

As at: 30 June 2024	1 mth	3 mths	Fin YTD	1 Year	5 Year (p.a.)	9 Year (p.a.)	Since Incep (p.a.)	Since Incep	Volatility
<b>Cyan C3G Fund</b>	4.5%	6.4%	1.9%	-1.6%	-12.4%	-0.1%	2.0%	18.2%	18.2%
<b>S&amp;P/ASX All Ords Accum</b>	0.7%	-1.2%	4.2%	12.5%	7.6%	8.6%	8.0%	14.1%	14.2%
<b>S&amp;P/ASX Small Ind Accum</b>	1.4%	-4.5%	4.6%	12.4%	2.9%	6.5%	6.2%	17.4%	17.5%
<b>S&amp;P/ASX Emerge Accum</b>	-3.7%	0.9%	5.5%	5.3%	10.3%	10.6%	8.3%	22.5%	22.5%

## June 2024

June proved an uneventful month with steady official and market interest rates and a largely unchanged geopolitical environment. The S&P/ASX All Ords Accumulation Index gained a modest 0.7%, the S&P/ASX Small Industrials rose 1.4% whilst the S&P/ASX All Ords Emerging Companies Index experienced a decline of 3.7% largely as a result of tax loss selling in the previously hot lithium space.

Being non-resources, the Cyan C3G Fund was not impacted by any of the declines in the sector and, due to some positive outcomes at stock level, gained 4.5%.

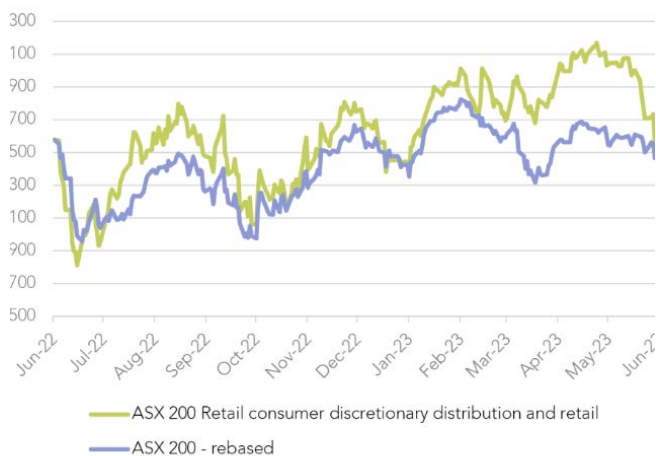
The most notable market event of the month was the successful IPO of Mexican food Chain **Guzman Y Gomez (GYG)** which listed in mid-June at a price

\$30, a 36% premium to its \$22 issue price. Whilst we were surprised at the price action given what we considered was [an already full valuation](#), the short-term outcome was no doubt helped by the limited stock on offer and the incentive for early investors to keep the price high ahead of 30 June revaluations. Regardless of our cynical views, the outcome was certainly a positive sign for the health and optimism of the market. Subsequently the stock has dipped down towards \$24 in the early days of the new financial year.

The other overriding theme in the month was a run of downgrades from several retailers which saw some serious price decay in their shares. Some of the more severe falls occurred in **Cettire (CTT -47%)**, **Kathmandu (KMD -13%)**, **Adore Beauty (ABY -19%)** and **Motorcycle Holdings (MTO -28%)**.

It's worth noting that Cyan currently has no exposure to the discretionary spending sector of the market.

Figure 1: Retail has fallen 9% since April vs ASX 200 that fell 3%



Source: Refinitiv, Wilsons.

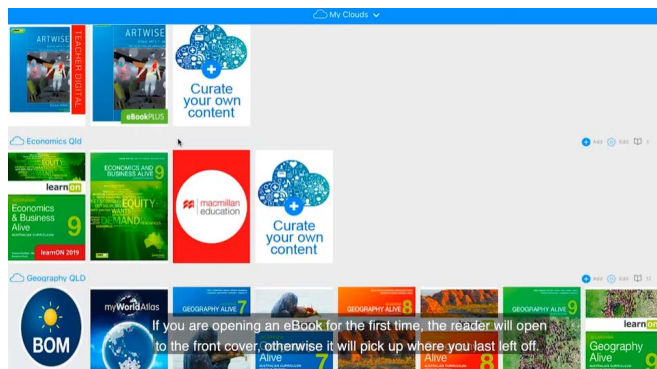
## Month in review

The Fund clearly enjoyed some good news in the month, hopefully this is a sign of things to come.

