DMX Australian Shares Fund
March 2022 – Investor Update

A wholesale unit trust managed by:
DMX Asset Management Limited
AFSL 459 120
13/111 Elizabeth Street, Sydney, NSW 2000
Trustee & Administrator:
Fundhost Limited AFSL 233 045

Unit price (mid) based on NAV (28 Feb 2022)	**$1.1792**
Unit price (mid) based on NAV (31 March 2022)	**$1.1953**
Number of Stocks	45
% cash held - month end	2%
Fund size (gross assets)	$11m

1-month return	1.4%
3-month return	-4.6%
12-month return	19.3%
Since inception (1 March 2021, p.a.)	17.7%
Since inception (cumulative)	19.5%

Dear Investor,

DMXASF's NAV rose 1.4% (after fees and expenses) against the ASX 200 Total Return Index which rose 5.3% for the month.

Portfolio Commentary

While much of our portfolio enjoyed something of a bounce along with the broader market this month, the continued de-rating of smaller software, technology, and interest-rate sensitive high duration assets continued to weigh. Notably, **Aeeris** and **Global Health** fell 9-12% each, while **Corum** and **Medadvisor** each declined around 20%. **Raiz** continued its decline, falling 14%, while **Knosys** fell 6%. Our responses to these vary and reflect the evolving thesis for these very different businesses. In the case of **Medadvisor** and **Knosys**, for example, we have modestly added to holdings around recent lows. We've held useful management meetings with some of the others, and expect, on a case-by-case basis, to be adding to or exiting some of these in the periods ahead.

On the other side of the ledger, **Vortiv** and **Xref** each staged helpful recoveries, rising 22-23% each. And with an apparent technical overhang now resolved, **Kip McGrath** recovered some ground, rising 18%. As you know, we've been catching falling knives over the past couple months with new holdings in **EML Payments** and **Nearmap**, as well as adding to **Frontier Digital Ventures**. This month saw some recovery to each of these with EML rising 25%, Nearmap up 27% and Frontier up 11%. **Elmo Software** – thematically similar to Nearmap with its enterprise software nature, high growth, and continued cash losses expected over the next 1-2 years ahead of anticipated break-even – recovered 17%. Companies like Elmo and Nearmap are expected to be beneficiaries of the Australian federal budget's tax breaks being given to companies to accelerate investment in these sorts of services.

The DMX Capital Partners report includes updated commentary on its Top 10 holdings, nine of which are also owned by DMX Australian Shares Fund. The relevant updates are included as an Appendix to this report.

Exiting MMA Offshore

In terms of DMXASF-specific holdings, we note that **MMA Offshore** was exited during the month. The company has benefited from a boom in energy-related stocks over the past few months, and has been a helpful counter-cyclical holding for the portfolio, recording gains in each of January and February (against a declining portfolio) and rising 11% in March to our average exit price of 53c. We invested in MMA Offshore in the 30c-range and at levels that reflected a very substantial discount to the company's underlying asset value. In the 50c-range the shares remain attractively priced, but clearly not as attractively as at somewhat lower prices. While the shares may continue on to do quite well, the 'easy' or 'lower risk' money's been made, and with little portfolio cash and a range of high-quality other opportunities to pursue, we preferred to exit this name. In terms of those other opportunities, with 45 holdings in the portfolio, our focus is mainly on existing positions. Proceeds from the MMA Offshore sale have been helpful as we augmented positions this month in each of EML, Nearmap, Frontier Digital, FSA Group & Shriro.

