

Total Returns

As at 30 April 2020	1 mth	3 mths	1 year	3 years (p.a.)	5 years (p.a.)	Since Incept (p.a.)	Since Incept (cum)	Volatility
Cyan C3G Fund	9.0%	-23.9%	-17.7%	-0.2%	9.1%	11.4%	86.9%	15.9%
S&P/ASX All Ords Accum	9.5%	-20.4%	-9.2%	2.1%	3.7%	4.4%	28.3%	14.8%
S&P/ASX Small Ind Accum	12.8%	-20.8%	-14.3%	2.7%	4.8%	5.6%	37.0%	17.1%
S&P/ASX Emerging Accum	25.8%	-25.2%	-13.4%	1.0%	4.5%	2.4%	14.6%	17.0%

After some challenging months, we are pleased to report that the Cyan C3G Fund delivered a return of +9.0% in April. That said, markets remain quite volatile, although certainly not to the extent of that experienced in March.

To put these market gyrations in context, the All Ords' 9.5% gain in April was the biggest monthly increase since 1988. However, in the first day of trading in May, the index retraced more than half of that record rise with a 5% fall.

Pleasingly, to date this month, the C3G Fund has traded well into positive territory.

We expect this volatility to continue for the foreseeable future as the focus of investors shifts from the direct short-term impact of the virus to the breadth and depth of the economic impact and subsequent changes in commodity prices, government support, consumer behaviour and company profitability (or lack thereof).

Month in Review

The Fund was particularly active in February and March as the spread and impact of Covid19 emerged. During that period we repositioned the Fund around a fourfold strategy:

1. Divest companies that appear directly exposed or overly leveraged to the virus fall-out;
2. Hold those businesses that might be experiencing short-term challenges but have solid balance sheets, defensive recurring revenue streams or dominant market shares;
3. Add holdings in companies we have researched and liked for a long time but had previously found too expensive and take positions in companies that are likely to benefit from the current crisis;
4. Keep appropriate cash available for upcoming opportunities.

Of those that reported to the market, the underlying trading performance was solid in April, with our relatively defensively positioned portfolio still capturing upside. The best performing stocks included **Vita Group (VTG) +69%**, **Carbonxt Group (CG1) +56%**, **Raiz (RZI) +46%**, **Quickfee (QFE) +39%** and **Jumbo Interactive (JIN) +23%**. Only 3 positions delivered minor negative returns with none of them being material detractors to performance.

Although we were less active from a trading perspective, we continued to capitalise on opportunities, deploying further cash to the point where the proportion of cash held is now ~25% of invested capital. This was done by increasing some existing positions and adding 5 new companies to the Fund. We increased holdings in a number of smaller existing investee companies including **Quickfee (QFE)**, **Carbonxt (CG1)** and **Schrole (SCL)** as well as taking new positions in **Kip McGrath (KME)**, **Citadel (CGL)**, **Pinnacle Investments (PNI)** and **Rhipe (RHP)**.

Outlook

As the dust clears on the direct health impact of the virus, the focus will increasingly shift to the economic impact and stock specific fundamentals.

Whilst many companies face serious challenges through the current crisis (as has been evidenced by the struggles of former market stalwarts like the big banks, real estate trusts and infrastructure investments), there are also a number that will be fortuitous beneficiaries.

A large proportion of our investments will prosper from what may become a genuine structural change as a result of COVID-19. For example, those exposed to the digitization and online acceleration of education services and associated industries including **Readcloud (RCL)**, **Open Learning (OLL)**, **Schrole (SCL)** and **Kip McGrath (KME)**.

There are also those exposed to industries that have enjoyed strong demand for their products or services including **JB Hi-Fi (JBH)**, **Rhipe (RHP)**, **Service Stream (SSM)**, **Citadel (CGL)** and **Quickfee (QFE)**. As the economic and financial impact of the current crisis materialises in the coming months, we are of the view that this cohort of companies will have displayed much stronger earnings resilience and cashflow generation, which has a two-fold benefit:

1. The balance sheets and operating businesses remain more fully intact, and;
2. More predictable earnings and cashflow enables more certain forward-looking analysis which will lead to increased valuations.

We believe we have positioned the portfolio to traverse what will continue to be challenging terrain in the coming months.

We thought it worthwhile to illustrate how we construct the Fund to find a balance between risk and return.

The diagram shows the 3 structural components of the Cyan C3G Fund which typically represent the lifecycle stage of the business and usually also the size, profitability, cash generation and risk profile:

C – Cash and cash generative businesses (up to 100% of the portfolio): Currently comprising 58% of the Fund, these companies represent the foundation of the portfolio. They are more mature in nature, but still offer strong growth given their present pricing. They

contain our key required investment criteria including high return on capital and strong cash generation. In our portfolio they include exposures such as **Jumbo Interactive (JIN)**, **JB Hi-Fi (JBH)**, **Kelly Partners (KPG)**, **Service Stream (SSM)** and **Vita Group (VTG)**. This is the most defensive part of the portfolio and we have opportunistically increased exposure to a number of high-quality business at suitable entry points through the recent market weakness.

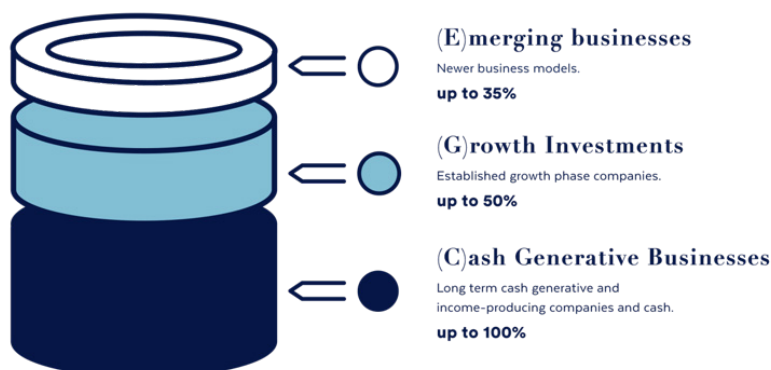
G – Growth (no more than 50% of the portfolio): Earlier in their growth lifecycle phase, this silo of companies are cash-flow positive and, whilst they will contain the required characteristics of high ROE, low leverage and good cash generation, still have considerable growth ahead. The potential total returns on these investments, if they play out to our expectation, are higher over time. They comprise 26% of the Fund and include companies such as Quickstep Holdings (QHL), Quickfee (QFE), RPM Global (RUL), Rhipe (RHP) and Kip McGrath (KME).

E – Emerging (no more than 35% of the portfolio): These are companies that we believe may grow into proven businesses with strong market positions and potentially become leaders of the future. Past holdings in this bracket have included Afterpay, Bellamys and Lovisa. These holdings may not yet be profitable but the potential upside justifies the current risk. We take smaller positions in these companies and increase our exposure as their business models expand. They current represent 16% of our portfolio and include businesses such as **Schrole (SCL)**, **Raiz (RZI)**, **Carbonxt (CG1)**, **Open Learning (OLL)** and **Envirosuite (EVS)**.

Whilst the current uncertainty is likely to remain for some time, we believe the Fund is well diversified and exposed to fundamentally strong businesses that offer material upside over time. We would hope that over the next 2 to 3 years a number of our “Emerging” and “Growth” companies will grow to become “Cashflow” investments, and the capital from some of our existing “C” investments will be redeployed into newly discovered “E” and “G” opportunities.

If you have any questions about the Fund, our current exposures or investment philosophy and strategy, as always, we are contactable in person.

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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.