

Cyan C3G Fund Report

31 January 2018

(Unit Price: 2.106)

Month in Review

The Cyan C3G Fund delivered a **-0.3% return in January 2018 (after all fees)** in a seasonally quiet market with both big and small company indexes also down a similar amount at month's end.

After digesting a strong finish to 2017, Australian investors appeared disinterested by a strong lead out of the US market in early January (although very happy to follow the lead now!) and instead seemed willing to wait for company reporting season to kick-in during February.

Unit Price at 31 Jan 2018			2.106
Returns to:	Cyan C3G	All Ord Acc	S&P Small Ind Acc
1 mth	-0.3%	-0.3%	-0.4%
3 mths	6.5%	3.6%	4.0%
6 mths	20.8%	8.7%	13.1%
1 year	30.7%	13.0%	19.8%
2 year (p.a.)	24.2%	15.0%	13.6%
3 years (p.a)	30.5%	8.0%	11.9%
Since Incept (p.a.)	27.9%	7.3%	10.5%
Since Incept (cum)	137.9%	28.2%	42.1%
Volatility	10.4%	11.1%	12.4%

From a portfolio perspective there was some volatility on the low trading volumes and in the end, the negatives marginally outweighed the positives:

Key positive contributors:

- **Spirit Telecom (ST1)** +33%: Good momentum in underlying sales and integration of recent acquisitions resulted in buying support.
- **Afterpay Touch (APT)** +23%: Strong December quarter numbers and an announcement around a strategic partnership and expansion in the US.
- **Axsess Today (AXL)** +18%: Price strength driven by expectation around a strong upcoming interim result and potential securitization program.

- Key negative contributors:
- **Longtable (LON)** -15%: The perceived overhang of stock issued in the recent capital raising led to price weakness.
 - **Experience Co (EXP)** -12%: A one-off unfortunate event in the NZ business caused the price to decline after a strong performance in December quarter.
 - **Motorcycle Holdings (MTO)** - 11%: Concerns around bike sales to impact the upcoming interim result competed against the longer term growth prospect in the business.

Media

Dean talked about the outlook for IPO's in 2018 in the AFR: [here](#)

Cyan discussed its favourite investment theme for 2018 for the Stockhead website: [here](#)

Graeme Carson talks about the prospects for Axsess Today (AXL) in the video below.



Outlook

At the time of writing we find ourselves in the midst of "global equities market turmoil". The Dow Jones is leading the charge down and other markets are following. Increased volatility is likely to be the end result for at least the short term. A few things to consider:

Firstly, the key reasons for the correction appear to be:

