

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

C3G Fund Update 31 May 2017

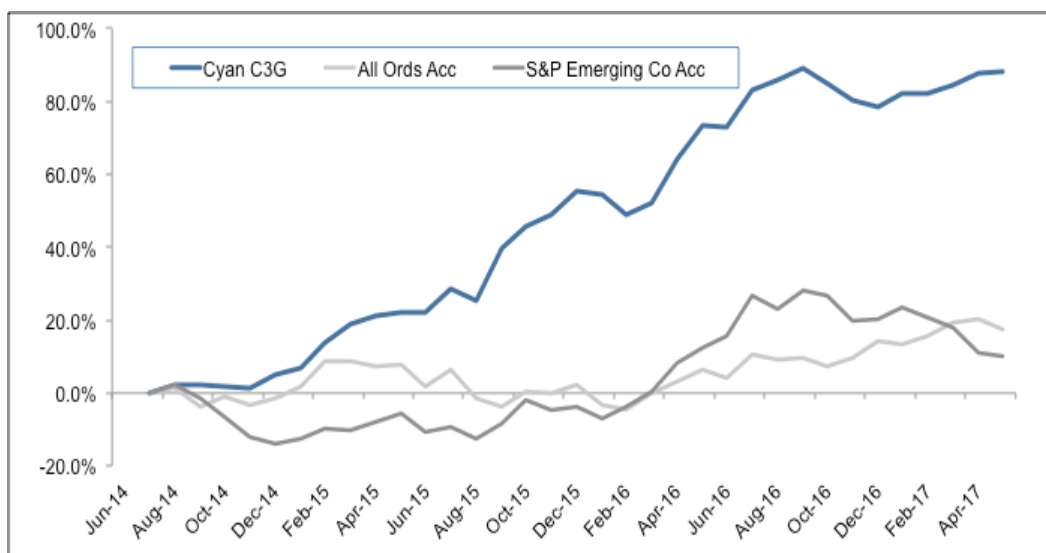


C3G Fund at:
31 May 2017

NAV: 1.715

App: 1.720

Redmp: 1.710



FY	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	C3G	S&P Emerg	+/-
2015		2.4%	-0.2%	-0.3%	-0.6%	3.8%	1.9%	6.3%	4.6%	1.8%	0.7%	0.3%	22.3%	-3.6%	25.9%
2016	5.1%	-2.3%	11.4%	4.1%	2.3%	4.5%	-0.8%	-3.6%	2.2%	7.9%	5.7%	-0.3%	41.4%	29.8%	11.6%
2017	5.8%	1.6%	1.7%	-2.1%	-2.4%	-1.0%	1.9%	0.1%	1.2%	1.9%	0.2%		8.8%	-4.9%	13.7%

May Review

The Cyan C3G Fund posted a small 0.2% gain in May, maintaining the Fund's almost 25% p.a. return since inception (after all fees).

More recently we have been pleased to avoid the (in many cases) significant losses experienced across many ASX listed entities.

The emerging companies sector for instance, where the C3G Fund does focus some of its attention, has been particularly damaged, falling almost 9% in the past quarter.

Again this highlights the divergence in returns that can be produced through the effective implementation of the foundations of our investment process; specifically the three C's that we incorporate in the naming of our C3G Fund.

- **Comprehensive** Research;
- **Considered** Perspective; and
- **Clear** Discipline.

All of which, we expect over time, will generate considerable **Growth** for our investors.

We have been extremely active in our company visitation program during May and have attended 4 conferences and met with more than 40 companies. Interestingly, and perhaps given the benign economic backdrop, we have not been of the mind to presently invest in any new businesses.

At this point, as stocks broadly continue to get cheaper, it appears to be the correct decision.

Fund Review

The small cap sector has presented significant and ongoing challenges in the last 6 months, and we have been particularly conscious of balancing the relationship between risk and return.

With this backdrop, we have been satisfied to have delivered a positive return in each month since the beginning of 2017, resulting in growth of 5.4% over the 5 month period.

The Cyan C3G Fund benefitted from price strength in a few of our key long-term holdings through April:

We spoke about **Getswift (GSW)** last month and the company continued its run, rising another 21% in May. We would reiterate that it is a smaller position in our Fund due to the early stage of its growth lifecycle. However GSW is positioning itself to deliver a commercialised software platform, potentially on a global scale and this would appear to be one of the reasons it is capturing the market's attention.

Afterpay (AFY) and Touchcorp (TCH): The merger of these two fintech businesses announced in February looks more likely to be completed by the end of June which has helped push both these stock higher. Additionally, **AFY** updated the market at the end of May with confirmation that its

extraordinary growth is continuing (\$1bn in annualised sales and over 700t customers). AFY and TCH both +15%.

With all the talk of Amazon entering the Australian market, retail stocks have been particularly hard hit with a plethora of domestic companies including **JB HiFi**, **RCG Corp**, **Super Cheap**, **The Reject Shop**, **Adairs**, **Godfreys**, and **Vita Group** all sold down sharply. Whilst we don't expect furniture to be a department that Amazon effectively delivers with its drone delivery technology, our small holding in **Nick Scali** was caught up in the storm and drifted 10% lower in May.

Cyan was recently featured in a small segment on Livewire with respect to Amazon. Link [here](#).

Further pain was felt across the automotive sector with **AP Eagers**, **Automotive Holdings**, **Automotive Solutions** and **Supercheap Auto** all downgrading earning forecasts. The Cyan C3G Fund does not own any of these companies.

We wrote an article for Livewire [here](#) about the longer-term challenges for the automotive industry.

Outlook

If anything, the nearer-term outlook has worsened in the last month. Certainly market sentiment has deteriorated but, with that, prices have fallen and, potentially, value has improved.

As new investors and new capital have been entering the Fund, we have been 'nibbling away' on a couple of companies we already own and that appear to be flourishing, however this has all been at the margin.

We have not yet found it timely or prudent to 'pull the trigger' and deploy significant amounts of the Fund's defensive cash capital. However we think we are extremely well positioned for any further pull-back in the market and will act, if and when, the opportunity presents itself.

We continue to hold a diversified portfolio containing what we believe to be high quality growth companies. We 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 provided investors with returns of 20%+ p.a. and has achieved this with lower volatility (risk) than comparable indices.

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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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.