C3G Fund Report
June 2015

Using a defined and disciplined investment framework the C3G Fund makes considered and thoroughly researched investments in a range of both proven and emerging companies. The Fund aims to generate both sustainable income and capital growth for investors.

Fund Details:

Fund Inception	24-Jul-14
Price: 30 June 15	$1.223

Since incept.	C3G	All Ords Acc	Small Ords Acc
Return	**22.3%**	2.0%	-4.0%
Volatil.	**7.7%**	12.9%	15.3%
Monthly Returns			
June-15	0.3%	-5.4%	-7.8%
May-15	0.7%	0.6%	2.3%
Apr-15	1.8%	-1.5%	1.7%
Mar-15	4.6%	0.0%	-1.9%
Feb-15	6.3%	7.0%	8.4%
Jan-15	1.9%	3.0%	0.9%
Dec-14	3.8%	1.9%	0.5%
Nov-14	-0.6%	-2.3%	-3.8%
Oct-14	-0.3%	3.1%	-0.5%
Sep-14	-0.2%	-5.3%	-5.5%
Aug-14	2.4%	1.6%	2.7%

The Cyan C3G Fund has now returned **<u>22.3% (after all fees)</u> in its 11 months since inception in July 2014.**

Over the same period the Small Ordinaries Accumulation Index has delivered a negative return -4.0%, the Small Industrials Accumulation Index +3.5% and the All Ordinaries Accumulation Index +2.0%.

It is worth noting that the Fund's monthly volatility in achieving this return is markedly lower (at 7.7%) than the market indices – reflecting our conservative investment style and aversion to the higher-risk market sectors.

<u>June Performance</u>:

June was a particularly weak month for Australian equities as fears around the Greek debt default gripped the market.

The All Ords Accumulation Index ended June down 5.4%; the Small Industrials Accumulation Index fell 7.1% and the Small Ords Accumulation Index dived 7.8%.

The latter's significant monthly retracement highlights the risk of investing at the smaller end of the market without a discerning risk management framework.

At the company specific level a number of widely held companies released negative announcements. These included profit warnings from Seek (SEK) and Flight Centre (FLT), and ASIC enquiries into IOOF (IFL) and Slater & Gordon (SGH).

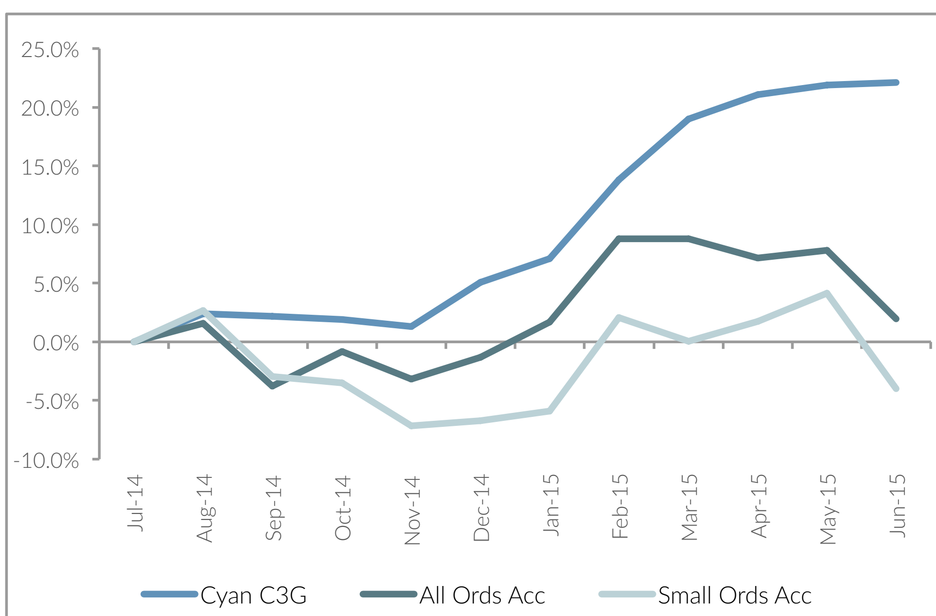
Thankfully Cyan's conservative investment framework has precluded us from investing in any of these companies.

The Cyan C3G Fund, relatively, performed exceptionally well in June with a positive return of 0.3%. This represented outperformance of 8.1% over the Small Ordinaries Accumulation Index.

In addition to our ongoing portfolio of higher quality smaller companies, the C3G Fund benefited from our defensive positioning with a high cash balance in response to stretched company specific valuations.

The only significant negative contributor during June was medical imaging consolidator **Capital Health (CAJ)** which saw its shares fall 17% after one of its senior executives left the business.

The fund again benefitted from strong performances from **Bellamy's (BAL)** (up 28%), **Freelancer (FLN)** (+12%) and **Yowie (YOW)** (up 29%).



Fiscal Year 2015 in review:

As the new financial year begins and we continue to search for the next group of emerging companies, we reflect on the market and our portfolio over the last 11 months. Since inception the Cyan C3G Fund (after all fees) has outperformed the Small Ordinaries Accumulation Index in 9 out of 11 months.

Over the year we have built positions in a number of companies that we continue to consider core holdings. These include:

- **Bellamy's (BAL)**: We participated in the August 2014 IPO of this organic baby food company at an issue price of $1.00 per share. We gradually increased our position and benefited from an incredible price appreciation that saw BAL close at a 30 June price of $4.37.

