



Total Returns

As at 31 May 2020	1 mth	3 mths	1 year	3 years (p.a.)	5 years (p.a.)	Since Incept (p.a.)	Since Incept (cum)	Volatility
Cyan C3G Fund	9.2%	-5.7%	-12.6%	2.7%	10.9%	12.9%	104.0%	15.9%
S&P/ASX All Ords Accum	5.0%	-9.0%	-6.2%	4.7%	4.6%	5.2%	34.7%	14.8%
S&P/ASX Small Ind Accum	9.6%	-5.2%	-4.8%	6.9%	6.2%	7.2%	50.2%	17.1%
S&P/ASX Emerging Accum	13.6%	-1.0%	-3.6%	5.8%	6.7%	4.6%	30.2%	22.3%

The Cyan C3G Fund continued its positive run in May 2020, posting a strong gain of 9.2% and taking the 3 month return, including the large COVID related fall in March, to -5.7%. This compares favourably to the decline in the All Ords over that period of -9.0%.

It would be fair to say the entire investment community has been surprised by the speed, the quantum and the relentless momentum of the market's rise since its lows in late March. Rhetoric from the investment community about the recent strength has morphed from "a dead-cat bounce" to "a W shaped recovery" to "you can't afford to be out of this market".

Again, corporate transactions were an almost daily occurrence with ASX listed companies looking for survival capital or indeed simply raising money while the door has been open. Interestingly every transaction we were involved in was oversubscribed and, almost without exception, allocations were scaled back aggressively. This further reinforced our view that there continues to be substantial excess capital looking to be allocated towards equities.

Month in Review

Surprisingly given the strong overall gain, the Fund did have a handful of positions that moved negatively in the month, such is the volatile environment currently.

Readcloud's (RCL) share price pulled back almost 20% in the month despite posting positive operating cash-flow in the first quarter of calendar 2020. Given the current interest in online learning and digitisation of school curricula, RCL remains a core position for the Fund.

As one would expect, the Fund also enjoyed numerous winning positions, indeed there were 8 that rose in excess of 20%.

The month's highlight was a new position in video and content provider **Swift Networks (SW1)** which ended May more than 200% above our entry price. Swift provides video-on-demand services (think a tailored, personalised and sophisticated Netflix) to the mining industry and is looking to launch a new product into aged care. We have been following the company closely for a number of years and throughout a handful of management changes. Due to recent changes including a new management team that has aggressively cut costs and a share price that has been crushed, we took the opportunity to invest by underwriting a significant proportion of the company's recent entitlement offer. The outcome of which saw the Fund emerge with a substantial shareholding in the company of just

Another corporate transaction that was of benefit to the Fund's unitholders was our increased holding in [Quickfee \(QFE\)](#) through our participation in a \$7.5m placement the company conducted to expand their business further into the US. Quickfee is a payments solution provider which improves the speed and ease with which professional services firms such as accountants and lawyers can collect invoices. QFE has a significant presence in Australia and is rolling out their technology into the US. For those that have experience with the antiquated US banking system (that still relies materially on cheques) QFEs online payment technology is clearly an attractive investment proposition.

The good news in the month continued with our (substantial) holding in [Schrole \(SCL\)](#). US group Faria Education invested \$2.9m to take an almost 20% stake in SCL whilst the company consecutively raised an additional \$2.1m in new capital to develop further products and cross-sell SCL's technology into Faria's 10,000 schools. SCL ended the month 45% higher.

Media

Graeme Carson featured in the AFR's Monday Fundie series. [Article link here](#)

Chris Gosselin of Australian Fund Monitors spoke with Dean Fergie about the Fund's latest activity and the current state of the global economy. [View the video here.](#)

Cyan and Pengana featured in Stockhead: [Two small cap fund managers discuss their 2020 outlook, after a wild ride through the COVID-19 chaos](#)

Outlook

We were about 3 weeks too early, but at the end of February we wrote:

"We expect that even before the current uncertainty clears, the markets will look past the short-term economic virus impacts and into FY21 and beyond when valuing equities. And particularly in the increasingly likely background of government stimulus and sustained 'lower for longer' interest rates (10yr Aust Govt Bonds are yielding just 0.60% p.a.), higher returning asset classes such as equities will appear attractive."

So from where is this support stemming? We believe there are a couple of factors:

1. Most investors remember the massive pullback in the market during the GFC and recall that the market rebounded well ahead of any sign (or indeed certainly) that the financial system was on the improve. The saying "Nobody rings the bell at the bottom." is likely still ringing in investors' ears.

2. There is still a decided lack of alternative assets that are providing any sort of attractive income or investment return. Real estate is relatively illiquid and the current pricing is likely to not have fully factored in the recent market weakness; infrastructure assets are facing both structural and financial headwinds; and the major income producing assets like bonds and cash (at less than 1% yield) are providing negative real rates of return. As such it would appear investors are happy to take on capital risk by rotating into equities in order to have their money do some work. And the current market strength would only appear to reinforce this reasoning.

So a soft economic outlook combined with sustained market momentum leaves investors at a crossroad. Whilst it has been welcome, we certainly wouldn't have expected the recent market to have behaved so bullishly given the uncertain backdrop.

Again it is worth reminding our readers that the Fund is positioned in 20-30 specific stocks. Of course the price action of these will be influenced in the short-term by market sentiment, but over the long-term their performance will be determined by the underlying success, or otherwise, of their business models.

As we have been positioned for a number of months, the Fund continues to avoid what we continue believe are high-risk sectors including: lending, tourism, real-estate and highly geared companies.

We are acutely aware of the impending economic risks but believe our core Fund holdings remain well away from the eye of any storm and their operations in attractive and defensive market sectors mean they should continue to grow over the coming years even in the face of economic headwinds.

We are pleased to report that the positive momentum of the past two months has continued into June.

If you have any questions about the Fund, our current exposures or investment philosophy and strategy, as always, we are contactable in person.



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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 May 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 Street, 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.