Cyan looks to invest in the most promising and highest quality smaller companies listed on the ASX

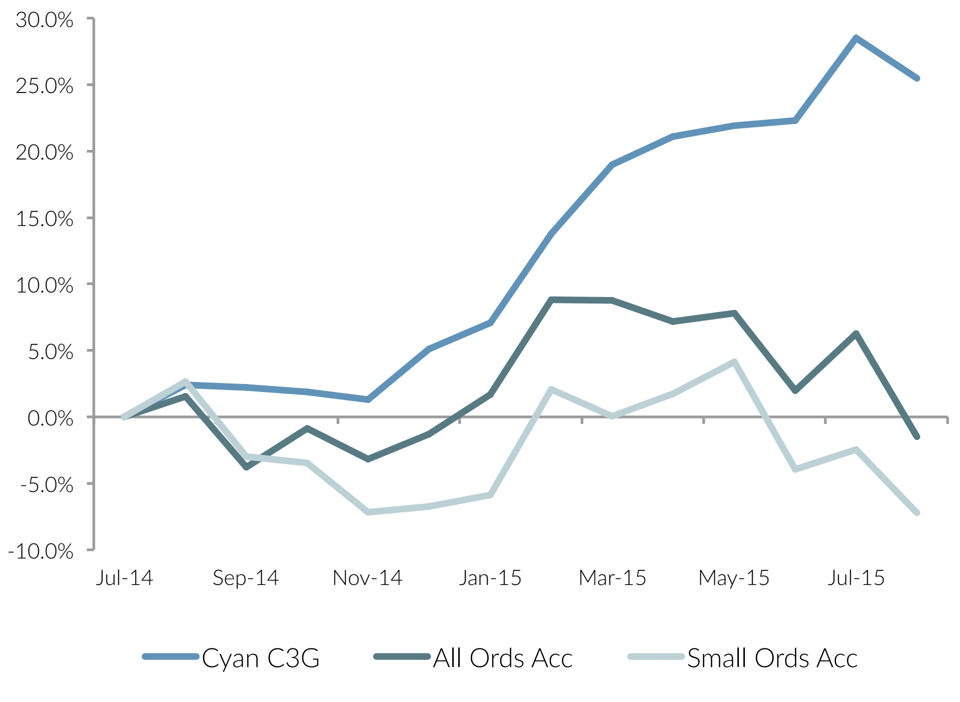
C3G Fund Update

31 August 2015

CYAN INVESTMENT MANAGEMENT

Fund Inception: (24 July 2014)	**1.000**
Price at: (31 August 2015)	**1.255**

Returns to 31/8/15	**Cyan C3G**	**All Ords Acc**	**Small Ords Acc**
1 Mth	-2.3%	-7.3%	-4.9%
6 Mths	10.3%	-9.4%	-9.1%
1 Year	22.6%	-3.0%	-9.6%
Since Incept	**25.5%**	**-1.5%**	**-7.2%**



AUGUST MARKET REVIEW

The Australian stock-market experienced its worst month in almost 7 years, with the All Ordinaries Accumulation Index falling 7.3% in August. The bearish local sentiment was a result of global market volatility, fears over China's growth rate, A$ weakness and a somewhat underwhelming reporting season from domestic companies.

However, the Cyan C3G Fund performed relatively well, falling just 2.3% in the month and retracing less than half of the 5.1% in gains it accumulated in July.

On a calendar year-to-date basis, the Cyan C3G Fund has gained 19.4%, strongly outperforming both the big cap and small cap accumulation indices that have both posted small losses over the same time frame. Moreover, both the large and small cap markets have declined by more than 10% since their highs in April and May; over the same period the C3G Fund has delivered a positive return.

The broader reporting season, as always, contained a mixed bag of results and, generally speaking, forward looking statements from management have been vague and non-committal in terms of earnings growth for the coming year. The cost-cutting earnings growth delivered in recent periods appears to getting more difficult and the benign domestic economic conditions are creating growth challenges. That said, we do not invest relative to indices and have positioned our portfolio towards companies that offer specific growth drivers over the next couple of years.

THE CYAN C3G FUND

The majority of our holdings reported their earnings results for the 2015 financial year in August. Although, in some cases, specific stock performance was impacted by volatile overall markets, we were generally pleased with the earnings performance of our portfolio of companies.

In order of their contribution to the month's performance:

- **Opus Group (OPG)** +25%: This previously distressed printing business once owned by McPherson's (MCP) has been recapitalised and now is able to deliver cost-out earnings growth without the previous debt burden. Looks exceedingly cheap (5x FY15 earnings), dividend paying and is well positioned to be substantially re-rated over the next 12 months.

- **Bellamy's (BAL)** +12% in August: Well ahead of previously upgraded prospectus forecasts with an outlook for significant earnings growth in FY16 and beyond.

- **Speedcast (SDA)** +8%: Delivered a strong result with growth delivered both organically and through four acquisitions since listing in 2014. SDA is well positioned in a growing international market.

- **BlueSky Alternatives (BLA)** -3%: A strong result with assets under management (AUM) at $1.35bn materially exceeding management's target of $1bn. We expect BLA to continue to build scale and momentum in the coming years with potential for other specific positive share price catalysts including new funds and private equity asset valuation events.

• **Lovisa (LOV)** -6%: This fashion retailer's result was ahead of expectations and the forecast for 2016 is improved due to store acquisitions in Sth Africa. But the big prize is an expansion into a large offshore market such as Europe or North America to complement its maturing domestic business.

• **M2 Telecommunications (MTU)** -17%: Typically delivered a consistent result slightly ahead of guidance with forecast NPAT growth into 2016 of 30%+. Recent price weakness has been attributed to profit taking and its potential removal from the Small Ordinaries index (but inclusion in the ASX100)

• **Vita Group (VTG)** -12%: After a very strong interim result the company did a great job in continuing to optimise the performance of its 100+ Telstra store network in the second half of the year. We continue to see value and growth going forward.

• **AMA Group (AMA)** -13%: A solid result proving the consolidation strategy is beginning to bear fruit. It's still in its early stages and we see further upside from further company-changing acquisitions over the next 12 months.

OUTLOOK

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. We have begun to prudently and conservatively deploying cash into specific value opportunities as they are presented through the market volatility.

At the beginning of September the fund is positioned conservatively. In consideration of the volatile environment, we have a cash balance of ~40% accompanied by a well-diversified portfolio of 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.

Specific macro events and influences, such as the impact of currency weakness, share market volatility and the Chinese growth profile, will obviously continue to drive sentiment, most likely resulting in continued 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 – we intend to continue to use market volatility to acquire long term value positions. We also closely monitor the corporate market to identify attractive upcoming IPO's.

Graeme Carson and Dean Fergie

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

www.cyanim.com.au
info@cyanim.com.au