DMX
ASSET MANAGEMENT

DMX Australian Shares Fund
Investing in the most compelling Australian smaller company opportunities

DMX Australian Shares Fund
October 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 Sep 2021) **Unit price (mid) based on NAV (31 Oct 2021)**	**$1.1837** **$1.2560**
Number of Stocks	41
% cash held - month end	8%

1-month return 3-month return	6.11% 13.96%
Since inception (1 March 2021)	25.60%
Fund size (gross assets)	$10m

Dear Investor,

DMXASF's NAV increased 6.11% (after fees and expenses), again ahead of the ASX 200 Total Return Index which was flat for the month, down 0.10%. With little detracting, some meaningful re-rates to a handful of our companies drove a strong result for the month. In a few instances we feel some prices may be getting ahead of themselves in the short term. But in others, clearly positive developments underwrote their price appreciation and we're as, if not *more*, enthused than as before the rises. For the most part we are holding, looking through the short-term gyrations, and are very focused on the potential for value creation over the long-term. With a few companies we are taking the opportunity to trim or even exit in order to raise cash to pursue more compelling opportunities.

Indeed, as has been the case now for the past few months, cash is around or under 10% and we continue to find great opportunities for the portfolio. We have seemingly been as focused on finding holdings to sell among our stable of 40 as we are on finding companies to *buy* among the several hundred on our radar.

<u>Portfolio Commentary</u>

As was the case for DMX Capital Partners (DMXCP), the quarter was driven by a 49% increase in **Ansarada**, as well as a 54% increase (versus our capital raise entry price) in **Aeeris** in which we initiated a position through corner-stoning alongside DMXCP a meaningful capital raise during the period.

Among positions held independently of DMXCP, **Elmo Software** recovered 19% as the company highlighted an acceleration of organic growth for the start of FY22. **Michael Hill** rose another 12% after strong same store sales in Q1 and with investors eying a near-term reopening retail bonanza. **Frontier Digital Ventures** rose 14% on the back of quarterly results that included 72% increase in organic revenues with important assets showing operational leverage.

As outlined in the DMXCP report, several key holdings had important updates this month:

- ***Ansarada*** *undertook a small bolt on acquisition, TriLine GRC - a governance, risk and compliance (GRC) SaaS company with customers in Australia, New Zealand, UK and Ireland. This acquisition will strengthen Ansarada's capability in the fast-growing GRC market. While small, the acquisition looks strategically sensible and well-priced.*
- ***Swick Mining*** *agreed to a scheme of arrangement with DDH1 Limited, with Swick holders receiving shares in DDH valuing SWK at $0.35 per share. Swick shareholders will also receive Orexplore shares under the proposed Orexplore demerger. While we do not consider this to be a full price for SWK, the offer does allow SWK holders to*

participate in the synergies expected to be extracted as a result of the merger. We continue to hold our SWK shares.

- ***Aeeris*** *which provides environmental risk monitoring services to corporate and government clients, raised funds to capitalize on some attractive growth opportunities and to fund additional development of its climate reporting tools. As mentioned in our last update we cornerstoned this raise and became a substantial holder.*

The DMXCP report includes commentary that is equally relevant to DMXASF. For your easy reference, we include the write-ups on **Raiz** and **Yellow Brick Road** as an Appendix to this report.

In addition to the pleasing developments as outlined above, we held a number of management meetings during the month and in each case were encouraged by what we heard. We highlight Sequoia Financial Group as an example.

Sequoia Financial Group

One of the largest holdings across both portfolios is Sequoia, a financial services company providing various services directly to clients, as well as a range of business support and compliance services to accountants, financial planners and third party AFSL holders. We met with CEO Garry Crole and took the opportunity to drill down on their Wealth and Equity Markets divisions to better understand what was driving the outstanding financial results for FY21.

The Wealth division, which services 400+ wealth advisors, made four acquisitions over the last three years and is enjoying the benefits of scale in an increasingly burdensome regulatory environment since the Royal Commission. With smaller companies struggling to cope with the extra compliance requirements, and banks and insurers exiting the industry, the opportunity to grow by acquisition will continue to be a focus in FY22. Additionally, while advisors are leaving the industry in droves, Sequoia is managing to attract advisors providing organic growth over and above acquisitive activities.

The Equity Markets division is enjoying a strong turnaround with a strong contribution from Morrisons Securities which provide Trading and Clearing services. Unlike listed competitor Selfwealth, which is exposed to the activity of retail investors, Morrisons deals with industry participants with average trade sizes of ~$95k. Remarkably, the business has grown revenues from ~$2m in 2017 to over $24m in 2021 and is now profitable. This has overwhelmingly been driven by new client wins rather than market activity. Peers such as Finclear, Pershing, and OpenMarkets are attracting high valuations in recent transactions making Morrison's somewhat of a hidden asset for Sequoia.

We consider Sequoia to be a high-quality business with great leadership and strong culture that continues to attract quality people into the fold. It enjoys a combination of annuity and transaction revenues streams that are growing at above-market rates. Despite its strong share price performance over the past couple years, we believe the shares remain attractively priced for long-term oriented investors.

