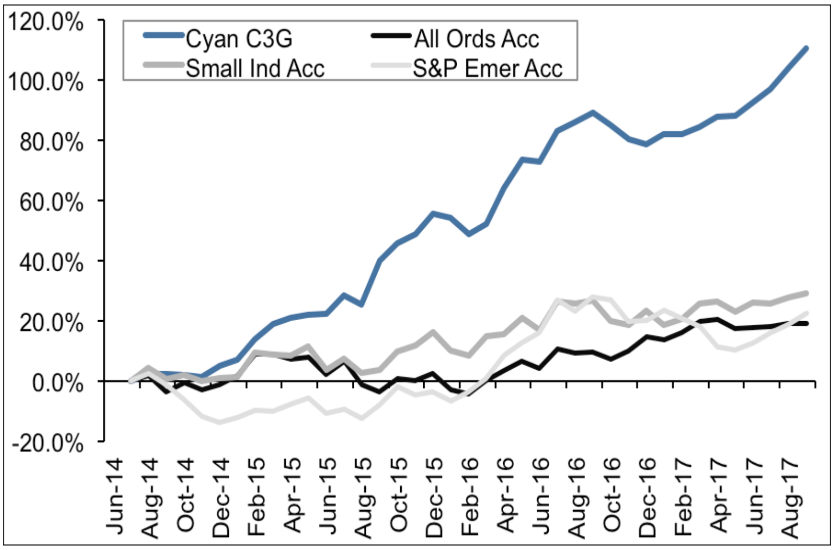
C3G Fund Update – 30 Sept 2017

NAV: 1.864
App/Red: 1.870/1.858

Returns to: 30 September 2017	Cyan C3G	S&SmallP Small Ind Acc
1 month	3.2%	1.0%
3 months	9.3%	2.5%
6 months	14.2%	2.6%
1 year	11.4%	1.9%
2 year (p.a.)	22.7%	11.5%
3 years (p.a)	27.2%	8.6%
Since Incept (p.a.)	26.3%	8.3%
Since Incept (cum)	110.5%	29.1%
Volatility	10.7%	12.8%



	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	YTD	XSI	+/-
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%**	7.2%	+15.1%
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%**	12.8%	+28.6%
2017	5.8%	1.6%	1.7%	-2.1%	-2.4%	-1.0%	1.9%	0.1%	1.2%	1.9%	0.2%	2.4%	**11.4%**	7.9%	+3.5%
2018	2.3%	3.6%	3.2%										**9.3%**	2.5%	+5.8%

September Update

The Cyan C3G Fund delivered another excellent return of 3.2% in September. This latest result continues the positive start to the FY17/18 year with the Fund already having posted a 9.3% gain for investors (after all fees).

Again, The C3G Fund's return was well ahead of both the 0.1% gain in the ASX All Ordinaries Accumulation Index and the 1.0% delivered by the ASX Small Industrials Accumulation Index. This has seen the Fund's return exceed all comparable ASX indices by well over 15% p.a. since inception.

From an overall market perspective, the relative appetite for smaller companies has without doubt improved in recent months, providing an environment conducive to delivering excellent returns. Obviously sentiment will change from time to time, but we continue to believe that smaller companies offer stronger long-term growth prospects than their larger counterparts.

Therefore, Australian companies of smaller size (i.e. below $1bn in market capitalisation) continue to be our focus and our core philosophies have not changed since the inception of the Fund:

- We believe that small-cap stocks are not inherently risky, although certain sectors within the small cap market are. Those are the ones we avoid (i.e. resources, biotech, mining services);
- We believe the opportunity for significant growth of well positioned, managed and resourced smaller companies exceed those of larger companies;
- Strong management teams are pivotal when it comes to investing in small cap companies;
- We are patient but vigilant. Companies mostly don't change significantly in value over short periods;
- We have no time for poor performers. If we get something wrong we acknowledge it and act as quickly as possible;
- We overlay every decision with a good dose of common sense.

Fund Review

The monthly return of 3.2% was predominantly delivered through solid performances from a number of our core long-term holdings. In most cases it wasn't as a result of company specific catalysts or announcements, but rather the after-effect of strong earnings numbers and outlook statements in reporting season

Highlights from some of our core long-term holdings included:

Kelly Partners Group (KPG) – This recently listed accounting group has a strong corporate structure, clear growth strategy and an impressive management team that is strongly incentivised to deliver on its ambitions. The stock price rose 12% in September but the company remains attractively priced and we remain confident it will expand to be more than twice its current size in the next few years.

Skydive the Beach (SKB) – We have mentioned this company numerous times as it has been a holding of ours since it listed in early 2015. After a period of benign share price performance (the SKB shareprice has more-or-less not changed in 12 mths), it rose 16% in September. A further acquisition and associated capital raising has just occurred which is improving its position as a clear leader in the adventure travel industry.

PSC Insurance (PSI) – The Fund has also had a long-term investment in this insurance services business. A strong result for 2HFY17 illustrated the leverage in the business model when the insurance industry improves. Led by CEO Paul Dwyer, the company has a strong growth path ahead, driven both organically and by acquisition. PSC up 8% in September.

Afterpay Touch (APT) – APT continued to deliver its incredible growth metrics and is increasingly building its presence in both the retail industry and financial markets. The stock rose a further 11% in September after the market announcement that Jetstar would begin offering the Afterpay payment solution. We continue to believe it is a brilliant business, but are similarly aware of the spectacular run in the shareprice and hence are managing our position accordingly.

Some of our investments in companies positioned earlier in their growth phase also performed well in September. Most notably:

Family Zone (FZO) – This small tech company has developed a platform with the objective of providing controls relating to cyber safety for internet and mobile phone usage for kids. The tech is proven and the company has signed deals with telco's domestically and internationally and schools in Australia and the US. If you have kids, this service may even appear as a required item on next year's school book list. It enables customers to manage what their children can access through their phone or home internet and can even turn their mobile into a brick at 9pm! We took a small position a few months ago and have been fortunate with incredible share price performance since as the company has executed on its growth plans. FZO rose 38% in September.

Outlook

In recent months the small cap market has been conducive to making money. The market has rewarded well-positioned growth portfolios, and there are no signs of it slowing at this stage. That said, one of our ongoing focal points is the risk/reward metric and we therefore retain a relatively high proportion of cash in the portfolio.

The Fund is well diversified with 20 individual holdings and no position accounting for more than 7% of the total Fund. The companies span 6 broad industry sectors including: consumer staples and discretionary; industrials; health care; technology and financials. The weighted average market cap is approximately $300m. All produce revenue, 90% are profitable and recently all have met or exceeded our expectations for business performance.

We look forward to our investee companies delivering on their growth strategies, and hope to complement these with some new positions taken recently in both the IPO and secondary markets.

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

Cyan Investment Management
17/31 Queen Street
Melbourne VIC 3000
(03) 9111 5632

www.cyanim.com.au
info@cyanim.com.au

Invest at:
http://www.cyanim.com.au/how-to-invest/