FSA Group commences its buy-back

We've previously highlighted **FSA Group** as an interesting business in the DMXASF portfolio. Aside from its two distinct, but interrelated business units: Services & Finance, we very much like the management & governance of this business, including two founder executive directors who own ~44% of the company and have overseen considerable value-creation over the past 20 years. The company's time on the ASX has been very much a game of two halves, with the shares going nowhere for more than eight years now, compared to having been up 1000-2000% in the prior eight year period (~2005-2013). While the shares have tracked sideways for some time, the company's paid an annual dividend of around 6% (fully franked), more than doubled its per share book value (adjusted for an accounting change), and roughly doubled its profitability. So while the outcome looks a bit ordinary to where the shares are now, we believe this reflects the combination of the shares perhaps being a little over-valued eight years ago, and being quite undervalued now.

As highlighted in our November 2021 report, the company is suffering for short-term headwinds with its *Services* business having contracted significantly since the onset of COVID. In short, with Services, the company provides debt management solutions to clients (including payment arrangements). COVID has seen the passing of consumer-friendly legislation that has made it harder to collect outstanding debts, and the flood of liquidity has kept businesses and individuals afloat. But growth in its niche *Finance* business has offset the Services decline, and running down the Services book has helped the company boost its balance sheet and cash position. Accordingly, its dividend has been increased, and the company is back in the market buying in stock, and aggressively so.

Companies often conduct buy-backs to signal to the market a positive view of the business's prospects. These can be very value-adding. But they can also be used to support share prices in the short-term perhaps to boost the value of management options, or to boost confidence ahead of future capital raisings. For these reasons, on balance & in general, we don't place too much emphasis on buy-backs in our analytical process. Occasionally however we see companies like FSA where management are highly-aligned with shareholders (long-term substantial owners of their business), and where there is no obvious or likely need to pump or promote the shares in the short to medium term. In these cases, we pay much closer attention to both the signal and economic impact of buy-backs, and with FSA's latest buy-back, we have a very positive view. Having rarely bought back stock in the past, and with the shares now quite obviously cheap to our mind on fairly elementary and reliable measures of value, we're pleased to see FSA commence its latest buy-back, and to do so aggressively. This endorsement of value, together with scooping up much of the trading float and adding value through doing so at attractive prices, we believe, are setting the stage for a long overdue re-rate to the shares of this quality little business.

<u>In Summary</u>

We continue to be virtually fully invested, are assessing a steady flow of prospective new opportunities, and are diligently managing the healthy tension between adding to presently-held companies, adding new names, and exiting or trimming marginal holdings.

We encourage you to review DMXCP stock updates in the Appendix below. These commonly-held nine companies comprise a significant allocation for DMXASF and give a very good feel for the composition of the portfolio including the breadth & value on offer.

If you'd like to discuss the portfolio or the potential to invest or add to an existing investment, please contact Michael at any time on michael.haddad@dmxam.com.au or Sydney 02 80697965.

Thanks for your trust and support.

