

As at: 31 October 2023	1 mth	3 mths	Fin YTD	1 Year	5 Year (p.a.)	7 Year (p.a.)	Since Incep (p.a.)	Since Incep	Volatility
<b>Cyan C3G Fund</b>	-3.8%	-10.1%	-3.6%	-27.9%	-11.5%	-6.1%	1.9%	19.2%	18.8%
<b>S&amp;P/ASX All Ords Accum</b>	-3.9%	-7.3%	-4.5%	2.9%	7.4%	7.9%	6.7%	82.2%	14.4%
<b>S&amp;P/ASX Small Ind Accum</b>	-7.0%	-13.0%	-8.8%	-6.1%	1.5%	3.0%	4.3%	48.0%	17.7%

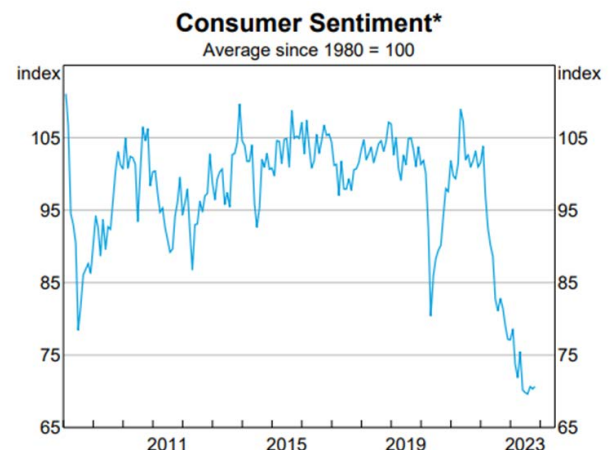
## October 2023

The Australian stock market traded significantly lower in October, fuelled by geopolitical tensions in the Middle East, renewed inflation concerns back home and an expected rate hike (which eventuated) on November 7.

In the ASX300, the top 10 performers of the month were all resources companies - led by **Tietto Minerals (TIE) +67%** and **Syrah Resources (SYR) +30%** - but the index was also bookended by lithium plays **Liontown Resources (LTR) -45%** and **Neometals (NMT) -42%**.

Many notable performers were linked to inflation data included **Inghams (ING) +11%** as sales of chicken rose as consumers replaced

increasingly expensive red meat with white, while payments platform **Tyro (TYR) -37%** and debt collector **Credit Corp (CCP) -37%** suffered as consumer spending wavered and bad debts rose.



\* Average of the ANZ-Roy Morgan and Westpac-Melbourne Institute consumer sentiment measure of respondents' perceptions of their personal finances relative to the previous year; ANZ-Roy Morgan index rescaled to have the same average as the Westpac-Melbourne Institute index since 1996.

Sources: ANZ-Roy Morgan; RBA; Westpac and Melbourne Institute.

Markets were sharply lower across the board, index returns for the month included the ASX/S&P All Ords Accum Index -3.9%, the ASX/S&P Small Ords Accum Index -5.5% and the ASX/S&P Small Industrials Companies Index -7.0%.

The Cyan C3G Fund was also at the mercy of the weaker markets although did fare slightly better than all of the above with a return of -3.8%

There was some telling takeover activity in the market with a \$165m bid lobbed at telco and domain business **Webcentral (WCG) +112%** particularly given the company was previously trading at a market cap of just \$35m albeit with \$31m in debt. The fact that a bid of \$165m makes economic sense to the acquirers is an interesting reflection on the current valuations within the listed micro-cap space and the value that private capital can currently identify. We would imagine there will be more takeovers in current conditions.

Indeed in the first week of November there was a takeover bid for telecommunications messaging business **Whispir (WSP)** at a 60% premium.

## Month in *review*

Inline with the broader markets, the Cyan C3G Fund experienced more falls than rises across the portfolio although several of our positions posted promising Q1 cash flow numbers.

**Raiz (RZI) +6%** is quickly moving towards ongoing profitability as it cuts costs in both its domestic and Asian businesses whilst pushing through a price rise in Australia which has pleasingly resulted in minimum customer churn. There is still work to do and we've been frustrated by the lack of urgency, particularly with respect to the shutting down of the previously costly Indonesia expansion and a lacklustre marketing effort in Australia which has seen minimal customer growth in the past year.