The most significant event was the announcement of [a takeover offer of education technology provider Schrole \(SCL +142%\) at 48.5c](#) (a valuation of ~\$18m), a substantial premium to the prevailing share price of ~18c. The Fund decided to sell into the market given the small discount (45c) to the final offer price and the potential downside risk in the unlikely event the transaction falls over. There has been increasing corporate activity at the smaller end of the Australian market and this transaction substantiates the prevailing view that there are significantly undervalued businesses currently trading on the ASX, particularly at the smaller end of the market.

The impact of the **Schrole** transaction potentially flowed through to investor interest in the similarly positioned business of **Readcloud (RCL +27%)**. **RCL** provides digital curricula to secondary schools and the VET sector. As mentioned in prior newsletters, the company has seen substantial improvement in its financials with [1HY24 revenue of \\$8m resulting in an EBITDA of \\$1m](#). Readcloud's market capitalisation is presently \$12m and it holds \$3m in cash.

Click on the image for an example of RCL's e-book reader functionality.



By way of a valuation comparison to **Schrole's** \$18m takeover offer, Schrole generates revenues of ~\$6m (versus an expected \$12m for **RCL**), is yet to trade profitably and holds \$1m in cash.

Another business we have previously discussed, and which contributed well to the Fund's return, was video camera manufacturer **Birddog (BDT +37%)** which bounced back strongly from last month. Most importantly, the company announced its [intention to buy back the remaining shares of one of the original founders](#), who no longer works in the business. Given the discount to cash at which the company is trading (Birddog's total market capitalisation of \$13m is almost half of its \$21m cash balance giving the company an astonishing Enterprise Value of -\$8m) this will deal will be value accretive by more than 10%.

Click on the image below for an example Birddog's new PTZ X1 camera.



As is always the case there were detractors in the month. Hospital software providers **Aldicion (ALC -17%)** has been particularly volatile in preceding months (it traded +7% in May) as investors impatiently wait for the announcement of new contracts in the UK. ALC has noted [tenders with total contract values being bid for of in excess of \\$200m+](#) so any positive news is likely to see a material uplift in the shares.

Similarly, music business **Vinyl (VNL -17%)** which remains up more than 50% this calendar year gave back some of its recent gains in June. The company [has been conducting a capital raising and has welcomed a significant new shareholder to the register](#) in Rob Millner (Chair of **Soul Pattinson ASX:SOL**).

Two slightly disappointing outcomes with respect to short-term price action came from gaming developer **Playside (PLY -10%)** and aerospace manufacturing business **Quickstep (QHL +7%)**. In both cases the companies released what we considered materially positive news. In the case of Playside an [extension and expansion of its contract with Meta](#) whilst Quickstep announced volume updates and [cost savings initiatives in its aerospace division](#) which are expected to drive improved margins.

## Media

During the month Dean Fergie was a guest on the Money Puzzle podcast where we discussed **CBA** shorting, **Cettire**, **Guzman Y Gomez** and what share splits and consolidations mean for company valuations.

Click below to listen.



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

## Outlook

Last month we wrote:

*"...we see several of our investee companies punching well above their weight with respect to the financial performances they are achieving and the limited stock market attention they are presently attracting. We believe it is only a matter of time before the gap is closed (with upward share price trajectory)."*

In several cases this has held true and we hope and expect that the new financial year will see this momentum continue. There are still many stocks within our Fund, and indeed in the market in general, that appear significantly undervalued. Whilst the timing in the realisation stock market value can be sporadic we are increasingly confident that meaningful returns are likely to be generated in the near future as these gaps close further.

With ongoing corporate activity and the outstanding result of the GYG IPO, we genuinely feel the tide has started to turn in the small-micro cap ASX space.

In respect to timely news for the Cyan C3G Fund, the upcoming cashflow numbers in late July and results season in August are likely to be relevant touchpoints for company progress and investor refocus on underlying value.

As always, we are attentive to all risks and opportunities and welcome contact from our investors at any time.

**Dean Fergie and Graeme Carson**



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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.