



# C3G Fund Update

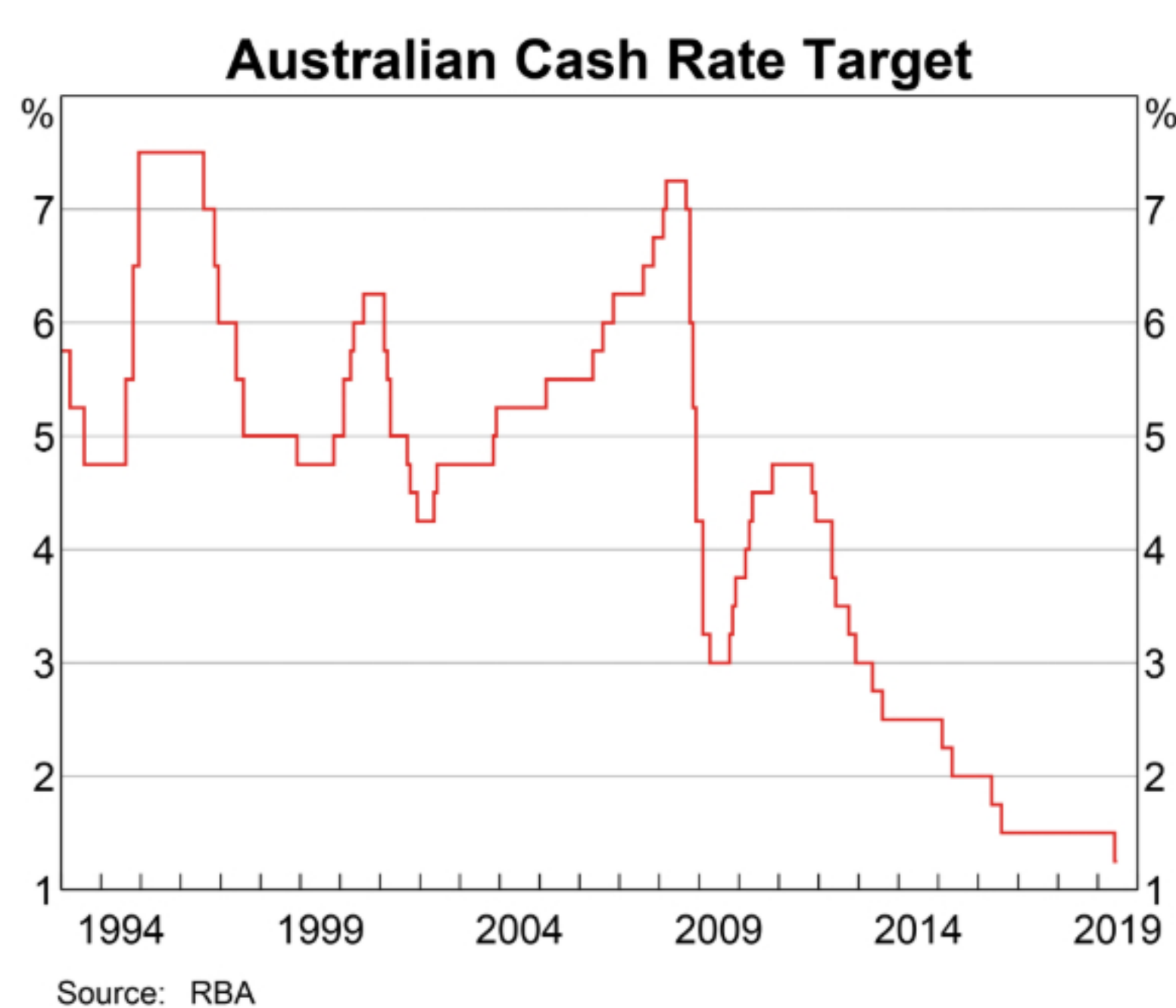
30 June 2019  
(Unit Price: 1.995)

## 30 June 2019

**The Fund posted its sixth successive positive monthly return with a modest +1.1% gain to round out the first half return of 2019 to +14.6% (after all fees).**

Whilst we don't specifically target any indices, it should be noted that the Fund's return this year is presently behind both the Small Industrials and the All Ordinaries which have swept away +19% and +20% respectively; much of this failure to keep pace has been due to our conservative ~30% cash weighting. Regardless, our long-term returns since inception (at 19% p.a.) are almost double those index returns over the same timeframe.

