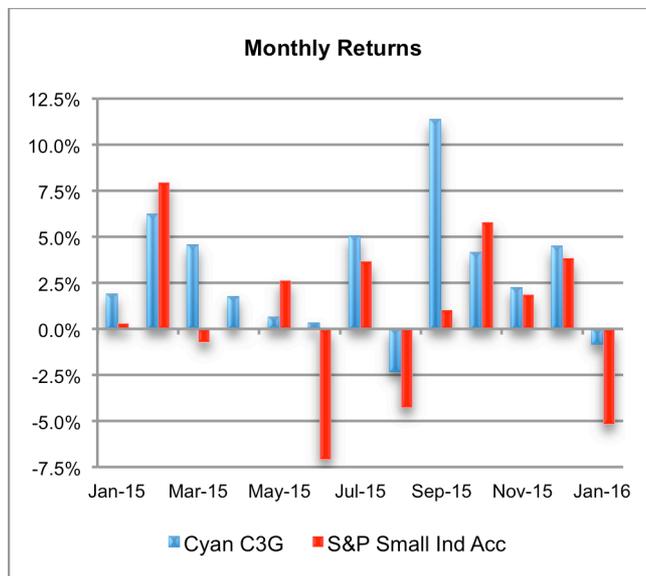


Cyan aims to invest in the most promising and highest quality smaller companies listed on the ASX.

## C3G Fund Update 31 January 2016



<b>Fund Incept: 24 Jul 2014</b>	<b>1.000</b>		
<b>Unit price: 31 Jan 2015</b>	<b>1.543</b>		
<b>Performance</b>	<b>Cyan C3G</b>	<b>All Ords Acc</b>	<b>Small Ind Acc</b>
1 mth	-0.8%	-5.4%	-5.2%
3 mths	6.0%	-3.5%	0.3%
6 mths	20.1%	-8.8%	2.7%
1 Year	44.1%	-4.7%	8.7%
<b>Since Incept.</b>	<b>54.3%</b>	<b>-3.1%</b>	<b>10.2%</b>
<b>Volatility</b>	<b>11.3%</b>	<b>13.9%</b>	<b>13.6%</b>

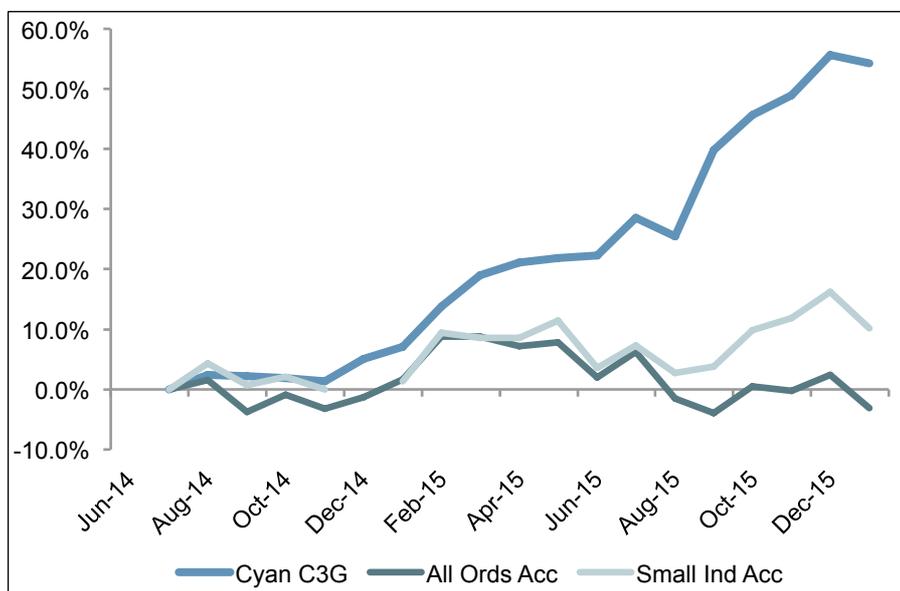


The Cyan C3G Fund fell a modest 0.8% in January. We believe this was an impressive outcome given the broader market fall of 5.4% and, in particular, taking into account the 48.0% the Fund gained in 2015.

As you would likely be aware, it was a torrid start to 2016 with the All Ords falling over 8% before recovering somewhat, to end the month down a shaky 5.4%.

Whilst this did inflict some reasonable financial pain, spare a thought for Chinese investors that saw their bourse fall 23% in January.

As we write this, the bearish tone continues with the ASX200 down a further 5% to the 11th Feb with the market officially in a bear market - the definition being a fall of 20% or more from its most recent high (in April 2015).



Fortunately the defensive tilt we implemented for the C3G Fund circumvented most of the broader market losses. Although we clearly do not like to lose money in any month, the nature of any stock market investment dictates that occasional losses will be experienced in the chase for excess returns. Again volatility for the Fund (especially in down markets) is tracking far below comparable market indices. (See above chart)

### Monthly Review

The poorest performer in the month was jewellery retailer **Lovisa (LOV)** down 38%. A profit warning citing currency impacts (most of Lovisa's product is sourced in USD) and heavy discounting saw the market scrub the shine well off the share price. A significant management sell-down in September 2015 did not do the stock any favours either. Despite this, the stock continues to trade above its \$2 IPO price and the impact on the Fund was negligible given we had locked-in (sold) much of our holding in 2015.

We also experienced some weakness in **BlueSky (BLA)** which pulled back 17% in January. Financial services businesses are traditionally highly leveraged to market swings and again, like Lovisa, we had lightened our position in 2015 and hence the impact on the Fund was minimal.

We saw a few Fund positions buck the negative trend in January. **Skydive the Beach (SKB)** gained 22%; **M2 Telecommunications (M2)** was up 10% as its merger with **Vocus (VOC)** was approved and **Speedcast (SDA)** put on 13% after a well received investor roadshow.

## OUTLOOK

It is clearly an extremely challenging market in which to invest presently. As we wrote last month,

*"Again we remained relatively conservative and retain cash balances of ~35%, for three key reasons:*

- 1. To position for potential market weakness.*
- 2. We believe a number of company specific valuations remain stretched, and;*
- 3. To have the investment firepower to take advantage of opportunities as we identify them."*

Our conservative positioning (meaning a higher than usual cash weighting) remains in place which has been an invaluable decision to date.

Not only has it buffered the Fund against recent market falls; it currently provides us with the enviable opportunity to make investments when share prices are depressed.

Of course this is not an exact science and we have been investing long enough to know that it is impossible to 'pick the bottom'. However we are keeping a close eye on many investment opportunities that we have found attractive as investments, but had previously considered too expensive.

As prices decline we expect to see the Fund making considered investment decisions and setting the Fund up for what we expect to be another good year.

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.

Specific macro events and influences (such as the impact of the Chinese economic position and the US 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** - corporate activity and new IPO activity are always on the radar and we always spend time exploring and researching new investment opportunities.

We are proud of how the C3G Fund continues to perform since its inception and we look forward to keeping our investors updated with the Fund's progress.

**Graeme Carson and Dean Fergie**



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

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

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 January 2016. 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.