<u>In Summary</u>

With our effectively fully-invested position, we're working hard to identify compelling opportunities, and manage an appropriately constructed diverse portfolio of these. The process is engaging and as always we continue about our business with enthusiasm and an eye to the long-term potential.

Thank you for your trust and support.

Kind regards

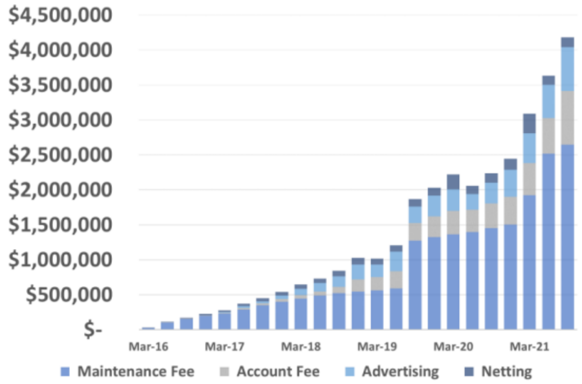
Michael Haddad	Chris Steptoe
Co-Portfolio Manager	Co-Portfolio Manager

Appendix – DMX Capital Partners' updates on Raiz & Yellow Brick Road

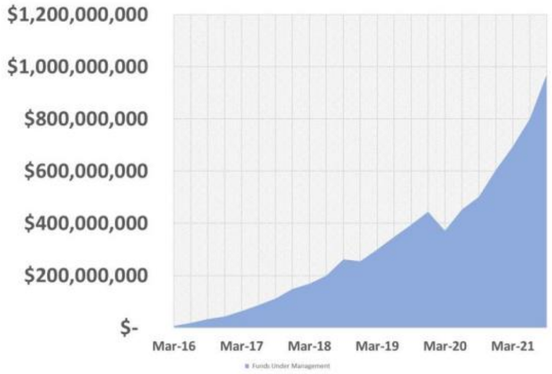
Raiz Investments Limited (ASX:RZI)

RZI, Australia's largest, mobile-based financial services platform delivered another very strong quarter of FUM and revenue growth. As we have previously mentioned, the growth achieved by RZI since it was founded has been impressive, scaling from a pre-revenue start-up to having positive operating cash flows and almost $1 billion of FUM in a little over 5 years.

RZI quarterly revenue



RZI Australian FUM



As the charts above highlight, RZI continues to grow quickly:

- Total normalised revenue up 86.8% same period year on year (YOY) to $4.2m;
- Global active customers up 85.2% YOY to 533,755;
- Australian FUM up 93.8% YOY to $970.2m;
- Superannuation FUM up 158.7% YOY to $183.7m; and
- Annual Recurring Revenue (run rate) up 89.2% YOY to $13.7m.

As a fast-growing fintech, it is pleasing to see RZI's Australian operations record its 8th quarter of positive operating cash flows. At a group level (after funding expansion costs in Southeast Asia), RZI also continued to be operating cash flow positive.

Despite this strong growth achieved to date in Australia, significant runway remains. Management expects to be able to grow its current active customer base in Australia from ~300,000 currently to ~500,000 in 3 years, and grow average revenue per customer from ~$60/year to ~$100/year. This suggests annual revenue of $50m from Australian customers, supplemented by RZI's other revenue streams (advertising, netting) and offshore revenues.

An interesting upcoming development…

Acorns is an American financial technology and financial services company that specializes in micro-investing and robo-investing with ~US$4.75bn funds under management. It is expected to list with a US$2.2bn valuation on the NASDAQ by the end of this year under the symbol "OAKS", supported by investors such as TPG, Blackrock and Wellington Funds. Acorns was a founding joint venture partner in RZI (when it was previously known as Acorns Australia), and Acorns remains one of the largest shareholders in RZI today. [Acorns is an interesting story in itself – for those interested in learning more about it, an analyst presentation is available here: https://youtu.be/y7YgPehIOeg].

When it lists, Acorns will be a useful peer to benchmark RZI to, although, unlike RZI, Acorns is some years away from profit due to its higher customer acquisition costs. It is expected to list on a FY22 Price/revenue multiple of ~8x, while RZI trades at a ~20% discount to this. On an EV/FUM basis, Acorns is at 38% while RZI is on a more modest 14%.

Acorns has also stated "*Upon listing, we are expected to have over $450 million in cash to fuel Acorns' organic and inorganic growth, execute our strategy and expand globally*". "*We believe the metaphor of the acorn growing into the mighty oak is a global idea that crosses all cultural, language and geographic barriers. We will likely do that via M&A*".