It appears that the two RBA rate cuts in the past month - the first change in official monetary policy since August 2016 - have seen money flood into the equity market. It's quite rational: cash rates (at 1%) are now 33% lower than they were on 8th May 2019 and 3 year bond rates this year have more than halved from 1.9% to just 0.9%. Hence the relative attractiveness of the equity market, in this historically low interest rate environment, is clear.



### Month in Review

There were a couple of notable wins this month that helped drive the Fund higher.

Our IPO investment in co-working space provider **Victory Offices (VOL)** [www.victoryoffices.com.au](http://www.victoryoffices.com.au) listed at a validating 10% premium and we have since added to our initial position. We firmly believe Victory is an attractive investment proposition as co-working spaces are booming globally. Just witness the massive expansion of the US-based WeWork [www.wework.com](http://www.wework.com) that boasts over 500 locations and a valuation north of \$40bn. Of course we do everything smaller in Australia. **VOL** has just 20 locations and a value of \$92m. But with their footprint expected the rise 50% to 30 locations over the next 12 months, there is some serious opportunity for both earnings and valuation growth.

Somewhat surprisingly **Kelly Partners (KPG)** was our best performer this month, rising almost 25%. Granted, the stock has been trading at half the price it was 12 months prior, but **KPG** does look inexpensive (its prospective PE is only 10x) and the quarterly dividend of 1.1c also makes the stock look attractive with a fully franked yield of 4.5%. The company obviously agrees, with its active share buy-back no doubt helping support the share-price.

The other win we had this month was the revaluation of some escrowed **Atomos (AMS)** shares we purchased back in March (at 60c) that were able to be revalued in June. AMS closed at \$1.03 but has traded higher again in July having just raised \$7.5m in new capital and completed a sell-down.

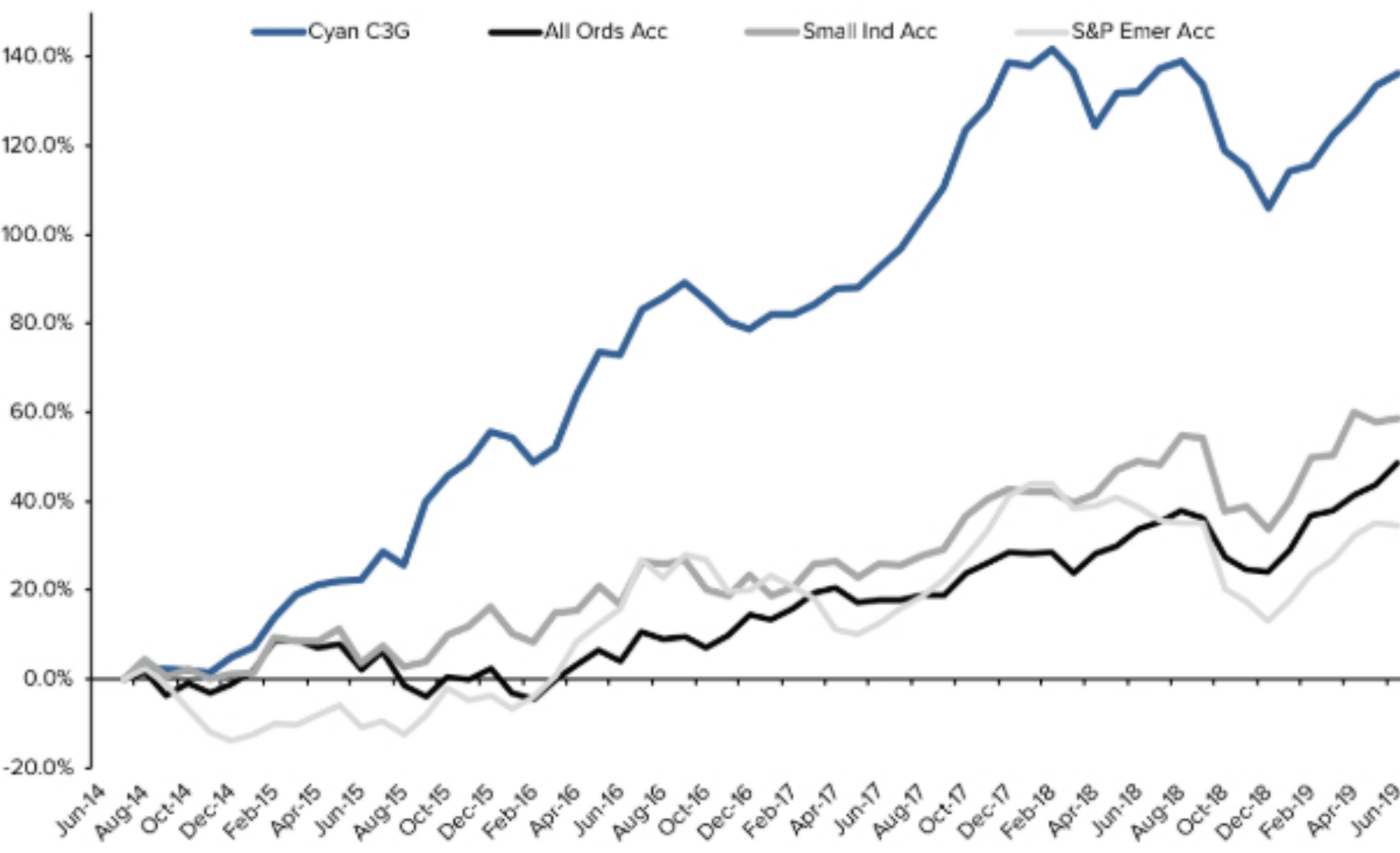
Returns to:	Cyan C3G	All Ord Acc	S&P Small Ind Acc	S&P Emerg Acc
30 June 2019				
1 mth	1.1%	3.4%	0.4%	-0.4%
3 mths	6.1%	7.8%	5.4%	6.1%
6 mths	14.6%	19.8%	18.8%	19.1%
1 year	1.8%	11.0%	6.4%	-2.9%
3 years (p.a.)	10.9%	12.6%	10.7%	5.2%
Since Incept (p.a.)	19.0%	8.4%	9.8%	6.2%
Since Incept	136.1%	48.6%	58.6%	34.6%
Volatility	11.0%	10.8%	12.8%	12.7%

