DMX
ASSET MANAGEMENT

DMX Capital Partners Limited
Investing in the most compelling nano and micro-cap opportunities

An investment company managed by:
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DMX Capital Partners Limited
June 2021 – Investor Update

Opening NAV (1 June 2021) [1,2]	**$2.8401**
Closing NAV (30 June 2021) [1,2]	**$2.8597**
Fund size (gross assets)	$20m
Gearing	nil
% cash held - month end	10%

1-month return	0.69%
3-month return	5.05%
12-month return	70.99%
3-year return (CAGR p.a.)	24.76%
Since inception (*6 years & 3months*) (CAGR p.a.)	22.04%

*DMXCP Share price = Closing NAV (**$2.8597**), being: Share portfolio value + cash – fees payable – tax payable + franking credits*
Returns include dividends reinvested and franking credits paid. Since inception 41c of dividends & franking credits have been paid

Dear Shareholder,

DMXCP's NAV increased 0.69% (after all accrued performance and management fees and expenses) for June 2021. The NAV as at 30 June 2021 was **$2.8597**, compared to $2.8401 as at 31 May 2021. The All Ordinaries was up 2.42% during June, the ASX Small Ordinaries Index increased 1.52%. However, the XEC Emerging Companies Index gave up some recent gains, closing down 1.23%.

DMXCP returned 70.99% for the financial year to 30 June 2021 (after all accrued performance and management fees and expenses).

June Portfolio Developments

The DMXCP portfolio finished June modestly up. Tax loss selling, as well as a number of capital raisings among some larger portfolio holdings, weighed on performance.

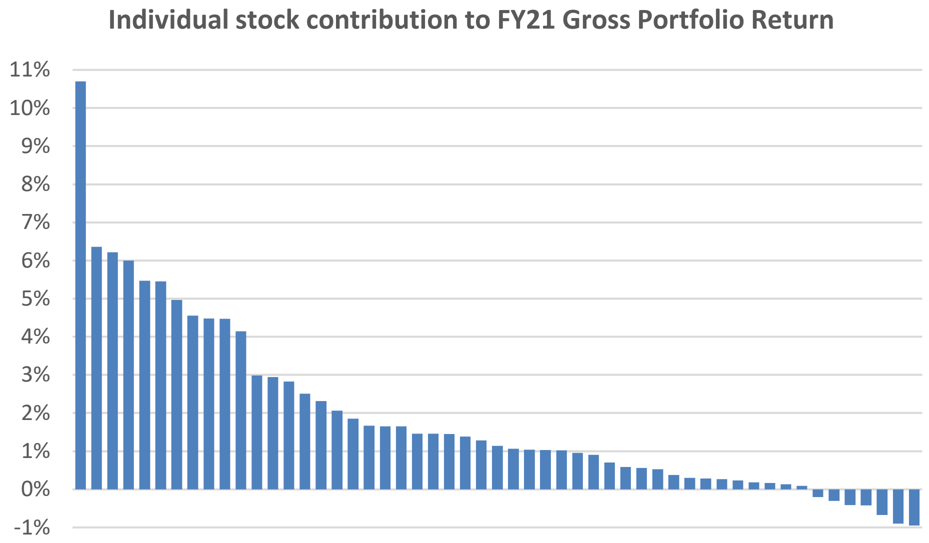
Holdings that contributed positively to the month's result included Joyce Corporation (ASX:**JYC**; up 12%) and Sequioa (ASX:**SEQ**; up 10%).

Key detractors came from smaller, illiquid, nano-cap positions such as Design Milk (ASX:**DMC**; down 25%) and 8Common (ASX:**8CO**; down 18%) where tax loss selling likely contributed to share price weakness.

FY21: Year-end Summary

DMXCP commenced FY21 with ~$8m in assets. During FY21, ~$8m in investment returns (capital gains and dividends) were generated from our portfolio holdings. After accounting for ~$4m in new inflows through the year, DMXCP ended FY21 with ~$20m in gross assets.

