



As at: 31 August 2022	1 mth	3 mths	1 yr	2 yrs (p.a.)	3 yrs (p.a.)	5 yrs (p.a.)	7 yrs (p.a.)	Since Incept (p.a.)	Since Incept (cum)	Volatility
<b>Cyan C3G Fund</b>	-4.8%	-11.4%	-36.2%	-16.1%	-10.7%	-2.8%	5.0%	7.3%	76.9%	18.8%
<b>S&amp;P/ASX All Ords Accum</b>	1.3%	-2.4%	-3.9%	11.4%	6.2%	8.5%	8.9%	7.4%	79.0%	14.5%
<b>S&amp;P/ASX Small Ind Accum</b>	-1.0%	-0.5%	-20.0%	1.1%	1.0%	5.1%	6.9%	6.3%	64.1%	17.5%

## August 2022

After the strong rally in July which extended into the middle of August, markets became significantly more bearish on renewed inflation concerns and rate rises which saw the broader markets shed almost 5% in the last two weeks of the month.

The All Ordinaries Accumulation Index and S&P/ASX Small Industrials Accumulation finished the month +1.3% and -1.0% respectively whilst the Cyan C3G Fund which rose 11.8% in July, gave back 4.8% in August. Global markets also suffered with the US S&P 500 falling 4.2% and the NASDAQ down 4.8%.

Much of this bearishness was as a result of rates rise fears being validated in early September with the RBA's fifth rate rise in as many months taking rates from 0.35% to 2.25%.

By and large the August reporting season did not produce the dire results many participants feared, although, in the case of many companies, outlook statements from management were noncommittal due to the economic and geopolitical uncertainty ahead. Another key theme was a focus on cost management, and there remain a number of high-growth emerging technology businesses that failed in that regard and continue to burn through extreme amounts of cash.

There was some positive news in respect of takeover bids for **Nearmap (NEA)**, **Nitro Software (NTO)** and, in September, **Tyro Payments (TYR)**. Whilst these offers were at significant premiums to recently traded prices, they were below longer-term prices and hence why, in the cases of NTO and TYR, the bids have been rejected by the respective boards. We fully expect this corporate activity to be a continuing theme in the domestic market given the severe pullback in prices in 2022, and particularly at the smaller end of the market where we invest.

Anecdotally we have seen an increase in market activity, a number of new IPO's have been marketed along with a good increase in corporate flow along with the previously discussed takeover activity. Whilst this has not yet resulted in substantially increased trading volumes, we absolutely feel that the market is heading back towards more 'normal' levels of activity.

## Month in review

Like the broader market we felt most of our companies reported solid and, in some cases, exceptional results. Those share prices that performed poorly in the month, which we'll detail below, were generally companies with smaller market capitalisations and we feel the pullbacks were a result of the limited liquidity presently in the market as opposed to disappointing underlying results.

One of the highlights of results season came from warehousing and logistics provided **Silk Logistics (SLH -0.9%)** which delivered [FY22 revenue up 22% to \\$394m and NPAT up 45% to \\$15.8m](#) along with a dividend of 6.3cps. Importantly these numbers came in well above both their June 2021 IPO prospectus forecasts and a subsequent upgrade. With further acquisitions and greenfield sites already confirmed, FY23 is forecast to be another record year. Given the impressive financials it was both surprising and disappointing the shares closed the month slightly weaker.

Sticking with the logistics theme, last mile delivery network and software provider **Zoom2U (Z2U -12%)** [saw total revenues rise 63% to \\$4.6m](#) but most critically, its newly launched [Locate2U](#) software-as-a-service platform produced initial revenues of \$0.5m on the back of some major domestic and international clients such as Amart, Mayo Clinic (in the US), Bing Lee and Publicis Group. Further, Z2U's local delivery arm continues its roll out for Bunnings along with new enterprise clients such as NZ Post (in Australia) and UPS. Whilst it is early days for both these business streams, there are significant tailwinds for the industry and, particularly in the case of Locate2u, huge scaling benefits for the company's technology that has already been built and commercially adopted by multi-national clients.