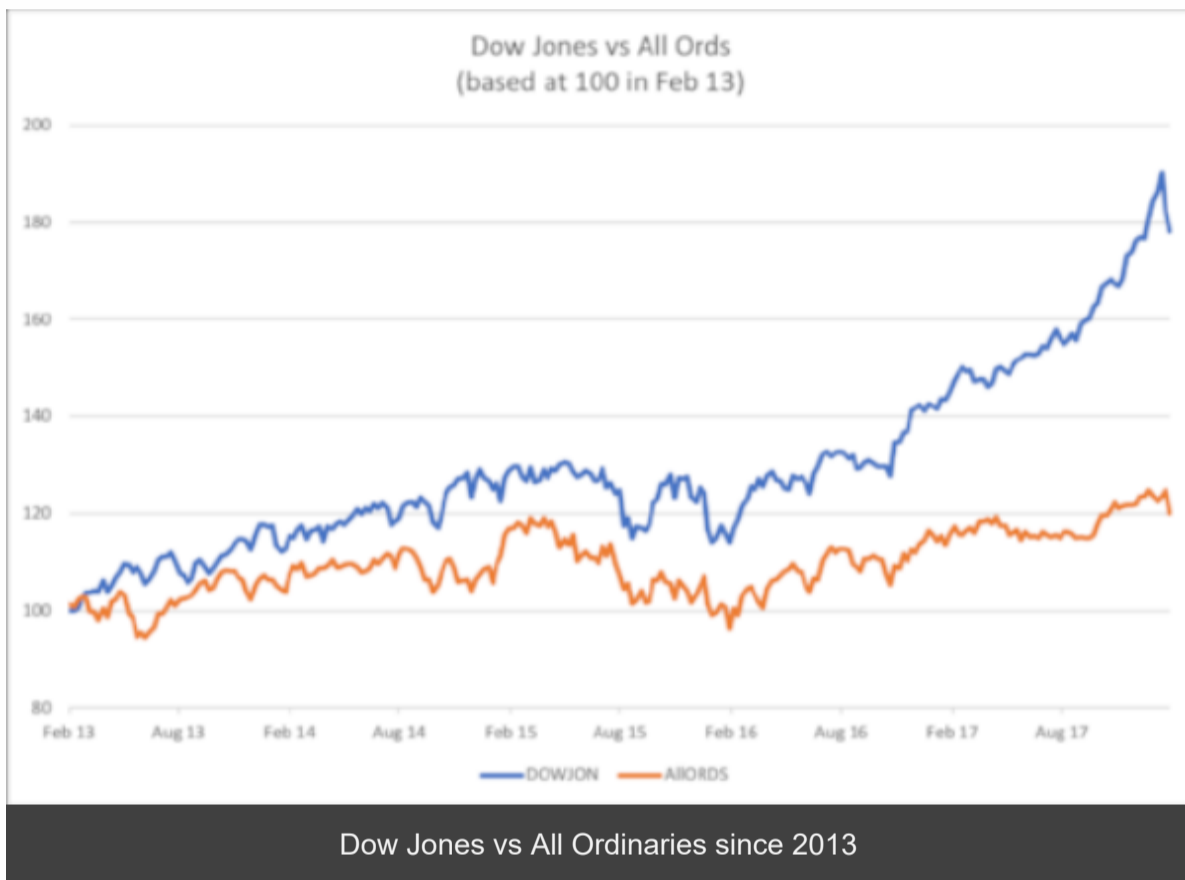
- Increasing speculation that the global low interest rate environment we've been operating in for a long time is now coming under pressure.
- The leading indicator of this, and the catalyst for the stock market correction, is the sell off in the US bond market, meaning bond yields are going up (representing assumed interest rate rises going forward). This makes sense to an extent in strengthening economies.
- Higher interest rates generally put pressure on asset prices and company valuations.

Secondly, this needs to be put into perspective:

The Australian stock market (and particularly the US) have been quite strong for a sustained period, and will continue to strengthen over the long-term, but

inevitably corrections will occur along the way. Forecasting the timing and magnitude is obviously the difficult part.

- The current correction is making headlines, but in the scheme of the overall market it is still relatively immaterial. The chart below shows the US and Australian markets over the past 4 years.
- The underlying economic conditions are relatively solid, albeit with asset prices that may prove to be stretched in a rising interest rate environment (think housing in Australia and the economic impact of a property downturn).
- Markets can overshoot in both directions so we can't predict index movements over the short term.



Thirdly, the Cyan philosophy and positioning of the C3G Fund portfolio:

- We invest in companies that have significant growth ahead of them and positive share price catalysts over the medium term.
- We are comfortable that all our investments are fundamentally sound and continue to offer growth and value opportunities. We do not invest in companies because we think they are cheap at a certain point in the economic cycle (and are therefore not heavily exposed to the economic cycle in real terms).
- We don't invest in companies that are heavily geared or laden with debt.
- We currently have in excess of 40% of our total capital invested in cash.

In summary, we do not pretend to know what the market will do in the coming weeks, but we do know that the companies in which we are invested are in strong positions and will be inherently more valuable in the coming 12 months. Companies mostly don't change in value significantly over short periods of time - but sentiment certainly does.

At Cyan we will continue to adhere to our long-held investment philosophies, ride-out the current volatility and make opportunistic investments we deem appropriate within our risk parameters. Throughout the rest of February we plan to focus on company fundamentals as our Fund holdings report their earnings results and provide outlook statements.

Thanks for the support from our investors and we are available to be contacted at any time.

AFSL No. 453209

To invest in the Cyan C3G Fund online: <http://www.cyanim.com.au/how-to-invest/>

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 31 Jan 2018. 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 St 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.

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