CYAN INVESTMENT MANAGEMENT

C3G Fund Update

31 March 2019
(Unit Price: 1.880)

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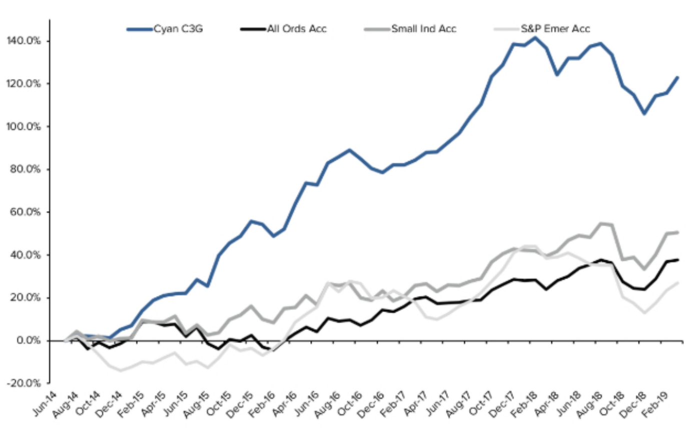
The C3G Fund delivered a solid return of 3.2% in March, comfortably outperforming the broader market indices which rose less than 1%.

General market conditions have certainly improved and the extreme day-to-day volatility has subsided but, post the February reporting season, individual stock performances at the smaller end have remained spotty.

As we stated in our February Monthly Update: *"What we have seen in the past couple of weeks is some attractive opportunities emerge at the smaller-end of the market. We have added a couple of new and exciting positions to the portfolio and we feel that positive and unexpected (or undiscovered) company performances will be well-rewarded"*.



Month in Review

As always, it was a mixed bag in terms of stock price performance, but a number of our positions rallied well and continue to enjoy strong momentum, resulting in the Fund delivering performance well ahead of the broader market.

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

Afterpay (APT +11%): A long-held position in the Fund, Afterpay has faced months of extreme share price volatility however recent price weakness has rapidly reversed to find the company currently trading at all time highs. We have prudently taken some profits but still remain significantly invested whilst the company continues its push into the massive US retail marketplace.

AMA Group (AMA +12%): AMA's February result contained both positive and negative news, with strong revenue growth partially offset by margin contraction. Acquisition momentum has slowed post the failed Blackstone takeover process, but management now appears refocused and the business looks to be resetting for ongoing organic and acquisition led growth.

Atomos (AMS +45%): This 'prosumer' video technology company https://www.atomos.com/, in which we subscribed for shares in their December 2018 IPO has risen strongly in the months following. The company is enjoying good traction with its new product suite which they have already converted into impressive revenue growth (AMS reported 1H19 revenues of $24.2m +34% pcp) and we expect a strong 12 months ahead.

Splitit (SPT +45%): Often described as "an Afterpay look-alike", Splitit https://www.splitit.com/ offers a similar tech-based payments platform but is much earlier in its lifecycle phase, has a slightly different target market and markedly different business model. We invested a relatively small amount in the IPO, which was embraced strongly by the market (SPT rose from its 20c IPO in late January to an intraday peak of $2 during March)...to the point where the valuation has become too aggressive (in our view) for the early lifecycle stage of the business. We have now sold the majority of our position.

There are a handful of new and existing companies at the smaller end of our investment spectrum that haven't yet delivered the performance gains we have been expecting. These include **Quickstep Holdings (QHL), Murray River Organics (MRG), Readcloud (RCL)** and **Alcidion (ALC).**

Often the timing of the market embracing a new growth story can appear somewhat arbitrary. For example: SPT's recent 10x rise was accompanied with no company news whatsoever and within a 12 week timeframe; conversely, after listing way back in 2000 **Promedicus (PME)** shares were still trading at a similar level in early 2015 before rising 10x in the subsequent 4 years. As they say in the market, timing is everything.

Thus we continue to meet with the management teams of each of these investments and thought it timely to provide a brief snapshot and likely catalysts for share price spikes.

Quickstep Holdings (QHL): A provider of advanced composite solutions to the aerospace, defence and automotive sectors, QHL has had a few false starts in a relatively long ASX listed life. We believe the company is now well positioned to deliver to its potential under the new management team led by Mark Burgess.

New contacts have been won, costs have been cut, revenues have exceeded $50m in each financial year since 2016 and operating income has improved, resulting its first maiden operating profit 1H19. The company expects the recent positive trajectory to continue with revenue growth above 20% and improved margins driving greater profitability.

However some things have not changed. The company has just conducted another capital raising, issuing 125m shares at 8.5c. But we believe with a fully diluted market cap of less than $60m, no debt, existing sales, proven products and improving profitability, the company has, finally, appeared to have turned the corner. We participated in the capital raise.

