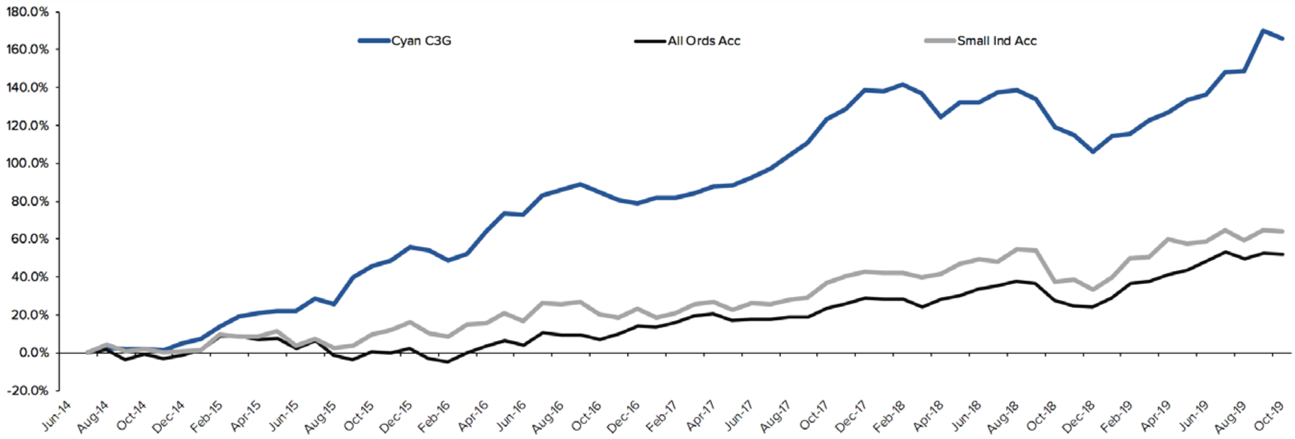
CYAN
INVESTMENT MANAGEMENT

31 October 2019

UNIT PRICE: 2.094



Total Returns

As at 31 October	1 mth	3 mths	6 mths	1 year	3 years (p.a.)	5 years (p.a.)	Since Incept (p.a.)	Since Incept (cum)	Volatility
Cyan C3G Fund	-1.6%	6.9%	16.9%	21.2%	12.8%	21.1%	20.3%	165.5%	11.3%
S&P All Ords Accum	-0.4%	-0.5%	7.7%	19.4%	12.4%	9.0%	8.3%	52.2%	10.6%
S&P Small Ind Accum	-0.5%	-0.3%	2.4%	19.0%	10.9%	9.9%	9.8%	63.9%	12.6%

After September's exceptional 8.6% return, the Cyan C3G Fund pulled back 1.6% in October, taking the return for calendar 2019 to 29.0% (after all fees).

During September 2019, seven of our fund holdings rose more than 30% so it was not unexpected that we encountered some ensuing weakness. Some might ask, *"Well, why didn't we sell out completely in September?"*. It's a fair question.

There are 3 main reasons why we didn't make that call:

1. Regularly buying and selling holdings, particularly in smaller stocks, is an expensive process. Whilst brokerage rates are minimal, to transact any signifiant volumes in the marketplace often puts pressure on share prices. Although the impact from a small fund like ours is far less than it would be from a larger fund - we have no substantial holdings (>5%) in any company - it remains a significant consideration. Further, sales on profitable holdings attract capital gains tax and we aim to provide as attractive post-tax returns for our investors (including ourselves) as possible by holding positions for 12mths or more.
2. We are patient long-term growth investors and have a long-term horizon with respect to valuations. As we invest in growing businesses (as opposed to stagnant 'value' plays) our valuation of these companies increase over time. If the market wishes to mark up these holdings in the short-term, we are comfortable riding through that volatility. Of course we will fine-tune our weightings, indeed we have been decreasing many of our positions, but we tend not to be 'all-in' or 'all-out' investors. One of the great attractions of the stockmarket - unlike say real estate - is that fractional investments can be deployed or reduced, cost effectively, in real-time.
3. Unfortunately, we just can't predict exactly how individual stock prices will react over the short-term.

