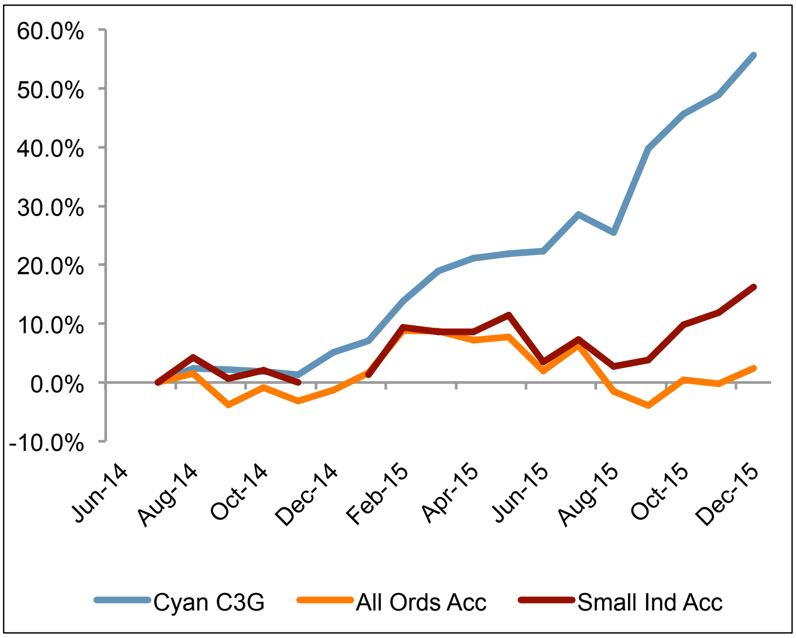
Cyan aims to invest in the most promising and highest quality smaller companies listed on the ASX.

C3G Fund Update

31 December 2015

CYAN INVESTMENT MANAGEMENT

Fund Incep: 24 Jul 2014			**1.000**
Unit price: 31 Dec 2015			**1.556**
Performance	**Cyan C3G**	**All Ords Acc**	**Small Ind Acc**
1 mth	4.5%	2.6%	3.8%
3 mths	11.3%	6.6%	11.9%
6 mths	27.2%	0.4%	12.2%
1 Year	48.0%	3.8%	15.0%
Since Incept.	**55.6%**	**2.4%**	**16.2%**
Volatility	11.3%	13.5%	13.1%



The Cyan C3G Fund topped off an excellent 2015 with a positive return of 4.5% for the month of December; taking the return for the year to 48.0% after all fees and charges.

In 2015, the C3G Fund outperformed the All Ordinaries Accumulation Index by 44.2% and the Small Industrials Accumulation Index by 33.0%.

It is worth noting that the Fund's monthly volatility was comfortably below both the large cap and small cap indices, highlighting our conservative investment style and belying the significant excess return achieved.

December Review

In keeping with the recent trend, the overall Australian market remained extremely volatile. By mid December, the All Ords had retraced 6.5% before rallying strongly towards Christmas and finishing up 2.6%. The Small Industrials Index (the most applicable to the investment universe of the C3G Fund) was up 3.8% for the month, outperforming the larger industrial companies within the ASX100 industrials by 0.5%.

The C3G Fund again had a strong month, both in absolute and relative terms. The majority of companies in the portfolio delivered positive performance, the most notable contributors including:

Vita Group (VTG) –This successful telecommunications retailer (VTG manages over 100 Telstra branded stores) is presently our largest portfolio position. During the month it released earnings guidance for the 6 months to December 15, stating EBITDA growth 30% ahead of the same period last year, and well ahead of market expectations. Logically, this resulted in the VTG share price rising 38% by month's end. We expect the recent demise of Dick Smith will only be of benefit to VTG.

Touchcorp (TCH) – This profitable and debt-free cloud-based payments system provider has a number of blue-chip clients and continues to grow strongly. The share price increased steadily over the month to close 20% higher as the market anticipated a solid February result and optimism around further new contracts.

Millenium Group (MIL) – This cleaning and security contractor recently listed but was unloved in its first few weeks of trading. At that time we increased our stake and have been rewarded with a 10% share price rise in December.

Lovisa (LOV) –Jewellery retailer Lovisa, which has a quite mature business in the Australian market, last year expanded in South Africa and recently announced its plans to enter the UK market through an organic expansion model. The stock closed the month 8% higher.

Bellamy's (BAL) – We have recently reduced our position due its incredible share price run and aggressive valuation. That said, we have retained some exposure and benefited from continued share price strength through December (+18%).

We added a few positions this month, including:

Adacel (ADA) – A developer of control systems for the civil aviation and defence sectors, which after many years of development, is now truly commercialised and delivering strong growth in earnings.

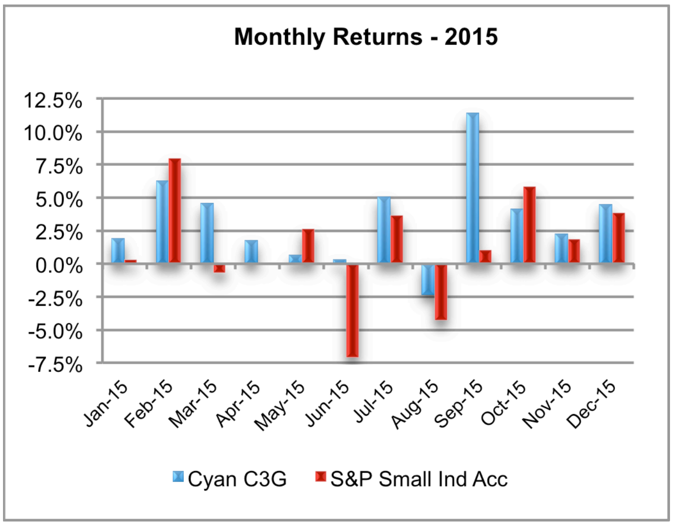
OneVue Holdings (OVH) – OneVue is a services provider of superannuation and investment management solutions through its platform services and fund services businesses. We took our initial position in the business through a recent capital raising.