Across FY21, DMXCP owned a total of 52 stocks (with the number of stocks held at any one point generally ranging between 30 and 40). The dispersion of the percentage contribution of each of the 52 stocks to the total gross portfolio return (of ~$8m) is presented below.



Of the 52 stocks owned though the year, there were 45 that contributed positively, while there were 7 detractors. The five best performing stocks *contributed* 34.8% of the total performance, while the 5 worst performing stocks *cost* the portfolio 3.4% of total performance.

From a personal perspective, one of the most satisfying aspects was that during the year, there were no stocks that detracted more than 1% of the total portfolio return (ie no costly portfolio "blow-ups"). Whilst this primarily reflects rather benign share market conditions, in recent years, based on our learnings from previous mistakes, we have put a lot of effort into refining our investment strategy. We are very cognisant that we are often investing in illiquid, small, growing (and inherently riskier) companies. The 'risk' side of the risk/reward equation requires heightened consideration – this is particularly the case when market conditions show signs of exuberance. If we focus on the downside then, given the nature of the stocks that we own where we are trying to capture significant upside over time, solid risk-adjusted long term returns should be achieved. Accordingly, we have strived to invest with discipline, based on the following principles:

- Focusing on higher quality businesses, with compelling long term investment thesis, to minimise the risk of downside surprises;
- Taking advantage of mis-pricing and buying well, where the downside is limited, ideally where an asymmetric risk profile exists;
- Avoiding popular, well-owned, over-hyped and often over-valued names where hype and exuberance can lead to material potential downside; and
- Careful position sizing – particularly ensuring that higher risk positions have a low portfolio weighting.

In terms of individual names, we note the following:

- AVA Group (ASX:**AVA**) was the best performing stock in the portfolio, contributing ~11% of the portfolio's total gains. The stock started the year at 16c (when we viewed the pay-off at that point as asymmetric), traded up to 80c during the year, and paid two special dividends along the way. It finished the year at ~40c. The stock re-rated in line with our thesis: that the cash being generated by the company and the growth of its services business would make AVA look fundamentally too cheap. By reducing our holding as the company's profile and liquidity increased, we were able to lock in some material gains.

- Aside from AVA, the balance of the portfolio's gains were spread across a variety of names. Janison Education (ASX:**JAN**) went from strength to strength during the year as its online assessment offering achieved significant traction in multiple geographies. Proptech (ASX:**PTG**), a mis-priced IPO, continued to take market share in Australia and NZ and started to make in roads in the UK. Both these tech names each provided ~6% of the portfolio's total gains, and we have trimmed these positions as their portfolio weightings increased.

- Value names, Joyce Corporation (ASX:**JYC**) and Dusk (ASX:**DSK**) (re-rates from low multiples) and Chant West (ASX:**CWL**) (which finalized the sale of its two businesses) each contributed `~5% of the portfolio's performance.

- Of the seven detractors, there was one, Mosaic Brands (ASX:**MOZ**) that, in hindsight, we view as an investment mistake. Here, we misunderstood and under-appreciated the working capital cycle and seasonality of a low quality retailer. A low portfolio weighting helped to minimize the damage, and some good lessons have been learnt.

- Among the other detractors, the majority of them we continue to view the thesis as compelling and, taking advantage of the share price underperformance, we have recently added to several of them: Ansarada (ASX:**AND**), Ski-fi (ASX:**SKF**) and Quickfee Limited (ASX:**QFE**).

FY21 was a pleasing year – we were able to minimize our losses, and benefit from significant upside from our winners in what was a strong and rather unique set of market circumstances. What is encouraging is that the result has been generated through owning a diverse selection of companies with a number of diverse themes at play. We are stock pickers, and we clearly assume stock selection risk by the very nature of what we do. But with a broad range of companies, the stock selection risk inherent in the portfolio has actually been quite low. Rather than relying on a small number of major winners, our outcomes over time are increasingly the result of the methodological and diligent execution of a well-considered and repeatable investment process.