Building products manufacturer and distributor **Big River (BRI +11%)** was another holding that produced impressive financial results with [FY22 revenues rising 45% to \\$409m and underlying profitability up 191% to \\$22.7m](#). Shareholders were rewarded with a final dividend of 10.0 cps, taking the full year payout to 15.5cps which equates to a ~7% fully franked yield. After meeting with BRI this week, the company does not consider FY22 to be a "one-off" with business momentum and margin expansion continuing into FY23.

Consumer investment platform **Raiz Invest (RZI -12%)** produced a record revenue result in FY22 of \$19m up 40% on FY21. Unfortunately, costs expanded more than we expected in the year and revenue generation from Raiz's expansion into the Asian markets of Indonesia and Malaysia have certainly not produced acceptable financial outcomes. We've been highly engaged with both the board and management of the company to renew focus on the domestic business and cut back on any further investment in non-profitable jurisdictions.

**Quickstep Holdings (QHL +1.2%)** is a long-term Fund holding that we feel is not getting rewarded for some recent business wins. QHL manufactures composite parts for the F35 fighter jet and C130 bomber, provides commercial aerospace maintenance services and produces high end composite products for drone manufacturers. In the past few weeks QHL has increased the value and terms of its F35 order to [US\\$105 over 6 years](#) along with [A\\$5.4 in applied composite orders](#) from drone manufacturer [Swoop Aero](#). Given these positive announcements along with a recently announced a milestone [three year \\$30- 35m maintenance contract with Jetstar](#) we're somewhat perplexed at the current lack of enthusiasm for the stock.

Other negative contributors included **Swift Networks (-26%)** on albeit on very low volumes, **Kip McGrath (KME -14%)** and **Alcidion (-6.5%)** which fell slightly despite a very solid FY22 result - ALC's [revenue rose 33% to \\$34.4m and generated positive operating cashflow](#) for the year, an outstanding result given Covid headwinds in the first half of the financial year.

Positive contributors included **Playside Studios (PLY +7%)**, **Schrole (SCL +28%)** also on low volumes and pharmacy software provider **Corum (COO +11%)**.

## Media

For articles, videos and commentary featuring Cyan Investment Management please head to the [Cyan Investment Management Linkedin page](#).

## Outlook

There's no doubt we're finding it tricky to predict price movements in the short-term. Stocks that otherwise produced results well ahead of expectations have not moved (BRI, SLH, QHL) yet others have swung wildly in both directions on account of reduced market volumes.

As we mentioned in our introduction there are certainly some 'green shoots' in the domestic market with takeover bids, new IPOs and generally increased levels of confidence and market activity. In the past two weeks we have had more than a dozen face-to-face meetings with management (along with a similar number of zoom calls) so it's very much beginning to feel like business conditions are improving.

We're acutely aware that our recent performance has been disappointing. In some cases, this has been as a result of businesses that have not performed to our initial expectations but, in others, share prices have fallen (or indeed dived) on the back of solid results with the short-term price impact a victim of low share market liquidity. This has been evident at the micro and small-cap end of the market for 12 months, but we expect this sector to outperform as conditions recover and liquidity returns.

That said, risks always remain in the short-term but we are comfortable that we do not own companies that are significantly cash-flow negative or undercapitalised and in need of new equity - in many cases our companies have large net cash balances, are profitable and paying dividends.

After more than 12 months of bearish stock

market trading we feel there are presently a number of emerging market trends that could result in markedly improved short to medium term performance.

- Continued takeover activity in the domestic market
- Further appreciation of underlying company performance
- Increased market liquidity
- Renewed opportunities through IPO and other corporate activity

Certainly, we feel that our investee companies have been, on the whole, trading well and we're firmly of the view that from present levels, upside price appreciation far exceeds downside.

What we wrote previously remains very much relevant:

*"We still see a gap between price and value in many of our holdings. However, with sentiment feeling more positive ... we hope that some of that inherent value will be released in the short to medium term as the market re-focuses on quality, growing companies and fundamental research."*

As always if you would like more information about any aspect of your investment, please contact us directly.

**Graeme Carson & Dean Fergie**



[www.cyanim.com.au](http://www.cyanim.com.au)

17/31 Queen Street  
Melbourne VIC 3000  
(03) 9111 5632

[info@cyanim.com.au](mailto:info@cyanim.com.au)

To invest: [cyanim.com.au/how-to-invest](http://cyanim.com.au/how-to-invest)

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 August 2022. 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.