Month in *Review*

Whilst a number of stocks pulled back in the month we also had a couple of our major positions perform well which helped moderate the decrease in the value of the Fund's unit price. Material share price movements included:

Quickstep (QHL) +15%: Despite the stock's 44% rise in September, the interest in QHL continues to grow. As discussed previously, this advanced manufacturer of high-value carbon-fibre products continues to make great progress in driving its existing operations and it was rewarding to see the company reported its maiden profit in FY19. In FY20 we forecast both organic and new contract revenue growth combined with margin expansion to drive future earnings.

Jaxsta (JXT) +24%: JXT https://jaxsta.com/ is one of our small 'Emerging' investments. JXT is compiling the only comprehensive database of official music credits and can be considered a blend of a music industry IMDB and a LinkedIn for the music workforce. Jaxtsa is hoping to monetise their unique warehouse of music data by both selling subscriptions to music professionals and providing their data to the subscription based music providers such as Spotify, Apple Music, Google Play and YouTube. Jaxsta Pro (the paid version) is expected to go live before then end of 2019.

Alcidion (ALC) -27%: Alcidion was up 65% in September and we have opportunistically reduced our holding. The recent weakness was likely exacerbated by rumblings of a capital raising which was conducted at the end of October. ALC raised $16m to help fund their growth and we expect the high demand for the placement will see the stock rebound.

Oventus (OVN) -21%: Again, OVN had risen almost 50% the month before last and so a breather was probably overdue given the company is only just embarking on its US entry. To recap, this medical device business (a recent addition to the Fund) operates in the sleep apnoea space and is beginning to gain traction in its US market expansion. We expect the recent positive news flow to continue in the coming months.

Perhaps most notably in the month was the decision to exit our position in **Afterpay (APT)**. Having originally purchased the stock at $1 at the IPO in April 2016 we considered it prudent to take the last of our profits at ~$33 and look elsewhere for new opportunities. Given our prior public support of the company we provided detailed reasoning of our divestment to Livewire and were were subsequently featured in The Australian.

Media

Stockhead – Thoughts from a leading fund manager on the recent selloff in ASX tech stocks
https://stockhead.com.au/tech/thoughts-from-a-leading-fund-manager-on-the-recent-selloff-in-asx-tech-stocks/

Outlook

In the short-term it appears our decision to exit **Afterpay** early in October has been prudent. In the past few weeks the large cohort of domestic high growth stocks has been punished. A couple of stock specific events - another short-seller report, this time on **WiseTech (WTC)**; and the suspension of new high-flyer **iSignthis (ISX)** - has spread valuation fears to stocks such as **Appen (APX), Afterpay (APT), Corporate Travel (CTD), Phoslock (PET), Promedicus (PME), Jumbo(JIN), Webjet (WEB)** and **Zip (Z1P)** which are now all trading 25% or more below their recent highs. The Cyan C3G Fund does not hold investments in any of these companies.

In light of this trend the Cyan C3G Fund has rotated some funds into more defensive valuation positions such as **AMA Group (AMA), McPersons (MCP), RPM Global (RUL)** and **VitaGroup (VTG)**.

Additionally, corporate activity of late has been heated. There are at least 2 capital raising and 3 new IPO's in which the Fund participated. One IPO, **Carbon Revolution**, manufacturers carbon fibre wheels for high-end sports cars such as Ferrari out of its factory in Geelong. We expect its recent successes might attract further investment into the sector and provide more support for the likes of **Quickstep (QHL)**.

We thank all our investors for their 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.

Dean Fergie & Graeme Carson

Cyan C3G Fund Details

Minimum Initial Investment	$100,000
Investment Risk	Medium
Trustee and Manager	Cyan Investment Management Pty Ltd
Administrator	Apex Fund Services
Custodian	Sargon Corporate Trust
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

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To invest: cyanim.com.au/how-to-invest