Cyan C3G Fund Report

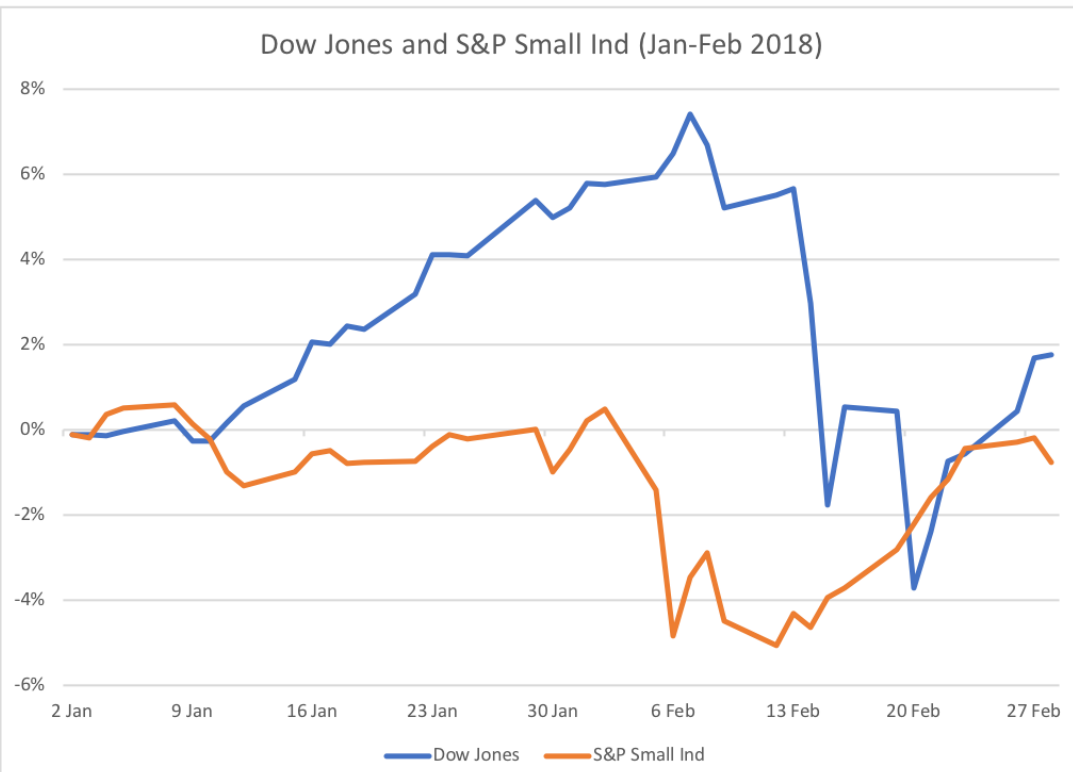
28 February 2018

(Unit Price: 2.139)

Month in Review

Despite the volatile backdrop the Cyan C3G Fund delivered a +1.6% return in February 2018 (after all fees) taking the 12 month return to 32.7%.

Global markets certainly experienced significant gyrations through February. The market rout caused by a severe and sudden sell-off in the US (the Dow Jones dived 9% in just 5 trading days) was quickly reversed with the Australian market more-or-less ending February square. Certainly during the first half of the month, we were thankful for the Cyan C3G Fund's defensive cash balance.



The ASX reporting season was one of the the more volatile in recent memory with companies being either rewarded or caned depending on the outcome of their results. Stocks such as **A2 Milk, Altium, Kogan** and **Lovisa** all posted impressive results to 31 December and enjoyed price rises of 15% or more. On the downside, a number of ex 'market darlings' disappointed including **Dominos, BWX, Vocus, Blackmores, Wisetech, G8 Education, Silver Chef, Super Retail, Harvey Norman** and **Retail Food Group** with loyal shareholders licking their 15-30% wounds.

The Fund's performance has been solid over more than a year with 13 out of 14 months in the black. We can also report that the Fund in March 18 (to date) has enjoyed small overall gains.