- **Vita Group (VTG)**: This telecommunications retailer has been listed for many years but has recently found its form again through a strong, culture driven, management team and performance optimization of its footprint of Telstra stores. We initiated our first investment at $0.92 in August 2014 and continue to own shares at the current price of $1.70.

- **AMA Group (AMA)**: This auto panel repair consolidator is well placed to benefit from the changing industry landscape, ultimately driven by the insurance sector. It's unique, but without doubt, effective management team is one of its key strengths. We paid $0.32 per share for our first position in AMA in September 2014 and as recently as last week added to our holding through a capital raising at $0.60.

- **Capitol Health (CAJ) :** This company is our other consolidation play, but it is exposed to the more defensive diagnostic imaging industry. CAJ is well led by its MD and having built a strong footprint of centres in Victoria has now begun its expansion into NSW and beyond. The share price has been relatively volatile as investors try to forecast the acquisition profile of the company, ranging from our initial entry price of $0.63 in December, to a peak of $1.10 in March before closing at $0.77 at years end. We have recently increased our position as a result of the weakness in the share price.
- **Freelancer (FLN):** This web-enabled business outsourcing company is well placed as the market leader in a rapidly growing field. We first became shareholders in January at an entry price of $0.70 per share and whilst it has risen rapidly to $1.30 in only 5 months we continue to see long-term potential.

- **Praemium (PPS):** In the past 12 months, this financial services business showed strong growth in underlying fundamentals driven by steadily increasing funds flow into the business, suggesting it was fast approaching critical mass and therefore profitability. This drove our initial investment at an entry price of $0.19 back in November. The share price has been relatively volatile having more than doubled before settling back to $0.33 on general financial services sector weakness.

- **BlueSky Alternatives (BLA):** Just as

with Praemium, the theme of growing funds flow driving annuity income also attracted us to asset management business BlueSky Alternatives. We became shareholders at an entry price of $2.79 in October and continued to buy through to February when we were paying up to $3.05 per share. Since then the price peaked at $4.94 before settling back to $4.12 at 30 June 2015.

Some other companies with which we have enjoyed reasonable investment success but have had smaller investments or indeed have reduced our exposure or sold our positions completely include **Speedcast (SDA), M2 Communications (MTU), McMilllan Shakespeare (MMS), Lovisa Holdings (LOV), iiNet (IIN), Silver Chef (SIV), Yowie (YOW), Rhipe (RHP)** and **Lindsay Australia (LAU).**

Of course throughout the year we have made our fair share of mistakes. In some cases we misread situations, realised the catalyst we had forecast for a share-price re-rating just wasn't eventuating or that the risk profile of the company had changed.

These include **Rubik Financial (RFL), Grays Ecommerce (GEG), Saunders (SND), iSelect (ISU), Money3 (MNY)** and **Simonds Group (SIO).** In other cases specific company weakness developed into negative sentiment across whole sectors. The most notable example was the impact the Vocation (VET) mess had on the whole education sector – around which time we exited our positions in **Ashley Services (ASH)** and **Australian Careers Network (ACO).** We now have no exposure to education, childcare or even aged-care companies because we believe those industries are all looking very competitive and the companies are often rather opaque.

Importantly, when we believe we may have got something wrong we are vigilant in our reaction.

Notably we were fortunate in that we did not get caught in any profit downgrades in any of our holdings throughout the year.

Looking into Financial Year 2016

At the beginning of this financial year we believe the portfolio is still positioned conservatively. We have a cash balance of ~40% accompanied by a well-diversified portfolio of ~20 companies. The profile of the companies is skewed towards growth, but they are generally cash generative with relatively strong rates of return on equity and still in the lifecycle phase of reinvesting. In terms of size, more than half of our holdings are in companies with a market capitalisation between $200m and $500m. This is not by specific design, as we are index unaware in our investment philosophy, but seems to be the size of company where we are finding the desired mix of an established business model that is still immature enough to offer strong growth prospects.

In broader terms, the IPO market has softened over the past 6 weeks as investors have become more selective after suffering indigestion of so many new offerings in previous months. We expect the recent spike in mergers and acquisitions activity to continue in coming months.

Specific macro events and influences (such as the impact of the Greek and Chinese situations) will obviously continue to drive sentiment, most likely resulting in increased market volatility in the short to medium term. That said, we reiterate our ongoing strategy, based on the following key themes:

1. **Invest in companies, not markets -** the construction of the portfolio is not based on trying to predict equities market movements…it is based on company specific analysis.

2. **Invest in quality** – weight the portfolio towards proven companies generating high return on equity and redeploying capital back into their own business.

3. **Avoid high risk and volatile sectors –** including any exposure to direct resources, resource services, biotechnology, highly leveraged businesses or unproven business models.

4. **Invest in companies that earn through the cycle –** these include a number of positions in the financial services, telco and healthcare sectors with relatively defensive and predictable earnings streams.

5. **Invest in companies with specific growth drivers –** these include those exposed to structural changes within industries, growing market share or with significant geographic expansion

plans, either organically or through acquisition.

6. **Deploy a portion of our high cash balance to build opportunistic positions as we identify them** – corporate activity and new IPO activity remain buoyant and we are spending much of our effort exploring and researching new investment opportunities.

We are obviously delighted with how the C3G Fund has performed since inception and we look forward to keeping our investors updated with the Fund's progress.

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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.