



C3G Fund Update

31 January 2019
(Unit Price: 1.811)

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The C3G Fund enjoyed a positive start to 2019 delivering a return of +4.0%.

To put last year's poor performance of Australian equities in some sort of context, the table below shows that for the first time in recent memory, all asset classes (other than cash of course) retraced in value over the 2018 year.

MARKETS IN THE RED, 2008-2018
Calendar Year Total Return for 17 Asset Classes

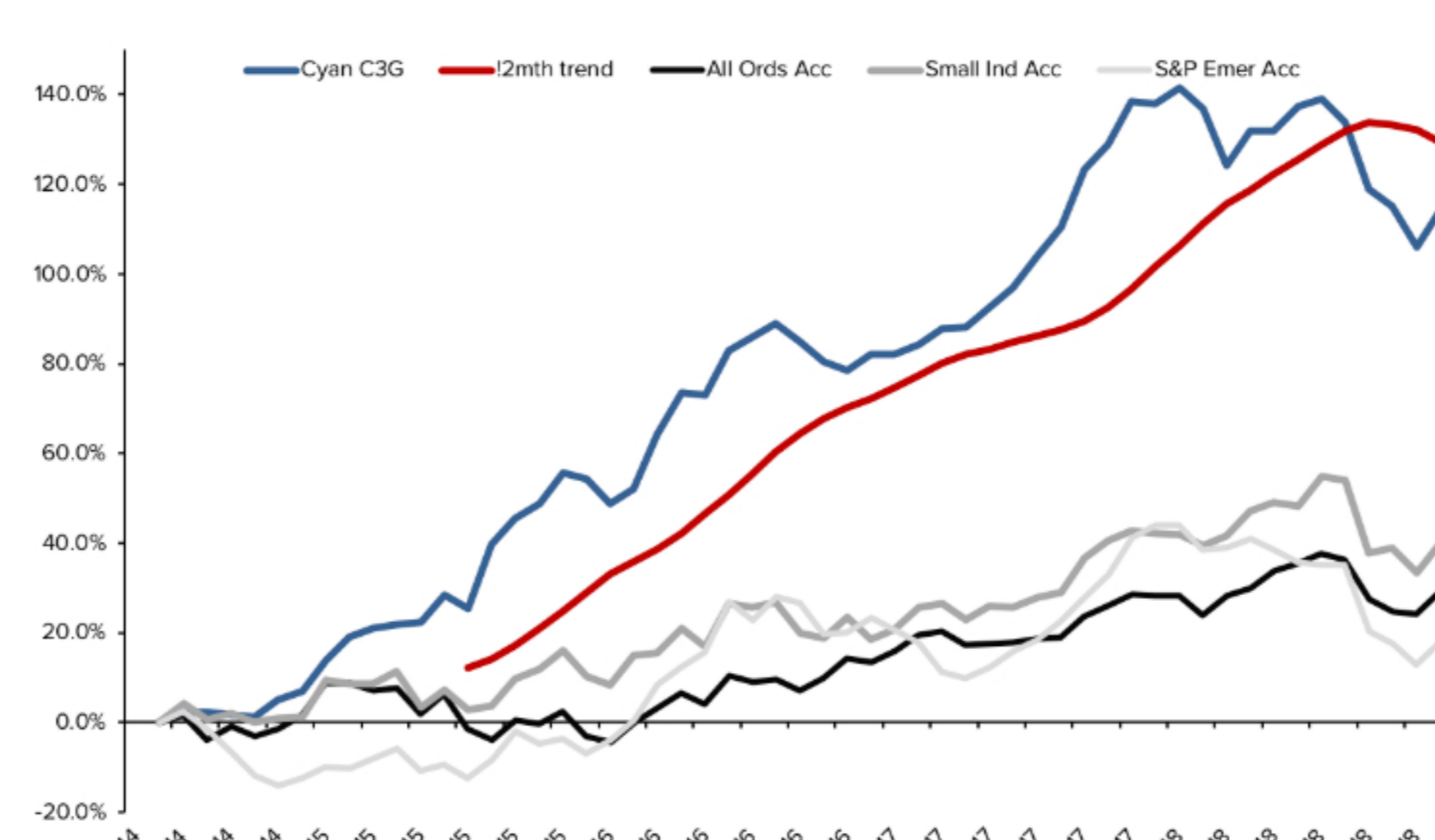
2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
10 Year USDT	MSCI EM	REITS	10 Year USDT	MSCI China	Russell 2000	REITS	MSCI Japan	Commodities	MSCI China	2 Year USDT
2 Year USDT	MSCI China	Russell 2000	Inflation Bonds	MSCI Europe	S&P 500	S&P 500	REITS	Russell 2000	MSCI EM	US HY
US Agg Bond	Global HY	Commodities	EM HC Sov	Global HY	MSCI Japan	10 Year USDT	US HY	Global HY	MSCI Europe	US Agg Bond
EM LC Debt	US HY	MSCI EM	US IG	REITS	MSCI Europe	MSCI China	EM HC Sov	Global HY	MSCI Japan	10 Year USDT
US IG	Commodities	MSCI Japan	US Agg Bond	MSCI EM	US HY	US IG	EM HC Sov	S&P 500	S&P 500	REITS
REITS	MSCI Europe	US HY	REITS	EM HC Sov	Global HY	EM HC Sov	2 Year USDT	MSCI EM	Russell 2000	US IG