Last mile delivery network and software provider **Zoom2U (Z2U) +7%** saw their [Q1 revenue up 36% on FY23](#) whilst their costs came down resulting in a materially reduced cash burn. Most importantly, their Locate2U SaaS product is now cycling annualised recurring revenue (ARR) above \$2m making it a significant value driver for the company.



The performance of game developer **Playside (PLY) -4%** over the month was quite bewildering given the exceptional result the company posted for Q1 of FY24. [Revenue of \\$15.5m was up 140% on FY23](#) whilst operating cashflow was \$1.5m and EBITDA came in at \$4m. The company recently provided revenue guidance of ~\$50m+ for FY24, which was ~20% higher than previous expectations of analysts which, considering results to date this financial year, now looks conservative.

We saw various positions fall between 5% and 15% including **Aldicion (ALC)**, **Beamtree (BMT)**, **Jaxsta (JXT)**, **Readcloud (RCL)** and **Quickstep (QHL)**. In the cases of Beamtree and Readcloud we considered their quarterly results to have been quite positive, so again, price movements and business fundamentals are often at odds in low-liquidity environments such as these.

The most negative contribution on the month was **Swift Networks (SW1) -21%** which gave back some strong performance in the prior two months. Swift announced [\\$1.6m in new contracts](#) in the month and was cashflow positive in Q1. Swift shows some real promise with almost \$14m in subscription revenue with large mining and aged care corporates whilst trading at a market cap of less than \$10m.

## Media

There were two media pieces in the month worth highlighting.

In our [regular spot on Ausbiz's 'The Small Caps'](#), titled "Would you pay 80 cents for a dollar?" we discussed the inherent value in the market currently with examples such as **Bailador (BTI)**, **Birddog (BDT)** and **Touch Ventures (TVL)** all trading at or below the value of their cash and liquid assets.

On [LinkedIn we covered our recent site visit to Quickstep's \(QHL\)](#) drone manufacturing facilities in Geelong and our amazement that this \$90m+ revenue business trades on a market cap of less than \$20m.

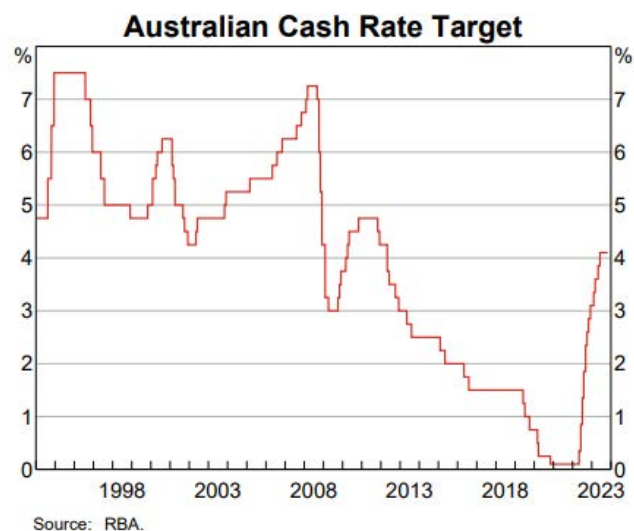


For all articles, videos and commentary featuring Cyan Investment Management please head to the [Cyan Investment Management LinkedIn page](#).

## Outlook

Despite the fund performing better than comparable indices in the first four months of FY24 (Cyan -3.6%, All Ords -4.5%, Small Inds -8.8%) it's still been an incredibly frustrating market in which to be invested, and particularly at the small end.

Since interest rates started rising in April 22 valuations have been decimated and the market appears, for the moment, to be paying little attention to balance sheets, underlying earnings, and growth potential. We are not exaggerating when we say there are more than 10 positions in the Fund that could rise by 50-100% and would still offer compelling investment fundamentals. As we mentioned in the Ausbiz piece, there is simply no investment logical or rational for companies to be trading below their cash backing.



The smaller end of the market has now underperformed for 24 months, a historical record. Of course we don't know when this trend will reverse but as believers in traditional economic and investment valuation theory, we're certain the market will revert to reflecting the underlying assets and growth prospects.

Particularly from the current depressed levels we know that we will be well rewarded over time. Recent takeover activity (both domestically and offshore) should be seen as an early indicator of a market turning point.

As always, we thank our investors for their ongoing support and are available for contact if required.

**Dean Fergie and Graeme Carson**

**Cyan Investment Management**

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An investment in the Cyan C3G Fund can be made by clicking [here](#)



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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.