



Total Returns

As at 30 June 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	0.5%	19.5%	-13.1%	2.1%	10.9%	12.9%	105.1%	16.1%
S&P/ASX All Ords Accum	2.3%	17.8%	-7.2%	5.4%	6.2%	5.6%	37.9%	14.8%
S&P/ASX Small Ind Accum	-2.3%	20.8%	-7.4%	5.2%	7.2%	6.7%	46.8%	17.4%
S&P/ASX Emerging Accum	1.4%	44.9%	-1.9%	5.5%	8.2%	4.8%	32.0%	22.8%

June bookended a wild financial year in the Australian stock market. The month initially began positively with the momentum of prior months being carried forward. But, particularly at the smaller end of the market, this excitement dissipated as the uncertainty surrounding Covid continued to unfold and this weakness was exacerbated by significant tax loss selling in the final days of the financial year.

The disparity between smaller and larger ASX companies was an almost perfect reversal of May with the All Ords outperforming the Small Industrials by 4.6% in June. The Cyan C3G Fund's return landed between the two, eking out a small gain of 0.5% and taking the three month return to +19.5%.

If anything, the dichotomy between the performance of the stock market and the economic outlook in a Covid-infected world has widened. It has been impossible to find any central bank or economic expert that is anything but bearish and yet retail spending both domestically and abroad has been booming, as noted by the latest RBA Statement on 7 July 2020:

"The Australian economy is going through a very difficult period and is experiencing the biggest contraction since the 1930s. ... Conditions have, however, stabilised recently and the downturn has been less severe than earlier expected. ... There has also been a pick-up in retail spending in response to the decline in infections and the easing of restrictions in most of the country.

Notwithstanding the signs of a gradual improvement, the nature and speed of the economic recovery remains highly uncertain."

Following on from this, technology and retail stocks (particularly those that are online focused such as Afterpay, Kogan and Temple and Webster) have been booming whilst traditional 'value' investing in blue chips has become irrelevant at best, and a recipe for destroying value at worst, at least in the short term. This is further evidenced by the lacklustre performance of the big banks and the largest stock on the ASX, CSL, trading on a PE of 45x and a yield of just 1%.

Whilst corporate activity subsided somewhat in June, which was understandable given the frantic activity that occurred in April and May, the Fund still found a handful of excellent opportunities as detailed below.

Month in Review

The most material contributors to the Fund over the month, both positive and negative, were:

Quickfee (QFE) +64%: We have been owners of QFE since its IPO a year ago, but increased our position in a May capital raise to fund its increasingly successful push into the US market. Quickfee provides a payments processing portal with both PayNow and PayLater options for clients of professional services firms such as accountants and lawyers. It has been operating in Australia for more than 10 years and entered the US market 4 years ago. Covid has helped accelerate the adoption of electronic transactions in the US and QFE has now secured relationships with ~25% of the top 400 accounting firms in the US. Given the huge size of the US market and their early success in the region, we expect the good news to continue in coming months.

Kip McGrath (KME) +2.5%: Again this is an existing Fund position recently increased through a capital raising to fund opportunities presented by Covid. KME has historically had a strong education business tutoring students, largely on a face-to-face basis through franchised centres predominantly located throughout Australia and the UK. The proprietary content and teaching method lends itself to an online model, but traction had proved difficult until Covid19 forced changes upon the behaviour of both students and teachers. The company pivoted successfully and is now well funded to accelerate its online repositioning. The result should see top line growth, expanding margins and improved corporate appeal. The price didn't change materially on a month to month basis, but the discounted capital raise offered an attractive entry point.

Jumbo Interactive (JIN) -19%: This online lottery business has held up well in recent months, reaffirming its earnings guidance for FY20. Our investment position is based on two main drivers behind the company's growth trajectory: 1) The sale of online lottery tickets across most of Australia through its existing relationship with Tabcorp, and; 2) The white-labelling of its technology platform to 3rd party lottery operators through a SAAS model. The stock suffered a price decline towards month's end on the back of an announcement in regard to its relationship with Tabcorp. On the positive side the agreement was extended on a 10 year basis, removing the relationship risk that was overhanging the stock, but with that longevity came the forgoing of some margin for JIN. That said, the stock has rebounded strongly in early July and we remain very positive on the outlook for the business.

