DMX Australian Shares Fund
January 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 Dec 2021)	**$1.2529**
Unit price (mid) based on NAV (31 Jan 2022)	**$1.2157**
Number of Stocks	49
% cash held - month end	1%

1-month return	-2.97%
3-month return	-3.21%
Since inception (1 March 2021)	21.57%
Fund size (gross assets)	$11m

Dear Investor,

DMXASF's NAV fell 2.97% (after fees and expenses) in a month that saw equity markets globally decline. The ASX 200 Total Return Index fell 6.35% for the month.

Portfolio Commentary

Our portfolio declined mainly due to its exposure to a number of high-growth technology/software companies with that sector being particularly impacted. Many of our holdings were down ~10-20% including **CV Check**, **Schrole**, **Raiz**, **Knosys**, **Gentrack** and **Frontier Digital**. We believe these companies are highly prospective for the long-term and we're fairly indifferent to short-term price action. The multi-thematic nature of the portfolio helped mitigate these declines, with a number of holdings increasing, including **MMA Offshore** (up 10%), **PTB Group** (up 9%) and **Yellow Brick Road** (up 8%).

The DMX Capital Partners report includes updates on many of our commonly-owned positions, including **PTB Group**, **Pureprofile**, **Ansarada**, **Laserbond**, **Aeeris** and **Yellow Brick Road**. These are included in an Appendix to this report.

Thinking About Market Declines

With risk assets of all types and locations having a bit of a wobble in January, and this being the first such dip since launching the DMX Australian Shares Fund, it's a good opportunity to set out how we think about such market action, and what it means for your investments with us. In short, we view price volatility both from a broad macro/market perspective as well as on a micro/stock-specific basis should be treated as an opportunity for long-term oriented investors to capitalise on. It's important to differentiate between price declines reflecting deteriorating fundamentals, and price declines that reflect broad market sentiment or even the random walk of individual prices in the short-term. Armed with a strong investment thesis and reasonable valuation basis, we can act decisively and with conviction in managing through the periodic and inevitable market dislocations we experience.

In theory, having cash at hand is helpful in selectively taking advantage of individual share price declines in a broad sell-off. But in practice, no one rings the bell at the bottom, and deliberately holding cash in hope of perfect execution during periods of fear and uncertainty can be an expensive exercise in terms of opportunity cost during the other 90%+ of the time. What does help though is having a diverse portfolio and the opportunity to trim or potentially exit positions that aren't as attractive as those that have become more deeply discounted. Indeed, we did a little trimming during January which generated some cash for deployment elsewhere. And the fund continues to enjoy net monthly investor inflows, with >10% of new capital introduced in January, all of which was effectively put to work in topping up and initiating new positions through the market decline.

New Holdings: EML Payments & Nearmap

Two companies that we believe are neglected and out of favour for both company-specific reasons and broad market concerns are **EML Payments** & **Nearmap**. Each are Australian success stories growing aggressively on the international stage. Each has very strong long-term business & share price performance. But each is down 40-60% in part due to the market being down, and in part for idiosyncratic reasons. We share the market's concerns for each, but believe these concerns have been over-discounted in their share prices.

EML Payments

EML is a leading provider of payment solutions with its origins in providing prepaid shopping mall cards, and expanding into various niches including reloadable cards, payment solutions to replace US cheques, and into the emerging open/digital banking space. EML Payments can be thought of as providing the piping or back-end of its various financial services. Once EML sets up a programme with a client, it typically "clips the ticket" on transactions which provides a long stream of consistent revenues as the programme gets to scale.

Growth has historically been strong with a combination of acquired and organic growth. In FY21, EML cited 34% organic growth in its key reloadable card segment while prepaid gift cards were flat as malls have been impacted by COVID. With the world slowly reopening, EML is well-positioned to capitalise on increased in-store activity.