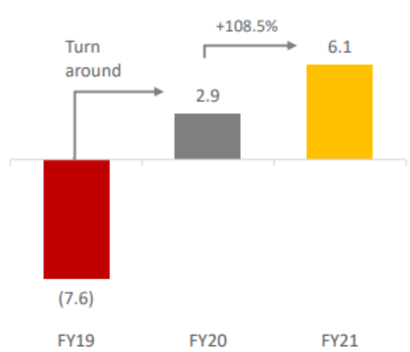
RZI, with its market leadership position in Australia, and growing customer base in the attractive, fast growing, Southeast Asian market could be a nice fit for Acorns, particularly given Acorns' knowledge of the RZI business and its existing RZI shareholding. While this would not be an ideal result for holders of RZI such as ourselves who are keen to continue our long term growth journey with RZI, a cashed-up Acorns bringing RZI back into its fold to progress its global ambitions, may be the most logical outcome. This potential for corporate activity should also help to provide some downside protection for RZI from here.

Yellow Brick Road (ASX:YBR)

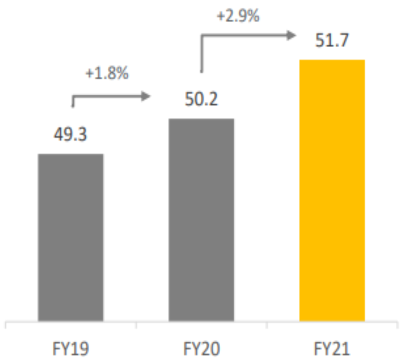
During October, one of our asset plays, YBR, released a market update presentation for the first time in 4 years. YBR has had somewhat of a troubled past on the ASX, but YBR today is quite different from the YBR of three or more years ago (although management, led by the polarizing Mark Bouris, remains the same). The business has been very much simplified, with the divestment of many of its non-core businesses, and a re-focus back to its traditional strength – its mortgage business.

As illustrated below, over the past three years, YBR has moved from a net debt position to a significant net cash position, while it has been growing its loan book and cash EBITDA. With a market cap of $34m and net cash of ~$9m, YBR has a $25m EV.

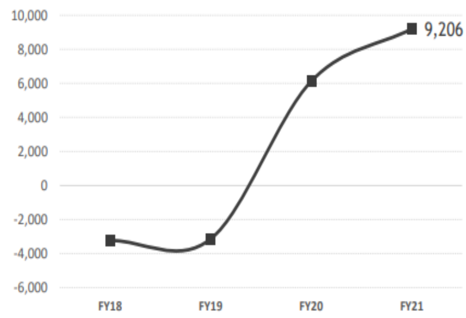
YBR Cash EBITDA (SM)



YBR Loan book ($b)



YBR Net cash ($m)



While the company has reported a 'Cash EBITDA' of $6.1m, at this point of the YBR turnaround, it is challenging to meaningfully assess YBR's earnings profile, particularly given some of the complexities involved in accounting for mortgage books. Instead, we take some comfort from its asset position. At the month end share price of 10.5c, YBR was trading at a 32% discount to its net tangible assets (including its share of the NTA in its JV investment). As set out below, these 'tangible assets' are primarily cash, and the present value of the trailing commissions to be received from lenders (mostly major Australian banks) for loans brokered. No value is currently being attributed to the 'intangible' assets of the company: its substantial network of 1,000+ brokers, and the IP and technology associated with a market leading brand.

30 June 2021 - audited	$'000	cents/share	
Net Cash	9,206	2.8	Cash less debt
NPV of loan book trail	40,773	12.6	NPV of trailing commissions – counterparties are mostly big4 banks
Other assets/liabilities	417	0.1	Net of other payables and JV interest in NTA of RWF
YBR Net Tangible Assets	**$50,396**	**15.54 cents**	
YBR Market cap/share price	**$34,051**	**10.50 cents**	

YBR clearly has much work to do to get re-rated back above its NTA. In a low interest rate environment, margins and commissions are under pressure as re-financing takes place, and as housing stock volumes are low. However, at its AGM during the month, YBR highlighted a number of initiatives to further grow the business and it margins:

- In FY21, YBR launched Resi Wholesale Funding (RWF) in order to leverage existing capabilities within the group and to move up the value chain in the mortgage industry capturing more margin. YBR believes the platform has been set to support strong growth in volumes in FY22, and that RWF can become a significant funder within the YBR network (which settled ~$13b in loans last year – RWF is targeting 10% of this annual volume) and through aligned brokers outside of the network. While the book is still small ($160m) it is growing at ~$25m per month.

- The recent launch of a digital focused (direct to consumer) offering online home loans (yhomeloans.com.au) that is expected to generate higher margin commissions to YBR than using franchised brokers.

- The expansion of YBR's traditional broking business, through the expected addition of 100+ new brokers over the next 12 months (currently sitting at ~1,400).

- Capitalising on what the company believes is an industry leading position in digital marketing and in its lead management and tracking system, which is expected to assist the business in winning new business and attracting new brokers.

The tone at the company's recent AGM was bullish. There is an opportunity for the company to deliver on its growth objectives and prove to the market that its earnings are sustainable and growing, driving a re-rate to back above its NTA. If not, given the sector consolidation occurring, and YBR's substantial corporate costs that could be eliminated on a merger, a competitor may end up acquiring YBR's vast broker network and brand infrastructure for an attractive price.