope the positive start to the new year will continue.

The vast majority of our larger positions contain our preferred characteristics of high return on equity, strong cash conversion and below average dividend payout ratios, which positions them well to deliver ongoing earnings growth and share price appreciation.

We thank all our investors for your support and look forward to keeping you all updated with the Fund's progress.

As always we are contactable in person if investors wish to discuss any aspect of their investment in the Cyan C3G Fund.

Dean Fergie and Graeme Carson

To invest in the Cyan C3G Fund online click here:

<http://www.cyanim.com.au/cyan-c3g-fund-investment-processing-via-olivia123/>



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Past performance is not a reliable indicator of future performance. The Total Returns of the Cyan C3G Fund over specified periods are shown above. This document contains information regarding Total Returns to 28 February 2017. Total Returns are calculated after taking into account performance fees. A performance fee of 20.5% is payable quarterly on any excess performance (after deducting the Management fee) above the quarterly benchmark of 2.5%. A performance fee is only payable where the Fund has exceeded both the benchmark and high water mark.

The Total Return performance figures quoted are historical, calculated using end of month mid prices and do not allow the effects of income tax or inflation. Total Returns assume the reinvestment of all distributions. The performance is quoted net of all fees and expenses. The Indices do not incur these costs. This information is provided for general comparative purposes. Positive returns, which the Fund is designed to provide, are different regarding risk and investment profile to index returns. This document is for general information purposes only and does not take into account the specific investment objectives, financial situation or particular needs of any specific recipient. As such, before acting on any information contained in this document, recipients should consider the appropriateness of the information to their needs. This may involve seeking advice from a qualified financial adviser. Cyan Investment Management Pty Ltd (AFSL 453209) is the issuer of the Cyan C3G Fund. A current IM is available from Cyan Investment Management Pty Ltd, located at 17/31 Queen Street, Melbourne VIC 3000. A person should consider the IM before deciding whether to acquire or continue to hold an interest in the Cyan C3G Fund. Any opinions or recommendation contained in this document are subject to change without notice and Cyan Investment Management Pty Ltd is under no obligation to update or keep any information contained in this document current. Cyan Investment Management Pty Ltd holds AFSL 453209.