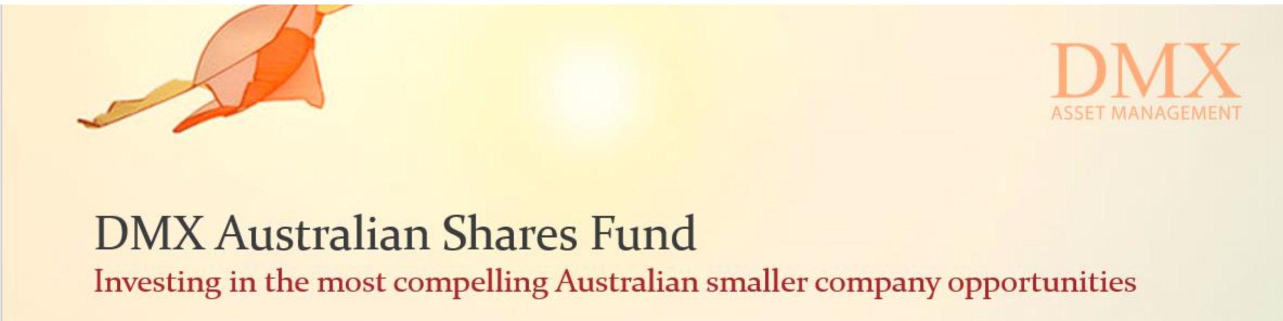

DMX Australian Shares Fund

April 2021 – 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

Opening NAV (31 March 2021)	**$1.0021**
Closing NAV (30 April 2021)	**$1.0277**
Number of Stocks	32
% cash held - month end	28%

1-month return	2.55%
Since inception (1 March 2021)	2.77%
Fund size (gross assets)	$5m

Dear Investor,

DMXASF's NAV increased 2.55% (after fees and expenses) which compares to the ASX 200 Total Return Index's 3.47% gain. Our second month of operations for the Fund has been progressive, with cash falling to 28% (from 46%) by month-end, and the number of holdings expanding from 25 to 32. We've moved a little faster than we'd have expected a couple months back, and this reflects a combination of being able to implement a significant overlapping exposure with DMX Capital Partners, as well as a steady flow of interesting additional companies.

Portfolio Structure

As outlined in our Information Memorandum, and reinforced in last month's report, we seek to construct a diverse portfolio with different thematics at play. Owning fundamentally different assets is important from a risk management perspective, and gives the portfolio the best chance of earning respectable returns over time and through various market environments. Further, we don't wish to be overly exposed to any individual company or *type* of company. Being ~70+% invested across a diverse range of ~30 opportunities is something of a 'base camp' for our portfolio structure. And we look forward to carefully deploying the balance of our cash (as well as harvesting cash where a story has played out, or a thesis has been broken or proven wrong (this will feature and is to be expected in any portfolio)).

By mandate we can hold up to 40 different stocks, and we're certainly heading in the direction of this upper bound. But we can certainly see a situation where the number is consolidated down to as few as 20, and together with cash being effectively fully deployed. Such an investment posture would most likely reflect a broadly undervalued market environment together with having higher conviction in a smaller number of names. We have the intention and flexibility to reposition the portfolio over time to reflect an evolving opportunity set. For now, we're pleased with our broader approach, casting the net a little wider, while retaining meaningful cash to execute on potentially even more attractive opportunities in the future.

This month's DMX Capital Partners (DMXCP) report includes an interesting summary of its top-10 holdings. We own eight of the 10 (albeit, not all at such large sizes). To avoid repetition given many of this report's readers will digest both reports, we're including DMXCP's report summary of the eight as an appendix to this report. We'll likely follow this format in future, too, where we wish to highlight relevant content from DMXCP's report.

Implementation Update

We added a number of additional names to the portfolio in April, including **Capral**, **Gentrack** (NZ), **ELMO Software** and **RPM Global**. These are all stocks not owned by DMXCP, though DMXCP established a small position in Capral subsequent to our purchase. In terms of DMXCP stocks, we initiated small positions in **Ansarada** and **CV Check**.

As outlined last month, we're diligently adding exposure to a diverse range of companies also held by DMXCP. As at 30 April, approximately 49% of the 72% invested is in stocks also held by DMXCP. The process for selection considers both liquidity as well as the nature of other holdings being considered for DMXASF, and how they all blend together from an investment thematic and risk profile perspective across the DMXASF portfolio.

This report's appendix borrows brief summaries on eight of DMXCP's top-10 holdings, in which we also have a position. To round that content out and provide some additional useful insights into the DMXASF portfolio, we note (in alphabetical order) our current top-5 holdings which each representing 4 to 4.5% of the Fund: **Capral**, **Easton Investments**, **FSA Group**, **Michael Hill International**, and **PTB Group**. Each of these companies trades for prices that are attractive in relation to current normalised earnings and/or assets. None require heroic assumptions in order to expect solid returns from these levels over time. And importantly, they're all quite fundamentally different from each other which is an important feature of our risk management process.

