



DMX
ASSET MANAGEMENT

DMX Australian Shares Fund

Investing in the most compelling Australian smaller company opportunities

DMX Australian Shares Fund July 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

Unit price (mid) based on NAV (30 June 2021)	\$1.0651
Unit price (mid) based on NAV (31 July 2021)	\$1.1021
Number of Stocks	38
% cash held - month end	7%

1-month return	3.47%
3-month return	7.24%
Since inception (1 March 2021)	10.21%
Fund size (gross assets)	\$7m

Dear Investor,

DMXASF's NAV increased 3.47% (after fees and expenses), ahead of the ASX 200 Total Return Index's 1.10% gain. This month saw the first elimination of a portfolio holding and in a sense marks a milestone: at 38 positions, we're very near our 40-stock maximum; and with cash in the single-digit range, we're effectively fully invested. Both dynamics are (healthily) forcing us to carefully assess holdings (and in particular lower-weighted positions) with a view to exiting names.

Portfolio Commentary

Detractors this month included **Shriro**, which declined 8% on the back of an announced "cyber incident", as well as expected disruption from COVID lock-downs. Each of **Janison** and **Proptech** fell 8-11% following prior strong share price performances, and under the weight of recent capital raisings. **Corum** fell 13% despite posting respectable quarterly results.

On the other side of the ledger, the portfolio benefited from 11-14% increases in each of **Elmo Software**, **Knosys** and **Skifi**, as well as a 21% recovery in **CV Check**. Each of these companies had traded down toward financial year-end and may have come under pressure from tax loss selling. With each of them, we had been buying at the lower levels and have benefited from increased exposures as July saw modest recoveries.

Frontier Digital rose 12%, driven by very strong results including the maintenance of revenue growth momentum. The company continues to grow its footprint through a combination of acquisitions as well as strong organic growth. **RPMGlobal** rose nearly 10% to where we've ultimately exited this small position. RPMGlobal has performed very strongly over the past few months, driven by a series of positive trading updates. We discuss our Sell decision in Thinking about Exiting Holdings, below.

The DMX Capital Partners (DMXCP) monthly report includes detailed commentary on two interesting recent strong performers: **Ansarada** (up 29% for the month) and **Raiz** (up 10%). Both these stocks are also owned in the DMXASF portfolio. The DMXCP commentary on both are included in an Appendix to this report, below.

New Stock: Swick Mining Services

As we seek to add interesting, differentiated, and highly prospective companies to the portfolio, we're pleased to highlight a recent addition: **Swick Mining Services**. Swick is a second generation family drilling business with Kent

Swick, CEO, still owning 11% of the business. Swick provides underground drilling services to miners (primarily in gold exploration (63%) and copper (14%)). The last couple of years' group performance has been weak due to significant 'front-end' expenditure required for the implementation of a large mining contract in Alaska, together with a significant investment in greenfields mining technology company, Oreplore. These have brought an element of risk and uncertainty to the company while obfuscating its underlying core business progress.

That risk profile has been mitigated, in particular with Oreplore reaching a level of maturity that will likely see this important asset demerged from Swick in the period ahead. Excluding Oreplore losses, FY21 will be the strongest result for the Company since FY13. Industry conditions are strong and the company to forecasting a record number of drilling rigs in operation in FY22. Swick has always claimed that their rigs are at the cutting edge for underground drilling and late last year announced they had agree to manufacture and sell four of their GenII rigs to two large global drilling contractors for use outside of Australia. A further eight are expected to be sold in the year ahead. This will also provide and ongoing earnings stream with aftermarket support, critical spares, rebuilds, and component exchanges. This is a positive development as it broadens their revenue base outside their current markets.

While there is uncertainty around how much Oreplore will be worth as an independent company, we believe the demerger will highlight the strong profitability and value of Swick's core drilling business. Assuming zero value for Oreplore, the drilling business is presently trading on a prospective EV/EBIT of just over three times for FY22. This compares to closest comparable, and recently listed, DDH Limited, which trades on twice that multiple.

From a balance sheet perspective, Swick trades for less than NTA and has virtually no net debt. While Swick is clearly a cyclical business, we see long-term tailwinds as commodities are getting harder to extract with deeper drilling required. At the same time, ESG and Health & Safety considerations 'inside the mine' are increasing. In this respect, Swick is well-positioned with its development of technology to go deeper, using rigs that can be remote controlled, and can lower the carbon footprint of miners by using electric rigs. We see increasing value in their technology-driven Intellectual Property as Swick seeks to grow its contract book.

Thinking about Exiting Holdings

After just five months of running this portfolio, and with 38 stocks (versus a 40-stock self-imposed maximum) and just 7% cash, we're now in the position of having to think very carefully about reducing or exiting names. Putting a limit on the number of stocks is a good discipline for us. It means we remain very deliberate about what is held in the portfolio, and don't allow a long tail of tiny positions to develop.