Unit Price at 28 Feb 2018 2.139

Returns to:	Cyan C3G	All Ord Acc	S&P Small Ind Acc
1 mth	1.5%	0.2%	-0.1%
3 mths	5.6%	1.9%	1.0%
6 mths	18.4%	8.1%	11.2%
1 year	32.7%	10.9%	17.7%
2 year (p.a.)	27.4%	16.0%	14.5%
3 years (p.a.)	28.5%	5.7%	9.1%
Since Incept (p.a.)	27.7%	7.2%	10.2%
Since Incept (cum)	141.6%	28.4%	42.0%
Volatility	10.4%	11.1%	12.4%

Earnings Reports

A snapshot of the Fund holdings over reporting season:

- **Spirit Telecom (ST1) +27%**: A solid 1H18 result and continued momentum stemming from the troubled NBN roll-out saw further interest in the small residential ISP play. We wrote a more detailed note for Livewire **here**;

- **Axsess Today (AXL) +20%**: Despite recent rises, the momentum in equipment financier AXL was sustained by an impressive 1H18 result. (Revenue up 155% to $22m, NPAT up 95% to $3.2m and supported by a 2.9c fully-franked dividend). The potential securitisation program which will reduce funding costs and improve profitability is the next positive catalyst for the business. Late last year we wrote a piece on AXL for Livewire **here** and posted a video about the stock **here**;

- **Readcloud (RCL) https://readcloud.com/ +90%**: Readcloud digitises and distributes electronic school textbooks. At the time of listing RCL counted as paying clients 50 schools and more than 20,000 users on its platform. We subscribed to a small amount of stock in the IPO attracted by the revenue generating business and thematic of electronic textbooks. As a parents of high-schoolers we are acutely aware of the archaic nature of physical schoolbooks and believe, if executed well, this company has a bright future.

The month was not without its challenges and there were a handful of positions that did struggle.

- **Motorcycle Holdings (MTO) - 12%:** The company's 1H18 numbers were a little light with a fall in insurance and financing revenue and soft sales being offset by recent acquisitions and store roll-outs;

- **Experience Co (EXP) -5%:** Poor weather in NZ contributed to low processing rates (skydiving jumps vs bookings) although the company's strategic diversification away from pure skydiving is reducing the company's overall risk;

- **Kelly Partners (KPG) -9%:** Whilst the 1H18 result was in-line with expectations, this stock will always get moved around by its low liquidity. Given it is trading 60% above its IPO price we reman long-term shareholders and like the strong thematics. We posted a video on our outlook for KPG **here**.

Media

Dean Fergie wrote the article: "*Would I lie to you? The 6 company mistruths to be wary of...*" in Livewire: **here**

Graeme Carson wrote about the Afterpay Result (APT) in Livewire: **here**

Cyan was mentioned in:

- "*Microcap Managers Continue to Outperform ETF's*", by Mark Tobin **here**; and
- "*Australia's top performing fund managers*", by Marcus Padley: **here**.

Outlook

Again the market has started the new month in a negative frame of mind. With results season past, we're seeing a number of corporate deals come across our desk and to date have taken a placement in **BlueSky (BLA)** and subscribed for some shares in a new IPO. During the market weakness there were a number of Fund holdings that we added to including **AMA Group (AMA)** and **Moelis (MOE)** and overall these trades have been rewarded.

We currently have just over 20 positions and in excess of 45% of our total capital invested in cash. Even with this controlled portfolio, we're confident we can provide solid returns to our clients. Recall that with our performance fee hurdle of 10% p.a. (2.5% per quarter) we have a financial incentive to make meaningful gains, yet we wish to do this in a conservative and disciplined manner.

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.

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

GetSwift (GSW) - a Study in Elation, Frustration and Redemption

In light of recent press, it's topical to talk about our experience with **GetSwift (GSW)** over the past 15 months.

In December 2016 we invested a small amount of the Fund (around 1.5%) into the GSW IPO at 20c. We were attracted to the small market cap ($25m at IPO), the modest but growing revenue streams and the attractive thematic of a last-mile logistics software platform. Within three months GSW had run to 50c (with which we were obviously thrilled), but we were starting to question the valuation. We sold a few shares as the stock continued to move higher. Tail-winded by a cavalcade of announced contract wins, by July 2017 GSW had doubled again to $1 at which point it conducted a $24m capital raising (to which we did not subscribe).