Heading into FY22

While it is interesting to look over historical performance, our focus is very much on the future, and ensuring we are well placed for continued long term success. As we head into FY22, we are enthused with how the portfolio is positioned.

Many of our core positions did not re-rate during FY21. Names such as PTB Group (ASX:**PTB**) and Easton Investments (ASX:**EAS**) continue to trade on very low PERs and, in our view, remain underappreciated and mispriced.

Stocks which have performed well in the portfolio have generally been on the back of strong execution and improving fundamentals. As business owners, we are keen to see our portfolio companies become *better businesses* over time. That may be through improving the quality of their revenue, by improving their growth profile, enhancing their margins through scale and operating leverage or expanding their product offerings and addressable market. In this regard, good progress has been made across the portfolio during FY21, which we expect to continue into FY22.

A great example of this is Sequioa (ASX:**SEQ**). It was pleasing to see the improvements in fundamentals in this business over the year, with a significant increase in margins as a result of gaining additional scale following strategic growth investments in 2019 and 2020. This time last year SEQ's share price was 19c, it had a market cap of $24m and was on track for NPATA of $2.3m (PER of just over 10x). It finished the year with a share price of 55c, a market cap of $70m and is on track for a NPATA of $7m, putting it – still – on a PER of 10x. Despite a near tripling of its share price, as a result of its improved fundamentals including improved scale and profit margins, the shares remain attractively valued and hold the potential for further re-rate over time.

Similarly Earlypay (ASX:**EPY**) has driven improved organic growth in FY21 from rebranding and digital transformation, including an improved online acquisition model. Its cost base has reduced due to funding restructuring and cost reduction initiatives. While well off its COVID lows, Earlypay is trading on an undemanding FY22 PER of 10x.

The share price of Joyce Corporation (ASX:**JYC**) performed well, yet the stock continues to trade on a sub 10x PER with significant surplus balance sheet assets and a strong growth profile.

We are therefore pleased with the range of well performing 'value' names in the portfolio, and how they are placed for FY22.

During FY21, a number of our companies, but in particular our software names, undertook significant, but strategically sensible, well priced acquisitions. These include names such as Corum (ASX:**COO**), Knosys (ASX:**KNO**) and CV Check (ASX:**CV1**). **FY22 will see these acquisitions contribute the first full year of benefits**. These are companies that we know well, and that we believe are tracking well. We think there is potential for re-rates in some of these names as the broader market begins to appreciate how these companies have transformed into better businesses with more scale and improved growth profiles.

While our portfolio comprises a number of Australian domestic focused names, we also have exposure to some very impressive fast growing Australian businesses that have considerable opportunities in offshore markets. Janison Education (ASX:**JAN**), a stock we have held since its IPO, is starting to really hit its stride, and enters FY22 cashed up with a large market opportunity ahead of it, and ambitious growth plans. Raiz Invest (ASX:**RZI**) has an opportunity to replicate what it has done in Australia, building out profitable micro-investing platforms in multiple south East Asian geographies. Both are well run companies that are executing impressively, and are becoming better, more valuable, businesses as time goes on.

We look forward to FY22, enthused about the number of mis-priced and compelling opportunities that we own and that we continue to identify.

With the end of the year finished, we confirm that DMXCP is now soft closed. Existing investors and their associates will be able to continue to invest, as will those investors who registered their interest with us prior to 30 June 2021. We are extremely grateful for all your support, and we will continue to strive to deliver good returns from interesting small companies.

We look forward to updating you in early August with further portfolio news.

Kind regards

Roger Collison	Steven McCarthy	Chris Steptoe
Chairman	*Portfolio Manager*	*Research Analyst*

Note 1: Net asset value (NAV) is after all tax accruals but includes an estimate of franking credits available. Refer note 4, unaudited

Note 2: Unaudited result

Note 3: All DMXCP disclosed returns include the payment of dividends and franking credits