So as we look for 'sell opportunities' (which we're effectively now compelled to do if we wish to continue to add new stocks to the portfolio, and/or to add to various presently held stocks whose weightings we wish to increase), we have a few frames in mind:

- 1) Broken theses. We're asking "has the thesis for this investment changed?" In particular, we wish to avoid 'thesis drift' where we invest in an enterprise for a reason, but that reason is changed over time as the situation changes. It's human nature to become attached to what you own, and biased toward it. So, it's important to really test the thesis of each company through time to ensure its continued appropriateness.
- 2) Valuation. Here, we're simply considering an investment in relation to movements in its share price which – all other things equal – changes the risk/reward profile for a given stock. The same investment at say 100% higher or 50% lower pricing has a wildly different expected return profile on say a forward five or 10 year basis. Where share prices have reached levels that discount much reduced future returns, and implying a higher risk profile, it might be time to consider reducing or exiting.
- 3) Portfolio Risk Management. Assuming a thesis remains intact and valuation attractive, it might be appropriate to consider selling a given investment for portfolio risk management purposes. This might include because the portfolio would otherwise be over-exposed to a given theme or fundamental risk factor. (Ie: if you're looking to buy a retailer and already have significant retail exposure, it might be a good opportunity to consolidate and cull the least interesting of a group.)

In addition to the above core reasons for selling, we like to test the appropriateness of individual stocks' position sizes. In general, we believe larger position sizes (3-5%, for us) should be in companies that have a relatively low perceived risk of substantial impairment. They will tend to be more mature, profitable, perhaps with lower pricing in relation to current earnings or asset backing. Smaller position sizes of say 1-2% will tend to be in situations that might have

asymmetric upside potential (multi-bagger *potential*) but perhaps together with some special risk factor. Such stocks might be too risky for a full-sized position on an individual basis. But by allocating a decent portion of the portfolio across a diverse range of these types of individual stocks we can obtain exposure to the potential for outsized gains from those that work out, while limiting downside to the ones that invariably do not.

Circling back to our very first exit in this portfolio, **RPMGlobal**. We believe RPMGlobal is a high quality SaaS business with significant growth opportunities ahead. The company is at a level of maturity that gives us comfort with having a larger position size. And in the \$1.20-1.40 zone the pricing remained relatively attractive. We set out to build a 3-4% position size, but unfortunately the shares ran away from us. We were only able to allocate around 1%, which grew to about 1.5% as the shares reached the \$1.90-range. As we considered what to do with this holding, from \$1.95 or so, and at its current level of maturity, we don't find the stock as attractive as other thematically similar companies. And being so far away from our 'buy price', we felt it unlikely we'd have the opportunity in the near term to complete our originally-intended purchases. So, with 1% and change in the position, and the expectation of further inflows into the Fund which will further dilute our exposure, it made sense to us to tidy up and exit (at least, for now) this small position.

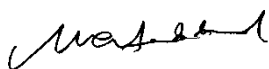
In Summary

We're pleased with the generally positive developments across our diverse portfolio. We continue to identify interesting prospective new holdings, both in conjunction with DMXCP and independently of it. The portfolio is underpinned by a broad overlap with DMXCP with around 63% of our 93% invested position being across 28 companies also owned by DMXCP, and 30% across 10 additional names that bring differentiation and various other 'ways to win' to the portfolio. They're also slightly larger in average market capitalisation terms, and thus more liquid and investible as the Fund develops.

The period ahead will be interesting as the impact of current lock-down measures across much of Australia flows through. We believe the market is somewhat blasé about the dynamic, and perhaps focused on how well things worked out last year. It's possible the impact of last year's \$100b+ JobKeeper programme isn't being fully appreciated in some of the corporate outcomes to date, and what its notable absence this time around might mean for various businesses. For our part, we will remain focused on the long-term fundamentals and balance sheet strength of our individual companies.

Thank you for your trust and support.

Kind regards



Michael Haddad
Co-Portfolio Manager



Chris Steptoe
Co-Portfolio Manager

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Appendix

Two of our stocks profiled in the DMX Capital Partners monthly report: Ansarada & Raiz

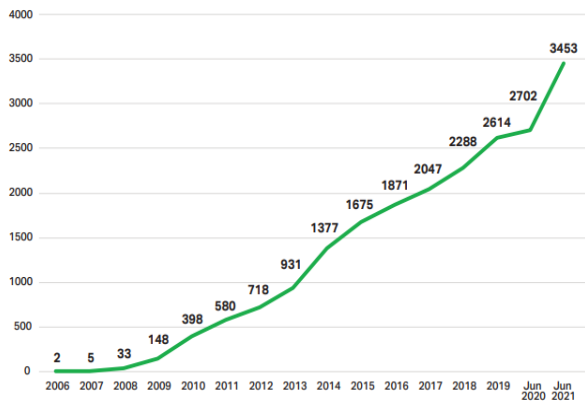
Ansarada (ASX:AND)

Ansarada provides its global customer base with digital data-rooms and other information management products to assist when undertaking deals and tenders and compliance activities. AND reverse listed on the ASX late last year. The chart on the left below is one of the most impressive we've seen in illustrating a long track record of great execution. AND's success in delivering sustained growth in customer numbers is clearly evident over the last 15 years.