EM HC Sov	EM HC Sov	S&P 500	US HY	Russell 2000	MSCI China	US Agg Bond	US Agg Bond	EM HC Sov	EM LC Debt	S&P 500
US HY	REITS	Global HY	Global HY	S&P 500	REITS	Russell 2000	US IG	REITS	Global HY	Global HY
Global HY	Russell 2000	EM LC Debt	S&P 500	US HY	2 Year USDT	Inflation Bonds	MSCI Europe	US IG	EM HC Sov	Inflation Bonds
Commodities	S&P 500	EM HC Sov	2 Year USDT	EM LC Debt	US IG	US HY	Global HY	REITS	REITS	Inflation Bonds
MSCI Japan	US IG	10 Year USDT	EM LC Debt	US IG	US Agg Bond	2 Year USDT	Russell 2000	Inflation Bonds	Inflation Bonds	EM LC Debt
Russell 2000	EM LC Debt	US IG	Russell 2000	Inflation Bonds	MSCI EM	Global HY	US HY	MSCI Japan	Commodities	Commodities
S&P 500	Inflation Bonds	US Agg Bond	Commodities	MSCI Japan	Inflation Bonds	MSCI EM	Inflation Bonds	US HY	Russell 2000	Russell 2000
REITS	MSCI Japan	MSCI China	MSCI Europe	US Agg Bond	EM LC Debt	MSCI China	MSCI China	US HY	MSCI Japan	MSCI Japan
MSCI Europe	US Agg Bond	MSCI Europe	MSCI Japan	10 Year USDT	10 Year USDT	MSCI Japan	EM LC Debt	2 Year USDT	US Agg Bond	MSCI Europe
MSCI China	2 Year USDT	Inflation Bonds	MSCI EM	Commodities	EM HC Sov	MSCI Europe	MSCI EM	10 Year USDT	10 Year USDT	MSCI EM
MSCI EM	10 Year USDT	2 Year USDT	MSCI China	2 Year USDT	Commodities	Commodities	Commodities	MSCI Europe	2 Year USDT	MSCI China

