

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

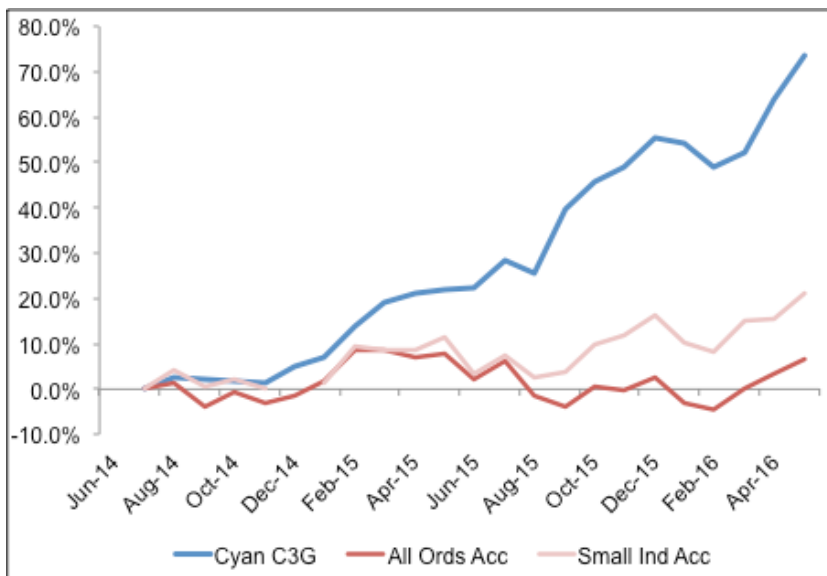
C3G Fund Update 31 May 2016



Fund Incep: 24 Jul 2014 1.000

Unit price: 31 May 2016 1.735

Performance	Cyan C3G	All Ords Acc	Small Ind Acc
1 mth	5.7%	3.1%	4.8%
3 mths	16.6%	11.5%	11.7%
6 mths	16.5%	6.7%	8.2%
1 Year	42.3%	-1.2%	8.7%
Since Incept.	73.5%	6.4%	21.1%
Volatility	12.1%	13.4%	13.4%



The Cyan C3G Fund delivered another good month, rising 5.7% after all fees in May. Despite the Fund's conservative investment style, it still managed to outperform strong returns from both the Small Industrials Accumulation Index (+4.8%) and the All Ordinaries Accumulation Index (+3.1%).

The broader markets were somewhat surprised by the 0.25% rate cut in early May, to a record low of 1.75%. Clearly with such a low return on interest rate securities, the relative attractiveness of equity investments improves significantly and hence it was not surprising to see investors supporting the stock market in the following weeks.

This was also reflected in the continuation of corporate activity with a number of new companies lodging prospectuses, including some larger well-known retail businesses such as **Kogan** and **Shaver Shop**. After some detailed research and careful consideration we decided to pass on both opportunities.

The market volatility remained subdued compared with recent months although the performance of the underlying companies was mixed. In the Small Ordinaries Index Healthcare (+9.4%) and Information Technology (+7.0%) sectors were the strongest performers, with the weakest being Materials (-3.0%) and Energy (-1.6%).

There were a number of significant earnings downgrades from the likes of **Beacon Lighting**, **Covermore**, **Flight Centre**, **Pulse Health**, **SMS Technology** and **Surfstich**, none of which the Fund had invested in.

Fund Review

Despite the excellent positive returns, it is worth highlighting the Fund's defensive framework, which has resulted in its low volatility.

The Fund presently holds **28 individual stocks** with the largest holding not exceeding 7% of the total value and cash weighting of approximately 25%.

The Fund presently has a growth focus with an average forward PE of ~18x. Often the follow saying holds true that:

"Good companies aren't cheap; and cheap companies, aren't good".

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

Afterpay (AFY) +50% www.afterpay.com.au is a company we had previously written about in our March 2016 report. It listed in early May at a 25% premium and continued to trade higher through the remainder of the month. AFY allows customers to "Buy now - pay later" for retail products online. The company's product has already been implemented across online stores such as General Pants, House, Optus, and Surfstich and is enjoying incredible demand and customer take-up. We expect the positive news-flow and stock performance to continue, even taking into account the recent share price rise.

BlueSky (BLA) +14% <http://www.blueskyfunds.com.au/> This alternative asset manager raised \$45m at \$6.50 through a demand-led institutional placement and shareholder entitlement offer. The funds are being used to provide additional capital for ongoing co-investment in Blue Sky Funds and provide balance sheet support for new Funds. The new capital was well received with the stock closing the month at \$7.55.

Abundant Produce (ABT) +33% <http://abundantproduce.com/> ABT remained a market darling with the stock continuing its incredible run, finishing the month at 78c up 33% in May and up 290% since listing on the 25th April. With an eye on managing overall portfolio risk, the Cyan C3G Fund has continued to take profits as the stock has enjoyed its sharp rise.

OPUS Group (+17% post dividend) <http://opusgroup.com.au/> This domestic printing business

verified its standing as a true value play by announcing both a 2c fully franked dividend and a 9c special fully frank dividend, payable on the 10th June. Clearly this was an exceptional outcome given the 50c share price.

Primary Opinion (POP) +24% The Fund's small holding in POP had a good price rise as the company announced its agreement to acquire 48% of the privately owned Maggie Beer Products. www.maggibeer.com.au

As always there will be negative performers each month. May saw a retracement in **Animoca Brands (-12%)** www.animocabrands.com and **Speedcast (-13%)** www.speedcast.com although the impact in the overall Fund was not material given both the modest size of the retracement and smaller size of the holdings.

OUTLOOK

As we've reiterated previously, rather than getting carried away with the Fund's recent performance, we are always looking for new opportunities, reassessing the valuations and evaluating the financial risk of the Fund's current investments.

As can be seen in the following table, the Fund has performed historically better (relatively) in down markets than it has in up markets.

Months from July 14	Cyan C3G	All Ords Acc	Small Ind Acc
Number Up	16	12	14
Number Down	6	10	8
Av. Gain	4.1%	3.3%	3.2%
Av. Fall	-1.3%	-3.2%	-3.1%

Not only has the Fund experienced **fewer negative months** than comparable indices; when it does fall, **it falls significantly less** than the market average.

To detail this, we remain conservatively exposed to what we believe to be a high quality and well-diversified portfolio of 28 Australian smaller companies with no single stock representing more than 7% of the total Cyan portfolio. As at the end of May we held in excess of 25% in cash.

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.

We reiterate our ongoing strategy, based on the following key themes:

1. **Invest in companies, not markets**
2. **Invest in quality**
3. **Avoid high risk and volatile sectors**
4. **Invest in companies that earn through the cycle**
5. **Invest in companies with specific growth drivers**
6. **Deploy a portion of our high cash balance to build opportunistic positions as we identify them**

As fellow unitholders, we are pleased with how the C3G Fund has performed since inception and we look forward to keeping our investors updated with the Fund's progress.

Graeme Carson and Dean Fergie

To invest in the Cyan C3G Fund online click here:



<http://www.cyanim.com.au/olivia123>



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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 31 May 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.