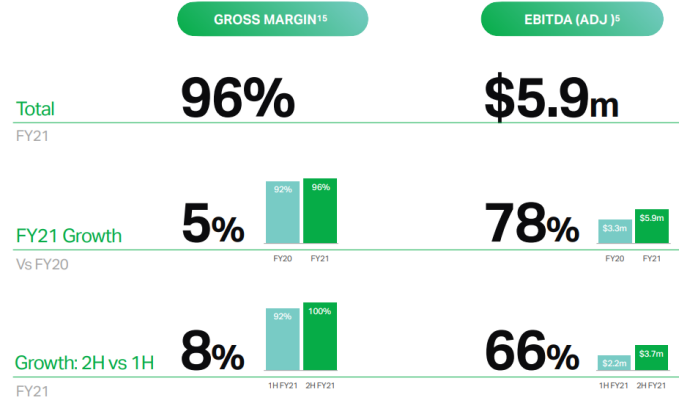
The customer growth is testament to AND's best-in-class SaaS products that have been used in over 24,000 transactions globally across M&A, capital raisings, tenders, IPOs, SPAC's & debt financing. AND has grown over the years from its Australian base to, today, having nearly 50% of its revenue generated offshore.

The combination of this consistent customer growth with equally impressive gross margins (96%, +5%), is now resulting in AND generating strong EBITDA numbers (\$5.9m, +78%). With strong cash flows and \$23m of cash, AND is well placed to continue to grow strongly in FY22.

AND Active Customer growth since 2006



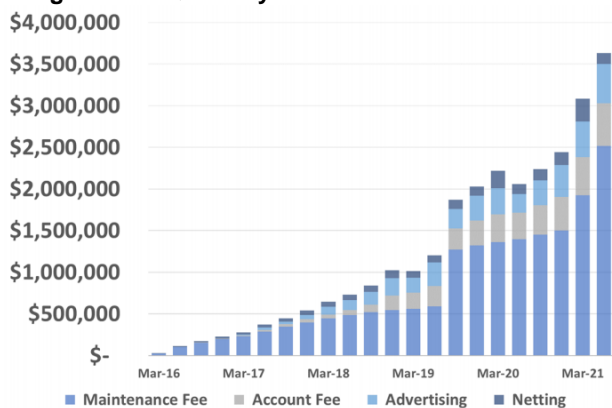
AND FY21 Gross margins and EBITDA



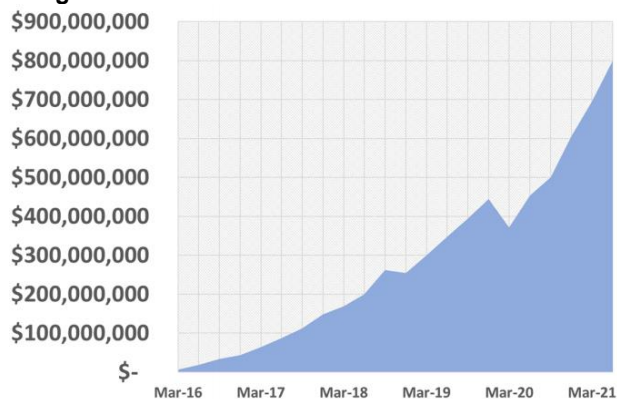
Raiz Invest (ASX:RZI)

Similar to AND, we believe RZI, Australia's largest digital financial services platform, to be a very much under-rated Australian success story. We first bought RZI shares last year, and then added to our holding in a recent placement. We continue to be impressed by the execution here. Along with the AND chart presented above, the charts below are two more of our favourites in illustrating great execution. They highlight the powerful organic growth in revenue and funds under management (FUM) that RZI has been able to deliver from a zero base since it commenced operations just over five years ago.

RZI growth in Quarterly Revenue since March 2016



RZI growth in FUM since March 2016



RZI's Australian business is now generating meaningful operational cashflow, recording \$1.4m for the quarter. Other highlights include:

- Record revenue for the Raiz platform up 76.7% to \$3.6 million;
- Global active customers up 86.7% to 456,927;
- Australian FUM up 76.3% to \$799.6 million; and
- Superannuation FUM up 53.0% to \$106.6 million.

Raiz now has an opportunity to replicate what it has done in Australia, building out profitable micro-investing platforms in multiple south East Asian geographies.