Murray River Organics (MRG): Organic and healthy product producer, packager and seller https://www.murrayriverorganics.com.au/, continues on its turnaround path. The company reported its first result with the new management team in place and the positive changes we had been expecting to see – such as farming and manufacturing efficiencies, contract re-negotiations and price increases – are occurring. The company now has a clear strategy and a team focused on discipline in execution, so we believe the reward will be worth the patience required over the next 2 to 3 years.

Readcloud (RCL): This education technology business https://www.readcloud.com/ is leading the charge to digitise books for secondary school students and those undertaking vocational training. It recently updated the market with its progress around signing new schools to its digital eLearning platform. Revenues are growing strongly and, having met with management last week, we remain confident that the business is enjoying improved traction and accelerating towards profitability.

Alcidion (ALC): Another company delivering technology to a well established industry – in this case healthcare, and more specifically hospitals. ALC https://www.alcidion.com/ has previously had strong technology solutions but, like many tech-based companies, had struggled to truly commercialise the business model. That appears to have changed with the acquisition of MKM Health and the associated appointment of new CEO Kate Quirke. The group can now offer hospitals combined solutions across patient safety and workflow, internal communication, real-time healthcare analytics and IT health advisory and implementation. The combined firepower of a bigger product suite and the marketing ability and existing relationships that MKM brings, positions Alcidion to grow strongly in both Australia and the UK over the next 12 to 24 months.

Returns to: 31 March 2019	Cyan C3G	All Ord Acc	S&P Small Ind Acc
1 mth	3.2%	0.7%	0.4%
3 mths	8.0%	11.1%	12.7%
1 year	-6.0%	11.2%	7.8%
2 years (p.a.)	9.9%	7.4%	9.4%
3 years (p.a)	13.5%	11.3%	9.4%
4 years (p.a)	16.9%	6.1%	8.5%
Since Incept (p.a.)	18.6%	7.1%	9.1%
Since Incept	122.5%	37.8%	50.5%
Volatility	11.2%	11.0%	12.9%

Media

Dean was interviewed by Stockhead - How to spot a true 'turnaround' stock

We wrote about QHL for Livewire - A slow wait for Quickstep

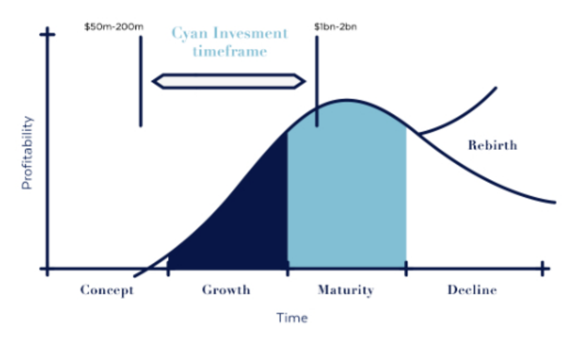
Outlook

At Cyan, we firmly believe that a consistent, disciplined and methodical approach to identifying companies with specific criteria will be well rewarded. The C3G fund is positioned for growth (not to be confused with risk). It typically owns stocks with meaningful potential upside and, ideally:

- Strong management focus on disciplined use of capital
- High proportion of capital reinvested in the business (DPR<70%)
- Strong market position with pricing power
- Solid cash conversion with low capital intensity
- A unique market position, with high barriers to entry
- Typically under-researched

The chart below illustrates the stage of a company lifecycle at which Cyan looks to invest.

Company Lifecycle



This, as a concept, is relatively simple. Identifying companies with suitable growth criteria is also relatively simple, but finding those companies at appropriate valuations can be challenging. It is for that reason that we retain a relatively large cash holding, which we only deploy as we identify truly compelling opportunities that satisfy both our growth and RISK criteria.

Our portfolio currently consists of 25 ASX listed emerging companies at varying stages of maturity along the growth stage of their lifecycle. At the beginning of the report we stated that we had seen *"some attractive opportunities emerge at the smaller-end of the market"*. Subsequently we have invested in a handful of those and look forward to, hopefully, enjoying the rewards as they progress up the growth lifecycle curve.

We thank all our investors for your support and look forward to keeping you all updated with the Fund's progress. The Fund remains open to existing and new investors. Some key criteria are outlined below:

Fund Type	ASX Listed Companies / Cash
Structure	Wholesale Unit Trust
Minimum Initial Investment	$100,000
Investment Risk	Medium - High
Investment Timeframe	3 -5 Years
Trustee and Manager	Cyan Investment Management Pty Ltd
Administrator	Apex Fund Services
Custodian	Australian Executor Trustees
Management Fee	1.5% p.a.
Benchmark / Performance Hurdle	2.5% per quarter (after fees)
Performance Fee	20% (above benchmark)
High Watermark	Yes
Subscriptions/Redemptions	Monthly
Buy/Sell Spread	NAV ±0.3%
Typical Portfolio	20-40 companies

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

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