At this point, owing to the still negligible revenue and significant market cap we sold the remainder of our stake at $1.07 citing, in our 30 June 2017 newsletter:

- *"...inconsistencies in management rhetoric, growing competition, lack of commercialisation traction and (recently) extreme valuation concerns (a fully diluted market cap of $180m, versus revenues of $54k in the first quarter of 2017) have led us to take our profits in GSW in the new financial year. "*

In the following 5 months, ballooned by yet more contract wins (including Amazon!) to our disbelief and annoyance - even though we try very hard not to focus on stocks in which we've divested - GSW quadrupled from our sale price of $1.07 to over $4.

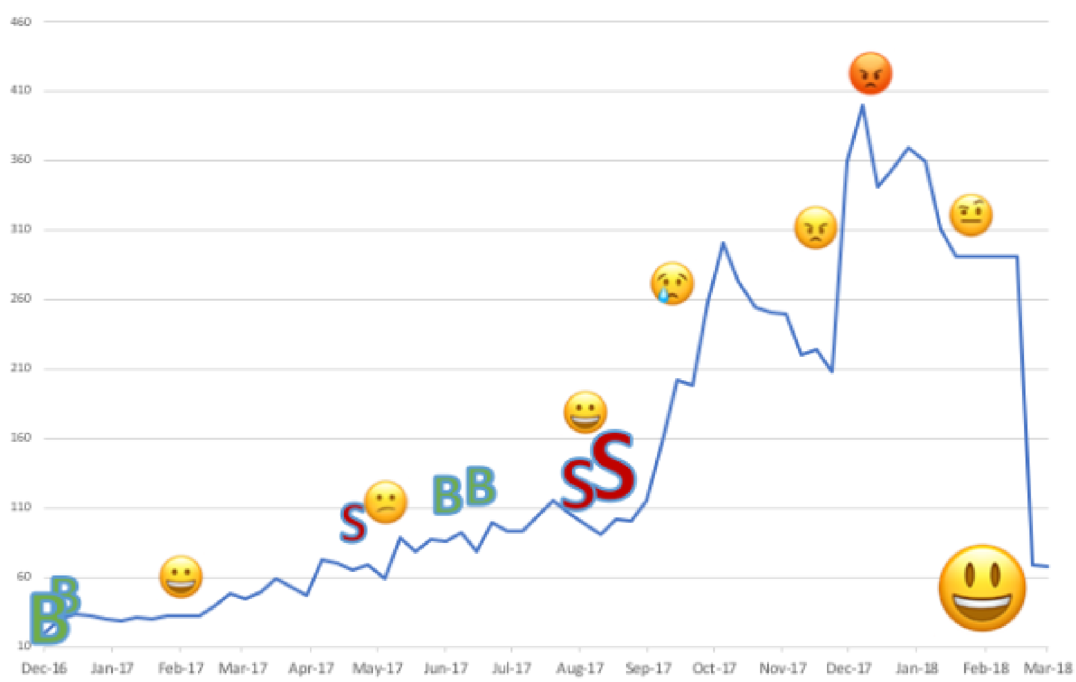
However earlier this year, AFR articles highlighting GSW's lack of commercial success (a number of previously announced contracts never surpassed trial stage and the company did not inform the market) prompted the stock's 85% nose-dive from its heights and it is now trading well below our last sale price.

With a number of class actions against the company for misleading and deceptive conduct, we see little chance of the Cyan C3G Fund returning to the register.

This study highlights that:

- investors can be both very right and very wrong depending on the time-frame;
- the market is not efficient, prices can move MILES away from intrinsic 'fair value';
- fundamentals are often far outweighed by momentum;
- very little due diligence is conducted by investors;
- there are huge benefits to not being greedy;
- one should be cautious when an executive of a newly listed business suddenly appears on the **AFR's Young Rich List**.

GetSwift - Cyan's buys, sells and mood swings.



Dean Fergie and Graeme Carson
Cyan Investment Management

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 28 Feb 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.