Financial 2020 in Review

Sadly, with a return of -13.1%, FY2020 was the first financial year (in our six year history) in which the Fund did not deliver a positive outcome for its unitholders.

The latest result took our average financial year return over the lifespan of the Fund to 14.0% (after all fees and charges).

FY	Return
2015	22.3%
2016	41.4%
2017	11.4%
2018	20.4%
2019	1.8%
2020	-13.1%
Av.	14.0%

The Detractors

The greatest hit to the Fund in FY2020 came from our investment in co-working space provider, **Victory Offices (VOL)**. The company listed in July 2019 with the promise of organic growth combined with an attractive roll-out strategy of new co-working offices across Australia. To be fair, VOL was probably performing slightly below our expectations before Covid hit but their business was completely crippled as commercial office space across the globe became all but deserted. Whilst the company survives and continues to trade on the ASX having raised further capital just last month, the Fund has exited the position entirely.

Our investment in **Murray River Organics (MRG)** which was initially made in October 2018 also failed to perform to expectations. At the time we wrote:

"(MRG) ... originally listed on the ASX back in January 2017 at \$1.30 having acquired and developed valuable strategic assets including land, storage and processing facilities. ..The \$30m capital raising was priced at a significant discount to the net tangible value of the business (10c vs NTA of 16c), such that the company now has the financial firepower and management capability to execute its growth plans and create significant value from its current \$68m in sales."

This was always a 'turn-around story' and unfortunately these do not always unfold as expected.

Most recently the company, yet again, came to the marketplace to raise additional capital (this time at 1.5c). As we consider this the very epitome of “throwing good money after bad” we did not subscribe to any additional shares and exited the position.

Other disappointments in the year included declines in **AMA Group (AMA)** and **Experience Co (EXP)** and pull-backs in the prices of other early stage businesses that have yet to perform to expectations including **Jaxsta (JXT)**, **Raiz (RZI)** and **CarbonXT (CG1)**.

The Winners

Of course it wasn't all bad news: our investment in payment processor **Quickfee (QFE)** gained 150% in FY20 and has risen another 50% in the first two weeks of FY21; new addition **Swift Networks (SW1)** gained 140%, **Motorcycle Holdings (MTO)** rose more than 50% before the Fund exited; and longer-term holdings such as **Afterpay (APT)**, **Alcidion (ALC)**, **Atomos (AMS)**, **Schrole (SCL)** and **Big River (BRI)** all added value to the Fund.

Media

The Australian – [Lack of alternatives driving momentum in equities: Cyan's Dean Fergie](#)

Stockhead TV – [Two investment managers on the top tech sector takeover targets](#)

Outlook

Much of what we wrote last month remains most relevant, that being:

“Again it is worth reminding our readers that the Fund is positioned in 20-30 specific stocks. Of course the price action of these will be influenced in the short-term by market sentiment, but over the long-term their performance will be determined by the underlying success, or otherwise, of their business models.

As we have been positioned for a number of months, the Fund continues to avoid what we continue to believe are high-risk sectors including:

lending, tourism, real-estate and highly geared companies.

We are acutely aware of the impending economic risks but believe our core Fund holdings remain well away from the eye of any storm and their operations in attractive and defensive market sectors mean they should continue to grow over the coming years even in the face of economic headwinds.”

There's clearly a lot of money to be made very quickly in the right stocks and we're pleased to report that the Fund has performed strongly to date into July. But we have been around long enough to not just focus on the opportunities but to be acutely aware of the risks.

It's an interesting and pivotal time for the markets with many sectors performing brilliantly in this new Covid world, but equally there are industries in which the business risks have been significantly heightened.

We remain optimistic of ongoing positive returns but it is certainly not the time to be running a 'set and forgot' portfolio.

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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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 June 2019. 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.