Kind regards

Michael Haddad	Chris Steptoe
Portfolio Manager	Research Analyst

Appendix – Nine of DMXCP’s Top 10 Holdings, commonly held by DMXASF

Portfolio company	Industry / market cap	Why we like it
Sequoia Financial Group (ASX:**SEQ**)	Service provider to Australian wealth management industry Market cap: $92m	**Strong upgrade cycle following continued earnings growth:** After three profit upgrades in FY21, SEQ delivered another upgrade at its half year results. We expect SEQ will upgrade its earnings again prior to year-end. Cash earnings per share (EPS) has increased from ~2cps in FY20 to ~7cps in FY22. Continued EPS growth will ultimately drive share price growth. **Multiple re-rate:** SEQ trades on less than 10x cash NPAT. We believe this is too low for a company with SEQ’s strong track record and growth profile. **M&A activity:** SEQ has $17m cash available for acquisitions. SEQ has previously undertaken smart accretive acquisitions that help to either build out its product suite (services to advisors), or its distribution base (advisors). This cash could potentially fund an additional $3 - $4m in EBITDA (~33% uplift), assuming no share consideration. **Potential sale of asset**: SEQ owns a fast-growing securities clearing business (Morrisons). Market commentary around pricing of comparable business, suggests Morrisons could itself be valued in excess of SEQ’s current market capitalization.
Kip McGrath Education Centres (ASX:**KME**)	Global tutoring company Market cap: $67m	**Powerful thematic/ COVID reopening play:** strong demand globally for remedial teaching as both parents and schools look to catch up on the significant disruptions COVID has had on education. **Re-rate opportunity - growth re-emerging:** For the past three years, KME’s profit has remained flat, on the back of disruptions to face-to-face lessons, and increased investment in building up KME’s corporate (direct) offering. In 1H22, we saw the first signs of growth, with global network revenues up 16%, with KME generating strong normalized EBITDA growth of 45%. Organic revenue growth of 20%+p.a. and margin expansion is achievable by KME over the next several years, which will drive strong increases in EPS. As noted above, EPS growth will drive share price growth. **Expanding global footprint:** Having built up market leading positions in UK and Australia and global network revenues of ~$100m, KME is looking to establish a presence in the United States via its recent acquisition, Tutorfly.
Pure Profile (ASX:**PPL**)	Global data and insights company Market cap: $59m	**Compelling tailwinds:** Data is becoming increasingly important and highly valued. There is an ongoing increase in demand for high quality, accurate and relevant data to assist businesses in strategic and operational planning. **Strong revenue growth ambitions:** PPL is confident of maintaining ~30% ongoing organic revenue growth. Management has medium term aspirations for PPL to be a $100m+ revenue company. Revenue growth will come from continued expansion into offshore markets, building on its success in UK, and more recently Asia. We would expect margins to grow rapidly at scale, driving significant profits and hopefully a much higher share price from here. **Re-rate opportunity - strong turnaround thesis emerging:** New management has been in charge for over 12 months, delivering increasing operating profits over that time. Numerous legacy issues have now been resolved, however PPL remains misunderstood in the market, with its poor history weighing negatively on the stock. Market confidence and interest in the stock should return over time, as PPL continues to execute strongly under new management.

PTB Group (ASX:**PTB**)	Largest global non-OEM aligned maintenance provider for PT6A/T plane engines Market cap: $147m	**Continued earnings growth - two significant drivers:** 1) *Operational improvements in the US:* PTB's US workshop capacity is currently 3x larger than in Australia, yet both countries generate similar levels of profits. With workshop size a reasonable proxy for earnings, significant potential therefore exists to grow earnings out of the US as operational efficiencies are implemented. 2) *New plane leasing deals*: PTB has funding capacity to finance ~20 new plane leasing deals that can generate $0.3m - $0.5m pa margin per deal. **Upgrade cycle:** PTB upgraded its profit outlook prior to announcing its half year results. With its strong business momentum, and a track record of beating guidance, we believe PTB will continue to deliver results ahead of expectations, with the growth generating increased market interest in this very well managed business. Despite a strong share price performance over the past 12 months, PTB trades on a below average market multiple, thus offering attractive value for a well run company which is best of breed in its niche, with a strong global growth profile.
Early Pay (ASX:**EPY**)	Australian small business financier, primarily through invoice discounting. Market cap: $136m	**Continued earnings growth/upgrade cycle:** EPY has already delivered three profit upgrades so far in FY22. Based on its 1H22 result, another upgrade is likely. We expect that this strong earnings growth momentum will continue into FY23. **Operating leverage:** With significant scale and technology platform now built out, we understand each incremental dollar in revenue contributes 70c of profit before tax for EPY, further driving margins and profit. **Takeover target**: prior to COVID, EPY received two takeover offers at higher prices that where it is currently trading. In our view, EPY is a much better business today than when the previous offers were made. **Market recognition of technology credentials: T**echnology driven on-line financial platforms typically trade on premium multiples. Two years ago, EPY purchased the Skippr on-line invoice financing business, and has further developed this over the last two years. EPY now owns a market leading online platform that is providing significant market share gains, higher client retention, and lower operating costs. **Multiple re-rate:** EPY trades on less than 9x cash NPAT, and a 7% dividend yield. We believe this is too low for a company with EPY's track record, growth profile and increasing benefits it is seeing from its investment in technology.
Diverger (ASX:**DVR**) (previously Easton Investments)	Australian wealth and accounting services provider Market cap: $37m	**Strong growth opportunity**: Management has an aggressive target to triple net revenue by FY24 through both organic and inorganic initiatives. **M&A activity** - DVR is well placed to be a key consolidator of the fragmented financial advice industry where increased regulation and conflicted operating models has seen the exit of the major players (banks). **Undemanding multiple:** trading at around 10x NPATA, there is opportunity for a multiple re-rate as DVR's growth profile improves. **Under-appreciated relationship with major shareholder**: HUB24 (ASX:**HU**B m/c: $2.2b) is DVR's largest shareholder, and has strong DVR board representation. HUB is supportive of DVR's growth strategy, and is working closely with DVR to progress various technological initiatives to improve operations and efficiencies of financial advisors and to make DVR the clear technological leader in the space.

