

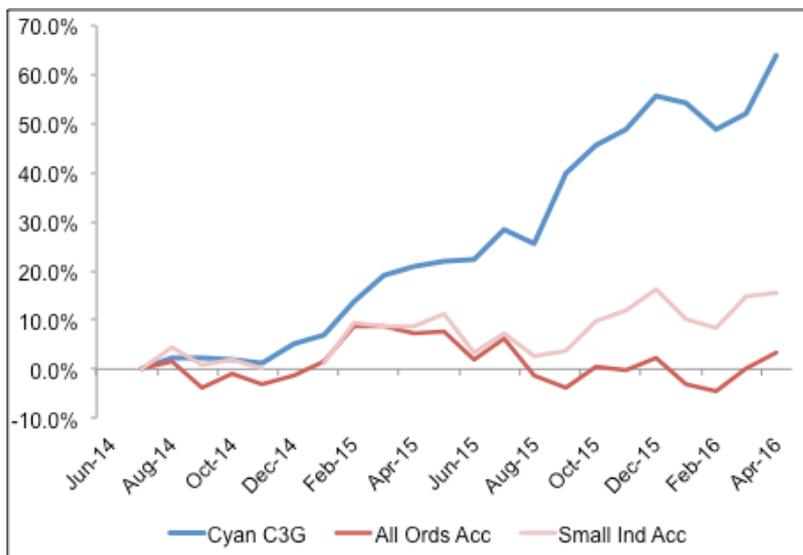
Cyan aims to invest in the most promising and highest quality smaller companies listed on the ASX.

## C3G Fund Update

### 30 April 2016



<b>Fund Incep:</b> 24 Jul 2014	<b>1.000</b>		
<b>Unit price:</b> 30 April 2016	<b>1.641</b>		
Performance	Cyan C3G	All Ords Acc	Small Ind Acc
1 mth	7.9%	3.2%	0.5%
3 mths	6.4%	6.5%	4.8%
6 mths	12.7%	2.8%	5.1%
1 Year	35.5%	-3.7%	6.4%
<b>Since Incept.</b>	<b>64.1%</b>	<b>3.3%</b>	<b>15.5%</b>
<b>Volatility</b>	<b>12.0%</b>	<b>13.5%</b>	<b>13.4%</b>



The Cyan C3G Fund delivered an outstanding return of 7.9% after all fees in April, strongly outperforming the returns of both the Small Industrials Index (+0.5%) and the All Ordinaries Accumulation Index (+3.2%).

After an excellent 2015, the first quarter of 2016 presented its challenges, with higher quality industrial companies generally underperforming their counterparts in the resources and energy sectors. We used that weakness to deploy some of our high cash balance and were rewarded with a number of strong performances in April.

Despite the excellent positive returns, it is worth highlighting the Fund's low monthly volatility which remains comfortably below both the large cap and small cap indices, reflecting our conservative investment style and structured risk framework.

### April Review

The recent market volatility subsided to a degree through April, although performance of the underlying companies remained very mixed. In the Small Ordinaries Index the materials and energy sectors were again the strongest performers, partially offset by weakness in retailers and utilities companies.

There were a number of significant earnings downgrades from the likes of **Billabong**, **McGrath Real Estate**, **Murray Goulburn** and **Thorn Group**, none of which the Fund had invested in.

Happily, the majority of companies in the Cyan C3G Fund delivered positive performances, the most notable contributors including:

**Freelancer (FLN) +29%** - This global leader is benefitting from the structural shift towards a growing workforce of outsourced freelancers. FLN enjoyed a strong rebound in

its share price through April, finishing the month up strongly having announced solid March quarter performance to the market.

**Adacel (ADA) +9%** - This developer of control systems for the civil aviation and defence sectors recovered from recent share price weakness to deliver 9% share price growth over the month. We expect further market support as its increasing recurring revenue base generates strong profit growth over the remainder of the year.

**Skydive The Beach (SKB) +19%** - Australia's leading adventure sports travel business dominates the skydiving industry in Australia and has a growing presence in New Zealand. We expect SKB to deliver its earnings guidance and complement the existing footprint with acquisitions into other travel related adventure businesses. We've been invested in this stock since its IPO and the shares have more than doubled since listing in March 2015.

**Vita Group (VTG) +12%** - This telecommunications retailer (VTG manages over 100 Telstra branded stores) continues its ongoing share price strength as investors gravitate towards its high return on equity based profit growth.

Other positive contributors to our performance included **AMA Group (+7%)** and **Primary Opinion (+14%)**.

There were only a couple of negative performers that included **Millenium Group (-20%)** which we have now exited and **Blue Sky (-5%)**.

We also enjoyed success with a couple of IPO's that we had previously flagged our investment in:

**Abundant Produce (ABT) +192%** - Having met with management on three occasions prior to the April IPO, we decided to make an investment in this company. Backed by technology out of Sydney University, ABT is focussed on the intellectual property of agricultural seeds and is rapidly approaching commercialisation with its first seed varieties. It

also has a strong future pipeline of differentiated products that have attracted strong demand from the lucrative global commercial seed market. ABT successfully listed in the last week of April at an issue price of \$0.20, before rising an incredible 192% to close the month at \$0.58.

**Reliance Worldwide (RWC) +18%** - This global industrial company focussed on the plumbing industry that we took shares in, listed at the end of the month, closing at a solid 18% premium to its issue price.

## OUTLOOK

Whilst it would otherwise be easy to get carried away when the Fund is performing so well, we are constantly looking for new opportunities and, equally importantly, reassessing the valuations, the potential and the financial risk of the Fund's current investments.

Overall, we remain conservatively exposed to what believe to be a high quality and well-diversified portfolio of 27 Australian smaller companies with no single stock representing more than 6% of the total Cyan portfolio.

The vast majority of our larger positions contain our preferred characteristics of high return on equity, strong cash conversion and below average dividend payout ratios, which positions them well to deliver ongoing earnings growth and share price appreciation.

Of course the Fund's returns can regularly be accelerated by the stellar performances of more speculative smaller cap stocks we occasionally discover through our extensive research process.

To be clear, this is not by chance or luck. We take dozens of meetings and spend countless hours each and every month in order to discover the one or two stocks that can make a significant positive impact on the Fund's overall returns.

Whilst this clearly won't occur each and every month, we do expect that we will continue to discover these performers.

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 has performed since inception and we look forward to keeping our investors updated with the Fund's progress.

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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 30 April 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.