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

# C3G Fund Update

## 29 February 2016

CYAN INVESTMENT MANAGEMENT

| Fund Incep: 24 Jul 2014 | | | 1.000 |
|---|---|---|---|
| **Unit price: 29 Feb 2016** | | | **1.488** |
| **Performance** | **Cyan C3G** | **All Ords Acc** | **Small Ind Acc** |
| 1 mth | -3.6% | -1.5% | -1.6% |
| 3 mths | -0.1% | -4.3% | -3.2% |
| 6 mths | 18.6% | -3.1% | 5.5% |
| 1 Year | 30.8% | -12.2% | -0.9% |
| **Since Incept.** | 48.8% | -4.5% | 8.4% |
| **Volatility** | 12.0% | 13.5% | 13.4% |

**The Cyan C3G Fund had a disappointing February, retracing 3.6% amid a challenging environment of extreme market volatility. At one stage in February the All Ords had fallen a further 5% (following January's nasty -5.4% fall) before recovering by month's end to post a 1.5% loss.**

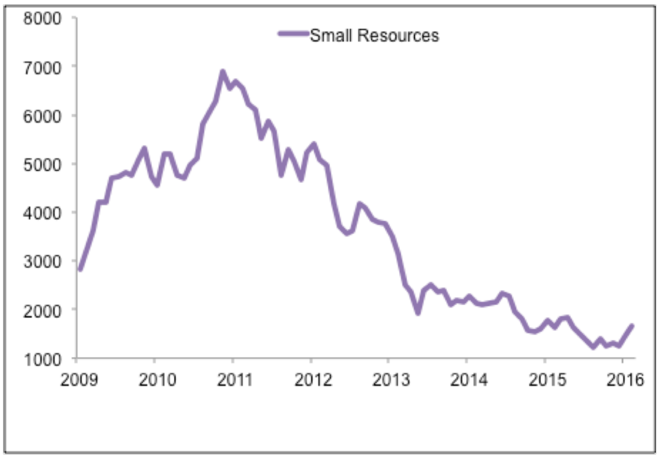
That said, it is one month and our performance across all other timeframes, including the past quarter, remains strongly ahead of comparable indices as detailed in the table above.

Highlighting our conservative investment style, February 2016 represented the only month since the Fund's inception in which the Fund underperformed the market when the market had fallen.

The companies in which we have invested delivered strong earnings results, however the typical growth profile of some of the higher growth companies meant the broader market sold some of these positions down amidst the market swings.

Notably, small mining and energy stocks rebounded strongly in February, as illustrated by the Small Resources Index, which was up 19% for the month.

Keep in mind that the Resources sector is coming off a very low base having fallen 30% since the inception of our Fund and 76% over the past 5 years. Our strategy remains unchanged and we do not look to invest in mining, mining services, biotechnology or property companies.

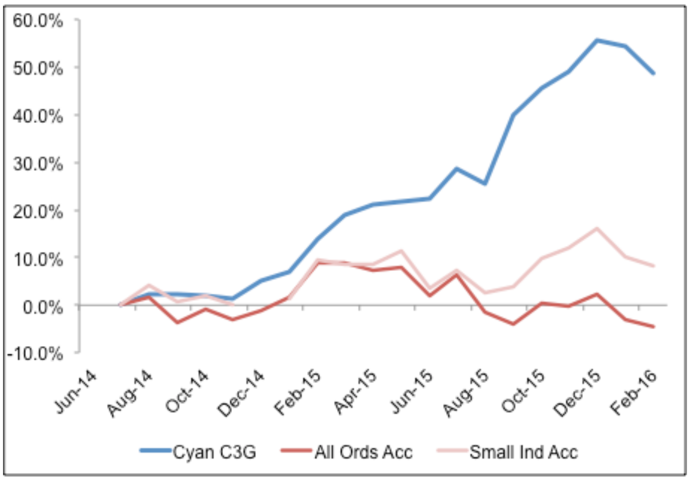


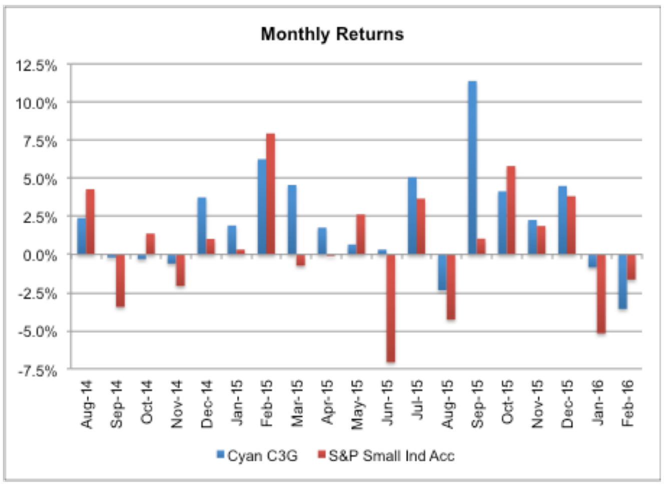

## Monthly Review

Most companies delivered their earnings results for the 6 months to December with the majority of companies meeting or exceeding somewhat tempered expectations.

Generally speaking we were pleased with the results and optimistic about the outlook for our portfolio. Notable mentions within the C3G portfolio included:

**Vita Group (VTG)** -This successful telecommunications retailer (VTG manages over 100 Telstra branded stores) delivered earnings(EBITDA) growth of 46%, which was 10% above the top end of the management's (already strong) guidance range. Logically, this resulted in the VTG share price rising 13% by month's end.



**Blue Sky Alternative Investments (BLA)** - Strong growth in Funds Under Management (now at $1.7bn) contributed to interim net profit growth of 69% for BLA. We continue to believe that ongoing investor demand for alternative assets will see Blue Sky at the leading edge of this growth industry in Australia, resulting in the creation of a business many times larger than it is today. The share price was up 7% in February.

**Speedcast (SDA)** - Earnings momentum also continued in the satellite services provider through a combination of organic and acquisitive growth accompanied by extraction of synergies from businesses bought over the previous year. All three areas are expected to driver further double-digit earnings growth in 2016, albeit with some funding capacity constraints for further acquisitions in the short-term. **SDA** rose 13% in Feb.

**Adacel (ADA)** - ADA develops control systems for the civil aviation and defence sectors. The interim result illustrated the traction the business is getting and the company displays a number of key characteristics that we look for, including:

- a dominant position in a niche and growing market;
- increasing recurring revenue, high return on equity;
- low dividend payout ratio;
- strengthening cashflow and;
- is under-researched by brokers.

**ADA** was up 8% for the month.

A number of other holdings in our portfolio delivered numbers either ahead of, or in line with, expectation but share prices retracted, either due to lack of strong guidance statements, general volatility or profit taking. These included:

- **AMA Group (AMA)** - down 15%
- **Bellamy's Organic (BAL)** - down 21%
- **Freelancer (FLN)** - down 25%
- **PSC Insurance (PSI)** - down 6%
- **Opus Group (OPG)** - down 8%
- **Touchcorp (TCH)** - down 3%

## OUTLOOK

We remain comfortable with the position of our portfolio and the under lying company exposures. We continue to focus on growth and note that 7 of our top 10 holdings generate what we believe to be maintainable return on equity above 20% and are reinvesting at least half of their earnings back into the business. By definition, this results in strong incremental earnings growth, and when combined with some of the other business characteristics these companies display, ongoing share price outperformance.

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, the US growth profile, foreign exchange rate movements and domestic housing and interest rates environments) 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.

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