Source: Bloomberg. Data as of December 30, 2018. Markets are ranked top to bottom on calendar-year total return.

As we stated in our December Monthly Update: "Markets are driven by sentiment in the short term and value creation and realisation over the medium and long term – but never in a straight line".

After such a negative year, we feel that markets are more conducive to rewarding measured investment philosophies and we are optimistic that the underlying fundamentals of companies are being considered in a more pragmatic light.

January Review



The C3G Fund currently comprises 24 companies, with no individual position representing more than 6% of the total portfolio. We have also made the decision to keep approximately 40% invested in cash. That said, as stock prices fell throughout previous quarter we did deploy additional capital.

On a stock specific basis we had a number of material contributors over the month:

Murray River Group (MRG +58%): The Fund invested in this producer, packager and seller of organic fruits through a balance sheet recapitalisation in late 2018 at a significant discount to the prevailing NTA of the company (10c vs 16c). Whilst the operational turnaround in the business appears to be on track, the shares have experienced a volatile ride post the recap, having initially fallen 25% (to 7.5c) before this month's rebound (to 12.5c). This clearly highlights the fickle nature of smaller companies and the importance of having a deep understanding of the underlying fundamentals of a business but also of portfolio diversification (not having all our eggs in one basket).

Afterpay Touch (APT +28%): A long-held position in the Fund, Afterpay has faced extreme share price volatility, but recent price weakness rapidly reversed when the company released its quarterly update illustrating the strength in the Australian business and impressive traction in the US. Additionally, after Afterpay's appearance at the Senate enquiry into credit and financial services, the risk that the sector will be required to adopt bank-like credit checks appears to have softened.

Spicers (SRS +21%): Cyan invested in Spicers, a business operating in the print, packaging and display sectors, in August and September last year. At the time we wrote:

"This paper distributor has been significantly recapitalised over the past couple of years and at 30 June 2018 had \$46m net cash in its balance sheet plus a number of property assets. Additionally, on 26 September, SRS announced the sale of its Asian operations for SGD15m (approx. AUD15m). With a market capitalisation of less than \$100m when we commenced buying and a clear expectation of a capital return in the near future SRS looks like a solid short-medium term investment."

It appears we weren't the only ones attracted to the assets and favourable balance sheet with Spicers receiving a takeover offer in January at a price 45% above our entry price.

Splitit (SPT +175%): Often described as "an Afterpay look-alike", Splitit offers a tech-based payments platform. It has similar drivers to Afterpay but is much earlier in its lifecycle phase and has a slightly different target market and markedly different business model. We invested a relatively small amount in the IPO of the company, which was embraced strongly by the market in its first few days of listing.

Dean wrote about new IPO Splitit for Livewire: [Is Splitit the next Afterpay?](#)

As always, a handful of companies didn't perform positively in the month including **Freelancer (FLN -18%), EVZ (EVZ -12%)** and **Acrow (ACF - 7%)**. In each case there was no negative company specific news flow and we remain invested and look forward to meeting with the management of each in the coming weeks.

Returns to:	Cyan C3G	All Ord Acc	S&P Small Ind Acc
31 January 2019			
1 mth	4.0%	4.0%	4.8%
3 mths	-2.2%	1.2%	1.6%
1 year	-9.9%	0.7%	-1.5%
2 years (p.a.)	8.5%	6.6%	8.6%
3 years (p.a.)	11.6%	10.0%	8.3%
4 years (p.a.)	18.9%	6.1%	8.4%
Since Incept (p.a.)	18.3%	5.8%	7.7%
Since Incept	114.3%	29.0%	40.0%
Volatility	11.4%	10.9%	12.8%

Media

Various media and all fund reports are available on our website [here](#)

Outlook

In our November 2018 update we wrote:

"Of course investing in bear markets is not easy, nor fun, nor profitable. But we know that these are the times we have the ability to set the Fund up to benefit fully from any upturn. Just as bull markets do not last forever, neither do bear markets, and often the best time to invest, is when nobody is considering doing that".

Indeed over that past 6 weeks the broader markets have pared back all the losses pre-xmas and the market tone appears significantly improved.

At Cyan, we firmly believe that sticking to the basics, searching for and investing in high quality companies with a management team that focuses on returns through intelligent capital allocation in the growth phase of their business lifecycle. We do not pretend to know the short-term direction of the market, but obviously when it pulls back it presents cheaper entry points into the companies we are researching.

February reporting season is upon us and we are confident that our investee companies will deliver a solid set of numbers and outlook statements, providing positive share-price catalysts. It also presents a good opportunity to meet with the respective management teams and gauge the underlying performance of the business and both the challenges and opportunities that lie ahead.

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 and encourage you to do so if you have any questions for us.

Dean Fergie and Graeme Carson
Cyan Investment Management

AFSL No. 453209

An investment in the Cyan C3G Fund can be made by clicking [here](#)



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 January 2019. 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 recommendations 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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