In addition to slower growth due to COVID, EML's shares have been hit by uncertainties around regulatory risk – in particular, an on-going (though hopefully soon-to-be-resolved) investigation by the Central Bank of Ireland. We believe the market's focus on short-term operating softness together with an over-focus on regulatory action has weighed on its share price, which has fallen from over $5 to $3. In our estimation, at these levels the market is failing to recognise the long-term growth potential at high incremental margins. Further, as a collector of cash ahead of paying funds out (through its prepaid/voucher-like services), the company holds considerable *float* which earns ~0% interest but may in the years ahead offer a powerful earnings tail-wind as interest rates potentially increase.

Nearmap

Nearmap provides aerial imagery to clients across Australasia and North America. Its offer includes aerial imagery maps, together with 3D and AI technology. Its services have wide application including across government departments, and the construction, telecommunications, transportation, insurance, roofing and solar industries. Scale is critical in this business, with image-taking planes being continually deployed to re-capture and update maps.

Having been a market darling for some time, Nearmap's shares have lost their lustre, falling from highs around $4 in 2019 to just $1.30 today. A combination of factors has driven this, including the failure to meet the market's very high expectations for growth and cashflow positivity – accentuated by the company's expanding cost base to drive longer-term growth. As with the regulatory uncertainty EML faces, Nearmap is presently being sued by a competitor in its important US market which has investors nervous. We don't have any special insight on the likely outcome from this legal action, but note that markets tend to overreact to these sorts of uncertainties in the short-term.

Today, expectations for the business have been moderated, and if current and historic revenue growth momentum is maintained, Nearmap should begin to generate strong free cashflow in the next couple years off a large, growing and high incremental margin business base. As current uncertainties resolve and the focus returns to its substantial opportunity, we believe there's a good chance the shares will re-rate.

In Summary

The portfolio is fully invested across a thematically diverse group of quality opportunities. Overwhelmingly: smaller companies that have significant long-range growth opportunity and are reasonably priced. The market's pullback is a welcomed opportunity to add to selected holdings as well as initiate new positions. As mentioned, fund inflows of >10% has been extra helpful in this respect. These funds have come from a combination of new investors, and existing investors adding to holdings. We welcome our new investors and thank investors for your trust and support.

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

Kind regards

Michael Haddad
Co-Portfolio Manager

Chris Steptoe
Co-Portfolio Manager

Appendix – DMX Capital Partners' Commentary

Updates from commonly-held top-10 holdings

- Plane engine maintenance business PTB Group (ASX**:PTB**) delivered a profit upgrade for HY22 on the back of strong trading conditions in the USA and Asia Pacific regions. PTB has guided for revenue growth of 44% ($55.6m) and profit (before tax) growth of 56% ($6.9m) - almost entirely organically driven. A number of initiatives implemented in the US to improve workshop efficiency and expand PTB's product offering have significantly increased the US profitability, while Asia Pacific has benefited from a recovery in tourism. While PTB's profit contribution from the US has improved, it still has some way to go to match the profit generated by PTB's Brisbane workshop (on a workshop relative size basis) highlighting the latent upside to the PTB business in the much larger US market. PTB noted that the strong trading conditions have continued into 2022, and we expect PTB to be at the start of what is hopefully a significant upgrade cycle.

- Another key portfolio position we expect to be upgrading as the year progresses is data and insights business Pure Profile (ASX:**PPL**). PPL reported organic revenue growth of 44% on the PCP (previous corresponding period) to $20.8m, driven in particular by strong (organic) revenue growth in markets outside of Australia (+51%). This reflects the benefits of the increased investment by the PPL management team in new offshore offices and headcount. Normalised EBITDA was 147% up on PCP to $2.5m while operating cash flow was up to $1.6m. With management now demonstrating a consistent track record of good financial discipline, we would expect an upgrade to PPL's FY22 EBITDA guidance which currently sits at $4m - $4.5m. Longer term, management has a large number of levers to continue to drive revenue growth globally, and expand margins.

