DMX Australian Shares Fund
June 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 (31 May 2022)	**$1.0741**
Unit price (mid) based on NAV (30 June 2022)	**$0.9659**
Number of Stocks	46
% cash held - month end	0%
Fund size (gross assets)	$9m

1-month return	-10.0%
3-month return	-19.2%
12-month return	-9.3%
Since inception (1 March 2021, p.a.)	-2.6%
Since inception (cumulative)	-3.4%

Dear Investor,

DMXASF's NAV declined 10.0% (after fees and expenses), a slightly larger decline than that of the ASX 200 Total Return Index which was down 8.8% for the month. Once again though, smaller companies have been impacted to a greater degree in this market rout with the ASX Small Ordinaries falling 13.4% and the Emerging Companies Index declining 18%.

This clearly challenging market environment and substantial de-rating of both the market and our portfolio have effectively erased all the positive returns for the still-young DMXASF. As noted in the DMX Capital Partners (DMXCP) report, we see this recent volatility and portfolio drawdowns as part of the investing journey. Across both funds, we're pleased to note we've had no recent redemptions, and with each fund we have experienced strong inflows from existing investors seeking to add to their holdings at prices that have been clearly marked down very significantly.

Also as noted in the DMXCP report, during the month we emailed investors to forewarn of the continued NAV decline as the market was falling, and to set out how we are thinking about the market decline. Importantly, we emphasised that as investors ourselves we are excited about what we see, and that we were adding to our own holdings in the funds this month. On the back of this we received many supportive messages, as well as very strong interest in topping-up by investors across both funds. Internally, all directors of DMXCP and our management company, as well as all investment team members added to their investments across our funds. We're particularly grateful for investors' support through these uncertain and potentially unnerving times, and we thank you for your confidence in us.

Portfolio Commentary

Once again, our portfolio has been impacted by the broad-based sell-off in markets. This dynamic accelerated in June for two key reasons. Firstly, global markets continued to decline as inflationary concerns and central bank responses really set into market participants' collective consciousness. And secondly, Australia has experienced, we believe, a particularly aggressive tax loss selling season this year. With the end of the financial year, many investors take the opportunity to quit investments that have recorded substantial losses in order to shelter gains elsewhere. The dynamic has been accentuated by many companies raising capital during the financial year, and those companies then trading down somewhat. Additionally, many funds sell their biggest losers in order to offset gains and reduce the magnitude of distributions they'd otherwise have to make to their investors. These dynamics have caused the broad-based sell-off of the past few months to continue through June, with smaller illiquid companies being more heavily hit by the weight of departing shareholders.

Within our portfolio, around 80% of our stocks fell, with 70% falling by more than 5%. The median holding declined 12%. These highlight the broad-based nature of the continued decline, with no individual positions causing material loss. The biggest impact to the portfolio was from larger positions falling modestly, and some smaller positions falling substantially. **Pureprofile** and **Shriro** are examples of larger positions (around 4% weightings) that fell modestly (around 12%) to each cost 0.5%. The investment thesis for each remains intact, and following their material declines over the past few months (each down ~35-45% from their highs) the potential for strong returns over time from here is much increased. Among our smaller holdings, **ELMO Software**, **Janison Education**, and **Proptech Group** (around 1-2% weightings) experienced the greatest declines, down 27%, 36% and 39% respectively, and each also inflicting around 0.5% of damage.

These stock examples illustrate how we're responding within the portfolio. Pureprofile and Shriro have been maintained, with their declines being in-line with the broader portfolio and weightings remaining fairly constant. Janison, which has more than halved over the past few months, has not been added to as our assessment of its prospects has ratcheted down along with the share price, and uncertainty with the business has heightened. But with each of ELMO and Proptech, we have taken the opportunity to add to our holdings this month and very near their monthly lows. ELMO has halved over the past ~6 months, and Proptech is down 70% from its highs of a year ago. These sorts of businesses that are growing strongly, investing/spending aggressively to do so, and thus with long-dated cashflows, have fallen out of favour and – we believe – represent excellent value. It must be noted though that on an individual company basis, the risk profiles are high. We size them accordingly, recognising that not all will work to our current 'model'. But as a basket, they're very attractive. Proptech as an example, at recent prices has fallen to little more than 1 times its recurring revenue base (excluding surplus cash). Considering that revenue base would be very profitable in the absence of growth-related expenditure, we find this a compelling opportunity.