### Financial year 2019 in Review

We think the 18/19 financial year can be described as either a rollercoaster or a tale of two halves.

It's not unfair to say the first half (to December 18) was a bit of a shocker. A nasty combination of some poor stock choices combined with a bearish market resulted in the Fund retracing almost 12% in 6 months, worse than the 7% fall in the All Ords and about in-line with the Small Industrials. Long-term Fund holdings such as **AxessToday (AXL)**, **Experience Co (EXP)**, **Motorcycle Holdings (MTO)** and **Kelly Partners (KPG)** all suffered serious losses on account of earnings downgrades or simply company mismanagement. It was a tough period.

However 2019 has tracked almost as well as we could have hoped. New Fund holdings including **Alcidion (ALC)**, **Atomos (AMS)**, **Audinate (ADB)**, **Quickstep (QHL)** and **Victory (VOL)** have all proved extremely profitable additions whilst we have concurrently enjoyed material gains in **Afterpay (APT)**, **AMA Group (AMA)** and **Spicers Paper (SRS)**. The overall Fund rebound of 14% in the second half of 2019 has resulted in a modest 1 year return of 1.8%. Definitely not a return we can be overly proud of, but we are certainly happier than we were at the end of 2018 and we're pleased to report the momentum, thus far, has been maintained into the start of FY20.



### Media

Refer to the 'News' section of our website for links to articles this past month featuring Cyan in the AFR, Fund Monitors, Livewire and Stockhead.

### Outlook

We don't think it's unreasonable to suggest that nearly every market commentator or participant has been blindsided by the incredible strength in both the ASX and, indeed, global stock markets this calendar year.

The ASX is has had its strongest first 6 months since 1992, no doubt encouraged by the surprise federal election result and boosted by the two recent rate cuts that are driving yield curves significantly lower (the 10 year bond rate has halved from 2.5% to 1.25% in the past 6 months).

Activity in our space remains high. The Fund has subscribed to a number of smaller placements but has also taken stock in a handful of new IPO's due to list in the coming months.

Nevertheless we're also conscious that the market doesn't rise indefinitely and we remain wary about some extreme valuations, particularly in the tech space. We have lightened our position in **Afterpay** this month (being reluctant to realise large capital gains in the 18/19 tax year) and are vigilantly managing our other holdings whilst also looking carefully at new opportunities such as:

**Quickfee (QFE)** <https://www.quickfee.com.au/> offers premium funding and payment solutions to the accounting and legal industries in both Australia and the United States. Quickfee is raising \$14m at a (post-money) market cap of \$28m. Whilst not yet profitable, after having met with Quickfee management in Melbourne and visiting their US office in LA, we believe their compelling offer and scalable business model could be very successful over the longer-term.

Whilst month-to-month volatility can be expected, we have a firm view of long-term opportunity and remain confident in the outlook for the Fund into the future.

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 30 June 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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