- Deal and compliance software company Ansarada (ASX:**AND**) reported revenue of $13.2m representing growth of 55% over the PCP (and up 29% over last quarter). While no profit guidance was given, operating cashflows for the quarter were $4.4m, up 73% on the previous quarter and up ~300% on PCP. One of the most pleasing features of AND's result was its Average Revenue Per Account per month (ARPA) which was up an impressive 24% on last quarter. This was driven by a strategic price rise, higher consumption and blending of the recently acquired TriLine's higher ARPA. The higher ARPA significantly improves the unit economics and revenue profile of AND going forward. We have noted a number of portfolio positions have been able to successfully put through price increases over the last 6 months, resulting in margin improvement and increased revenue per customer.

Updates from commonly-held holdings outside of DMX Australian Shares Fund's top-10

- Laserbond (ASX:**LBL**) announced revenue for HY22 of $13.4 million, reflecting solid growth double digit revenue growth of 13.4% - a commendable effort for a business that has been impacted by lockdowns and border closures. LBL is positioned for strong organic growth in H2 driven by recent cladding equipment upgrades in NSW and VIC, the completion of three technology license deals that were announced in H1 and increasing sales of LBL's proprietary products.

- Aeeris Limited (ASX:**AER**) is a leading geospatial data business that tracks and monitors weather and other risks, reported a particularly encouraging second quarter. Cash receipts were up 30%, recurring revenue grew 30% over the 6 months, and cash flows were strong. AER highlighted a number of interesting use cases where its services have been recently employed, including:

  1. Flood alerts and hot weather temperature alerts supplied to councils, government, heavy industry and the insurance sector;
  2. Bushfire and weather alerts to residents of large residential estates southwest of Sydney - a requirement under new planning and development regulations; and
  3. Over 1,000 highly targeted, radar-based hail alerts - AER's hail alerting product detects the size of hail within thunderstorms in real-time, accurately communicating the threat to its insurance company customers.

  In addition to providing weather alerts (its current core focus) AER considers that with its unique historical proprietary geospatial data and analytics, it is well placed to quantify and report physical risk events. This is particularly significant as reporting entities are now required by regulation to disclose and quantify physical and chronic climate risk. Directors and officers face personal liability with failure to comply. While private weather forecasting and alerts is a multi-billion dollar industry in the US, in Australia, it is still very much in its infancy. A significant opportunity therefore exists for a new revenue stream for AER using its data and analytics to deliver reports on climate risks to corporations and governments required to comply with the new regulations.

As previously advised, we were pleased to cornerstone a capital raise by AER late last year with funds to be applied towards increased sales and development resources and to finalise the development of its Climate Risk platform. AER expects to launch its Climate Risk Platform product this current quarter. Whilst there is still much work to do, we are encouraged by the early signs of growth here, and the increasing momentum within the business.

With an enterprise value of less than $8m, AER remains very much under the radar notwithstanding its strong cash flows, and growing recurring revenue. Its products and services are increasingly in demand and it has a large number of ways it can commercialise its proprietary data and analytics. With innovative products to come online shortly to distribute to its high quality enterprise customer base of councils, government, heavy industry and the insurance sector, we believe AER provides a unique, ASX exposure to a changing climate and increasing extreme weather events. We added to our position in AER during the month.

- We have talked about Yellow Brick Road (ASX:**YBR**) in recent monthly updates, noting that the NPV of YBR's trailing commissions exceeds its enterprise value of $33m. YBR reported a notably strong cash result for 2Q22, generating operating cash flows for the three months of $2.5m. Strong home loan settlements ($5b+ for the quarter) have driven a significant increase in net receipts to YBR. While we shouldn't read too much into one quarterly cash flow result, and we certainly wouldn't propose annualising this three month result, it is clearly a strong outcome and indicative of the pleasing operating momentum the business has and favourable current conditions. Also encouraging were net margins were said by YBR to be increasing, and YBR's loan book continued to increase (to $55b).