Elsewhere, we continue to selectively add to other positions that have been disproportionately impacted by the market decline. One example that we took another small bite at is **Frontier Digital Ventures**, maintaining our modest sizing there and as that company also fell. Frontier has roughly halved since its December capital raise, having been impacted by the broad market sell-off of long-dated-cashflow stocks as noted above, and heightened company-specific risks with its operations in Pakistan and other emerging markets. The company is not without risk, but at these levels we find the risk/return profile very attractive on a 3-5 year timeframe.

All this topping-up activity has been funded utilising our small available cash liquidity, some investor inflows, as well trimming a few positions that haven't been as impacted by the decline. Specifically, we've trimmed **FSA Group**, taking advantage of liquidity at a good price by effectively selling into its stock buyback programme; and we've reduced **Probiotec**. We continue to hold both, and like the quality, growth and valuation profile for each. But relative to some other opportunities, we've felt that marginal capital is best rotated into our most prospective names.

The DMXCP report profiles a number of companies that provided positive updates during the month. Our notes on those commonly held positions (Kip McGrath, Credit Clear, and Readytech) are included in the Appendix to this report. The updates provide an important frame, we believe, for thinking about the portfolio at present. Despite the broad sell off in markets and across our portfolio, things are ticking over at the individual company level, and for the most part, our expectations for the continued growth and positive operational execution for our companies remains intact. It won't be smooth sailing for all in a recessionary and inflationary environment. But good businesses will continue to grow, enhance their market positions, provide valued goods & services, and earn a reasonable profit on these.

In Summary

The portfolio has clearly been impacted with the drawdown of the past few months erasing the gains of our initial establishment period. But looking to what we actually own today, the prospects for these companies, and the prevailing market prices, we're very enthused about the potential for strong absolute returns, and meaningful value-add for investors in the years ahead. Our portfolios provide a unique exposure to a well-diversified group of 40+ smaller companies, and our value-conscious investment philosophy & process have been established and proven over many years. While we don't have a crystal ball to tell us where the bottom is, we're confident the value on offer today together with the expectation of continued positive developments across the portfolio will result in good returns as markets settle and over time.

Thank you again for your trust and support, and in particular for your patience. Thanks also for those who have expressed interest in adding to your holdings through this period, effectively dollar-cost-averaging through this volatile time.

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 02 80697965.

Kind regards

Michael Haddad
Portfolio Manager

Chris Steptoe
Research Analyst

Appendix – DMXCP Positive Stock Updates

The DMXCP report contained positive updates on a number of key holdings. Updates for those commonly-held positions are:

- Kip McGrath (ASX:**KME**)

  Children's tutoring provider, KME released a full-year update. After two years of flat profits, and COVID disruptions, KME announced a return to growth, with FY22 revenue up 25% to ~$24m, while FY22 underlying EBITDA of ~$6m is up 28%. Revenue growth was driven by strong demand in the UK and the US markets, with Australasia still restrained by COVID impacts.

  The outlook statement for KME was positive: "*The business continues to see growth across all geographies, with demand expected to return to pre-pandemic levels across all regions over the coming year*".
  With the recent signing of a new contract in the Middle East with expected $0.7m in annual earnings, continued rollout of corporate centres, and a return to pre-pandemic conditions augers well for strong growth in FY23.

- Credit Clear (ASX:**CCR**)

  Digital focused debt collector CCR had a particularly busy month, completing a capital raise and reporting some significant operating momentum, announcing 80+ new client wins from February to May. After being loss making since its IPO in 2020, CCR reported it had achieved operational profitability for the first time in May. The key part of the thesis here is that as CCR adds more digital volume, the higher gross margins (80%, as opposed to <50% for traditional collection methods) leads to improved profitability – it is pleasing to see this play out. The challenge for CCR is now to scale up the volume of its existing client base, on-board the large backlogs of new wins, and convert its promising pipeline (including a major bank with a $2b book which would see CCR generate very significant margin).

  CCR was another company confident with its stated outlook "*With a strong cash balance and an increasingly supportive economic environment Credit Clear is positioned to deliver strong growth across every business unit in FY2023*"

- Readytech (ASX:**RDY**)

  Diversified Australian software company RDY announced a small tuck-in acquisition, but also reconfirmed guidance (albeit a wide range). RDY expects FY22 organic revenue growth in the mid-teens, together with EBITDA margins of 36% to 38% - highlighting RDY's very compelling fundamentals as a high-quality, very profitable SAAS business.

  The medium-term outlook continues to also look positive for RDY with it re-affirming its FY26 organic revenue target of over $140 million. With FY22 revenues of ~$75m, this implies annual organic revenue growth of more than 17% over the next four years.