Capral Limited: Benefitting from this Environment, and Targeted by Private Equity

We took a full-sized position in **Capral** during the month on the back of an announced takeover and a subsequent conversation with one of their competitors. Capral is Australia's largest extruder and distributor of aluminium products. We paid around $7.45 per share versus a $7 takeover price. Capral is enjoying a very favourable trading environment that includes strong demand and protection from Chinese anti-dumping. We believe Capral is very undervalued in relation to its assets (trading close to NTA) and earnings profile (circa 3X EBITDA). While the offer was on the basis of the company distributing valuable franking credits on its balance sheet, our view was the agreed takeover price of $7 was far too low, and that there was a material chance of a much-improved offer. (Or, the offer would fail, and the company would be re-focused on delivering in this favourable environment – an outcome we believe has a good chance of seeing the shares much higher over the next 12-24 months.) One interesting aspect of the takeover offer was that it had garnered the early support of the Board, indicating the deal was friendly and that the company is very much for sale. While the deal has been terminated on the back of shareholder dissatisfaction with the price, we believe the company remains very much 'in play' and watch with interest.

Our base case with Capral is that the company is attractively priced in relation to assets and cashflow, and we intend to hold for the long-term. We're not explicitly investing in anticipation of an improved takeover price. But it is worth noting that in this environment of low interest rates and either well-financed private equity operators, or other industry participants looking to drive consolidation and improve their own strategic positioning, appropriate targets can end up being acquired at very attractive (high) prices. We're also fortunate in Australia that many institutional investors have a strong value-bias and are reluctant to sell for less than a full appropriate price. And in the case of Capral, we're pleased a majority of its shareholder base (by size) has outright rejected what we consider to be a low-ball offer. Interesting examples of favourable developments with two other ASX-listed companies being acquired are McPherson's, and Mainstream. In the case of McPherson, a $1.34 per share bid was trumped by a competing bid at $1.60. While more spectacularly, Mainstream agreed to a deal to be sold for $1.20 per share. This was trumped by another party at $2 per share. That higher offer was revised up to $2.25 ahead of yet another competitor entering the fray with a $2.35 which was matched, but then beaten again at $2.55. Capral doesn't hold the strategic interest for a number of global operators in the way Mainstream does. But the case of Mainstream (which is unfolding as we write) is an interesting example of the potential from these sorts of situations.

In Summary

We're ever-mindful that we're working for you, helping to preserve and grow your hard-won capital. We appreciate the confidence you've shown in us, and are delighted to welcome a number of new investors this month, as well as to receive some top-ups from existing investors.

In terms of progress with putting your capital to work, we're pleased with the breadth, quality and prospectiveness of the portfolio we've constructed to date. Many of our companies represent very attractive value in relation to current earnings (which are high quality and have something of a growth profile), while some others are investing heavily to underwrite meaningful growth over the medium to long-term.

We welcome the opportunity to speak with existing or potential investors at any time.

Kind regards

Michael Haddad
Co-Portfolio Manager

Chris Steptoe
Co-Portfolio Manager

Appendix – Summary of Eight of DMXCP's top-10 positions, also held by DMXASF

°cryosite
ASX:**CTE**
M/cap: $12m

Why are we invested? CTE, is a specialist provider of outsourced clinical trials logistics services. It operates in a niche area where there are high barriers of entry (storing and transporting of drugs on behalf of large pharmaceutical companies requires compliance with significant global and Australian regulations and licensing requirements, as well as the appropriate controlled temperature storage facilities). We like that CTE's largest customers include a number of major global pharmaceutical companies that have been utilizing CTE's storage and logistics services for many years, providing sticky, high quality revenue. CTE has a strong growth profile with the company targeting 20-30% annual revenue growth over the medium term, including an opportunity for CTE to expand into the broader market of logistics for TGA listed products.

Recent newsflow: CTE's second largest shareholder (that had owned ~20%) completed a sell down which provided an unusual amount of liquidity in the stock. We took advantage of this liquidity across both DMXCP and DMXAS, and at deeply discounted prices, to become substantial holders of the company.

dusk
ASX:**DSK**
M/cap: $228m

Why are we invested? DSK is Australia's leading retailer of candles, home décor and home fragrances. We first invested in DSK when it listed late last year. DSK has several very attractive characteristics: a gross margin approaching 70% (all products are designed and developed internally), a very loyal customer base (its 640,000 Dusk Rewards members now account for nearly 60% of total sales) and an omni-channel retail strategy, underpinned by a disciplined store roll-out focused on B and C grade shopping centres with more attractive leasing dynamics.

Recent newsflow: **DSK announced a profit upgrade during April**, driven by strong same store sales growth (+44%), store expansion, and gross margin expansion (+400bps).

DSK's forecast FY21 EBIT of $38m to $40m was ahead of broker estimates which were sitting at $35.5m. With its high gross margins (and with favourable industry conditions) DSK is currently recording EBIT margins of 28%.

The expected 30c dividend for FY21 will represent a 15% yield on DSK's IPO issue price.

ASX:**EAS**
M/cap: $38m

Why are we invested? EAS owns a portfolio of leading businesses in the accounting, wealth and training space, with increasing recurring revenue. In 1H21, EAS generated NPATA of $2.6m (up ~70%). We estimate EAS trades on an attractive 8x NPATA .