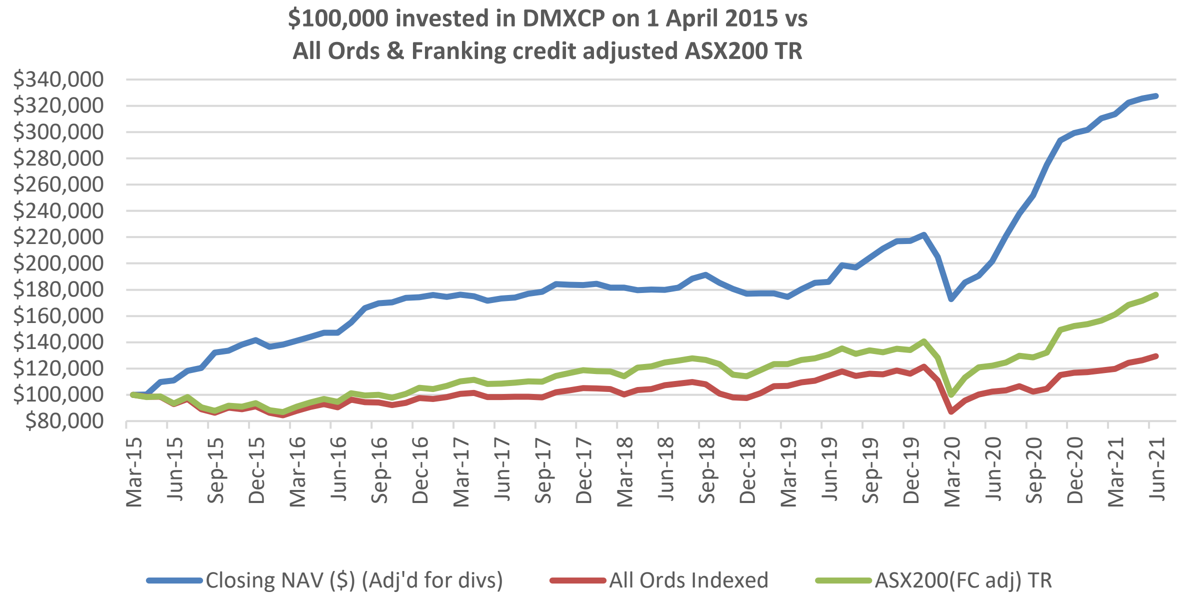
Note 4: Franking credits per share are franking credits arising from dividends received and for tax paid or payable on realised portfolio gain

Appendix 1: Performance

Monthly DMXCP Net asset value (share-price) returns (after fees) since inception (April 2015) (3) (%):

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	All Ords
2015	n/a	n/a	n/a	+0.201	+9.448	+1.104	+6.524	+1.971	+9.711	+0.958	+3.568	+2.470	**+41.62**	**-8.83**
2016	-3.590	+1.323	+2.049	+2.045	+2.143	+0.020	+5.389	+7.056	+2.156	+1.058	+1.520	+0.321	**+23.10**	**+7.01**
2017	+0.885	-0.816	+1.790	-0.741	-1.990	+0.210	+1.071	+1.208	+0.822	+3.494	-0.267	-0.055	**+5.54**	**+7.83**
2018	+0.445	-1.625	+0.008	-1.173	+0.310	-0.211	+1.017	+4.112	+1.604	-3.438	-2.827	-2.257	**-3.66**	**-7.24**
2019	+0.122	-0.010	-1.624	+3.754	+3.014	+0.418	+7.482	-0.889	+3.279	+4.567	+2.997	+0.140	**+25.10**	**+19.02**
2020	+2.33	-8.42	-17.91	+8.521	+4.525	+6.213	+10.09	+8.669	+6.518	+11.10	+7.86	+2.24	**+42.47**	**+0.72**
2021	+1.02	+3.31	+1.17	+3.20	+1.10	**+0.70**							**+10.98**	**+10.72**

The following chart illustrates the return from investing $100,000 in the fund (including dividends and attached franking credits) since inception (1 April 2015). DMXCP is an absolute return fund, focused on generating positive absolute returns over the medium to long term.



$100,000 invested in DMXCP on 1 April 2015 vs All Ords & Franking credit adjusted ASX200 TR

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