PSC Insurance (PSI) – PSC predominantly owns various forms of insurance broking businesses. We participated in the IPO with the company listing at a ~40% premium in mid-December. We have since added to our position as we believe the earnings profile of the businesses looks attractive and will likely be complemented by further growth through acquisition.

Corporate activity had been particularly high in November, particularly in the tech sector where new companies looked to raise capital through initial public offerings (IPO's) and reverse takeovers (RTO's). Last month we wrote about the sheer volume of deals and a wide mix of varying quality. Throughout December it became evident that the market was suffering a bit of indigestion of those deals and most of the heat came out of that sector. A number of the IPO's and RTO's performed quite poorly on listing.

Again we remained relatively conservative and retain cash balances of ~35%, for three key reasons:

1. To position for potential market weakness.
2. We believe a number of company specific valuations remain stretched, and;
3. To have the investment firepower to take advantage of opportunities as we identify them.



2015 Year in Review

As the new calendar year begins and we continue to search for the next group of emerging companies, we reflect on the market and our portfolio over 2015.

Overall, smaller companies outperformed the bigger end of the market. The Small Ordinaries Index returned 10.2%, whilst the ASX 100 returned 2.1%. The Small Industrials was up 15% over the year, compared to 7.7% for industrial companies within the ASX100.

The best performing sectors in the ASX300 (which includes the bigger companies and a number of small caps) were:

- Utilities +24%
- Consumer Discretionary +20%
- Industrials +17%
- Healthcare +16%
- Information Technology +13%
-

The weakest sectors in the ASX 300 for the year were :

- Materials -14% (led by mining stocks), and
- Energy -27% (predominately oil stocks)

This shows the risks associated with companies exposed to underlying commodities such as iron ore (the price of which was down 28% for the year) and oil (down 51% over the year). Thankfully those are two of the sectors that Cyan does not invest in. The other sectors we avoid are mining services, biotechnology and property.

The other notable impact on the market was the relative weakness in the A$ against the US$ (-20%), and other major currencies around the globe (GBP-14%, CNY-17%, EUR-10%).

The Cyan C3G Fund in 2015

The C3G Fund delivered a 48% gain after all fees over the 2015 year. The portfolio generally holds between 20 and 30 positions at any time, but it has been our long-term key portfolio holdings that have delivered the strongest returns. Our top 10 performers, in order of relative contribution, have been:

Bellamy's (BAL) – After a successful IPO in 2014, and a well-executed strategy domestically, positive sentiment around Chinese demand for infant baby formula provided a strong tailwind for the share price of Bellamy's and a new region to generate potentially huge earnings growth.

AMA Group (AMA) – The smash repair consolidator executed its stated growth plans well and has positioned itself for ongoing growth in an industry which is now changing rapidly.

Vita Group (VTG) – Management has done an excellent job in optimising returns from its network of Telstra stores and identifying, and positioning for, new areas of growth for the business. Investors have benefited from good capital management and high rates of return on equity.

BlueSky Alternatives (BLA) – We view alternative asset class investment as an area of sustained growth in the Australian market. BlueSky has been a believer of that trend for a long time and has now reached critical mass in terms of funds under management. A great example of a 10-year overnight success story.

Freelancer (FLN) – We are also believers in the global trend towards a growing workforce of freelancers. FLN is well managed and has built a strong global network of over 16m clients and freelancers.

M2 Telecommunications (MTU) – Another high return on equity business that has consistently delivered organic and acquisitive growth. The large end of the telco services industry now looks to be consolidated in the Australian market when M2 is expected to complete its merger with Vocus next month.

Speedcast (SDA) – This satellite-based communications services provider has a well-diversified business, both by industry and geography. It operates in a sector offering strong organic growth and opportunity for further acquisitions. We are monitoring the debt level of the company but at this stage remain comfortable.

Lovisa (LOV) – After strong share price performance following the IPO in December 2014, Lovisa has received ongoing support from investors after delivering solid earnings numbers and offering further growth through entering the South African and UK markets.

Touchcorp (TCH) – TCH provides a platform that facilitates financial transactions. It delivers high returns on invested capital, has light capital requirements and retains all earnings to be re-invested in the company's growth….a great mix of characteristics to generate share price appreciation.

Praemium (PPS) – In the past 12 months this financial services business showed good growth in underlying fundamentals driven by steadily increasing funds flow into the business resulting in a share price rise of 30%.

Throughout the year we obviously also made a few mistakes. In some cases we misread situations, realised the catalyst we were looking wasn't eventuating or that the risk profile of the company had changed. Our worst performers were **Capitol Health (CAJ)** and **Money 3 (MNY).** We no longer hold a position in either company.

OUTLOOK

At the beginning of this calendar year the portfolio is positioned relatively conservatively and this presently is reassuring given the wobbly start to the 2016 year.

We have a cash balance of ~35% accompanied by a well-diversified portfolio of ~25 companies. The profile of the companies is skewed towards growth, but they are generally cash generative with relatively strong rates of return on equity and still in the lifecycle phase of reinvesting.

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 and the US growth profile) 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.

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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