Recent newsflow: After a long drawn out transaction, HUB24 (ASX:**HUB**) is now the largest shareholder of EAS with a 32% holding. With a financially strong, supportive, stragetic holder, EAS is now well placed to drive further organic and in-organic growth. With EAS trading on a single digit PE multiple, and supportive industry conditions, we think this represents an attractive opportunity.

ASX:**JAN**
M/cap: $163m

Why are we invested? Another business that we have owned since its IPO, JAN is a leading Australian education technology business that delivers online assessments to millions of candidates in more than 100 countries, with a Tier 1 customer base including the University of London, British Council, the Organisation for Economic Cooperation and Development (OECD), the Singaporean government, and national and state government departments in Australia.

Recent newsflow: In March JAN announced it had been accredited by the OECD as the sole provider of the PISA for Schools assessment in Australia. With JAN already providing online NAPLAN, ICAS and various state-based assessments, this further strengthens JAN's market leading position within Australia for schools' assessments. The target opportunity of 2775 secondary and combined schools in Australia, at $7,000 per school, is significant. During April, JAN announced that in the first six weeks of availability in the Australian market, more than 200 schools had signed contracts to sit the PISA assessment over the next 12 months. JAN has an agreement with OECD to roll out PISA across 90 countries – the addressable opportunity here is immense (and this is just one of many offerings that JAN provides).

ASX:**JYC**
M/cap: $72m

Why are we invested? An investment company that owns two growing national businesses, KWB Kitchens and Bedshed. We estimate the value of these business, together with JYC's property assets to significantly exceed its current market cap.

Recent newsflow: JYC reported a strong H1 result, with underlying earnings (normalized for Job Keeper) up over 100%. It is another stock in the portfolio that trades on a sub 10x PE ratio. KWB Kitchens remains the jewel in the JYC portfolio – a well managed, expanding national brand which is the largest professional kitchen renovation business in Australia generating significant free cash flow. With a growing national footprint and a strong order book, we expect sales to reach over $100m in FY22, with EBIT margins approaching 20%. It is not unreasonable to conservatively expect this business to be worth 8x EBIT or $160m. JYC's share of this would be $80m, which underwrites JYC's current market cap of $72m.

ASX:**PTG**
M/cap: $93m

Why are we invested? PTG provides market leading technology solutions to real estate agents. A third of all real estate agents in Australia and New Zealand (4,057 out of 12,200 offices) are customers of PTG. PTG is now targeting the UK market which comprises over 25,000 real estate offices. Recurring revenue of $11.6m is up 19% since PTG listed in late November. PTG generates gross margins from its recurring revenue of 90% and EBITDA margins of 25%.

Recent newsflow: PTG's 3Q21 update highlighted strong operating cashflows and pleasing progress against its growth strategy. PTG also completed the acquisition of the Harcourts real estate agency's customer relationship management (CRM) platform. The acquisition enables the Harcourts' franchisees to then migrate from the old platform on to PTG's market leading Vault CRM platform. Harcourts has described Vault as "*a truly exceptional product*" that will "*play a key role in a significantly enhanced technology offering*". The transaction takes PTG's market share to an impressive 33% of all real estate agents in Australia and NZ (including the three largest networks of real estate agents (Raine & Horne, Ray White & Harcourts) and up from 26% from when PTG bought Domain's CRM asset last year). This is particularly important when it comes to the next stage of the PTG growth strategy, which is to upsell additional PTG offerings to its real estate agent customer base.

ASX:**PTB**
M/cap: $86m

Why are we invested? PTB generates recurring revenue from long-term engine maintenance and management contracts in place with aircraft operators. Its US acquisition provides growth opportunities in international markets.

Recent newsflow: At its half year results, PTB noted the reduced contribution in the first half from its largest customer, Trans Maldivian Airways, which represents an estimated 15% of PTB group sales. From recent data and commentary, it would appear that holiday (and airline) activity in the Maldives has now normalised, which supports PTB's full year profit NPBT guidance issued in February of between $9.2m and $11.2m. On the back of more normalised conditions, we believe PTB is trading on 10x FY22 NPAT. PTB also trades at its book value, and has $76m of net tangible assets (primarily aircraft spare parts and land and buildings).

ASX:**SEQ**
M/cap: $65m

Why are we invested? SEQ provides various services to accountants, financial planners and third party AFSL holders. One of SEQ's fastest growing businesses is Morrisons, which provides wholesale broking execution and clearing to financial planners and large dealer groups. To give an indication of its recent growth (through market share gains) stock held on Morrisons' HIN has gone from $400m in January 2020 to $2.8b at January 2021, and SEQ is targeting $4b+ by later this year. Morrisons should easily exceed the ~$20m of revenues it had initially budgeted for FY21. (We note that a retail focused broker with similar revenues (ASX:**SWF**) has an EV of over $100m).

Recent newsflow: In April SEQ **increased its EBITDA guidance by ~25%** to $8.5m to $9m. The updated guidance follows very strong trading across its wealth, equity markets and professional services divisions. SEQ also has ~$15m of net cash on its balance sheet.