Cryosite (ASX:**CTE**)	Clinical trial logistics (specialised storage and transport). Market cap: $22m	**Supportive underlying thematics:** CTE is benefiting from onshoring of clinical trials as governments increasingly appreciate the importance of drug development from both a political and supply chain perspective. **Continued earnings growth**: after organic growth of 26% in 1H22, future revenue growth is underpinned by CTE's entry into a new, much larger market - providing global pharmaceutical companies with logistics support for high value, temperature controlled, highly regulated government approved drugs. The drug logistics market represents a much larger market opportunity than clinical trial logistics and has the same high barriers to entry, due to government licenses required to operate and specialised infrastructure requirements. **Recommencement of dividends:** After last paying a dividend in 2017, given its cash position and encouraging outlook, we expect CTE to be in a position to recommence paying dividends this year. This would be positive for the stock. **Potentially significant non-core asset:** CTE is rebuilding its cord blood cell storage business which has the potential to generate significant long term annuity earnings.
Ansarada (ASX:**AND**)	Global deal and compliance software company Market cap: $202m	**Supportive long term structural trends to drive demand for AND's products:** 1) continued high levels of global M&A activity 2) growing investment globally in infrastructure & 3) increasing demands on boards to manage ESG and general compliance. **Growing customer base + increase spend per customer = accelerating revenue**: AND has grown its customer base every year from formation in 2006 (2 customers) to 2021 (3559 customers). Revenue per subscription customer is now also increasing (up 29% year on year) as a result of cross selling and price increases. Revenues from US and Europe were both up ~50% at 31 December 2021. **Re-rate opportunity:** AND emerged on the ASX out of a rather messy back-door listing, which may have impacted the market's perception of the stock. In addition, it is not a typical software stock with easy to model recurring revenues, and there is also a perception that it is heavily tied to the M&A cycle. These factors are potentially impacting pricing of what is a market leading technology business with genuine global potential already generating ~$50m in revenues. We see upside as the market begins to better understand the business and its global opportunity.
Laserbond (ASX:**LBL**)	Laser engineering technology company with global customer base Market cap: $99m	**COVID reopening play:** Opening of international borders should support growth of LBL's international technology and product sales. LBL is working with Austrade to convert a strong pipeline of opportunities in America, India and Asia, and is targeting $60m in revenue in FY25. **Re-rate opportunity: market recognition of technology credentials:** While LBL is sometimes viewed as a low IP mining services/engineering company, it is in fact making strong progress commercializing (very profitably) its high value, innovative material remanufacturing technology. The IP backing this technology, and its credentials, have been built up over the last 20 years. **Supportive ESG trends provide a strong tailwind**: The typical carbon footprint for a LBL remanufactured part is less than 1% of a new part, as well as extending the life of the equipment for between 2 to 20 times of a standard part.