DMX Australian Shares Fund
October 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 (30 September 2022)	**$0.9771**
Unit price (mid) based on NAV (31 October 2022)	**$1.0287**
Number of Stocks	48
% cash held - month end	4%
Fund size (gross assets)	$11m

1-month return	5.3%
3-month return#	2.0%
12-month return#	-14.3%
Since inception (1 March 2021, p.a.)#	4.5%
Since inception (cumulative)	7.7%

 # Returns assume reinvestment of distributions.

Dear Investor,

DMXASF's NAV increased 5.3% (after fees and expenses) for the month of October, bouncing back from its 6.0% decline in September, and broadly in-line with the ASX 200 Total Return Index which recovered 6.0% this month.

Portfolio Commentary

The month was busy in markets and for us, with AGMs, quarterly updates, and management meetings, including at conferences. As usual across a fundamentally diverse portfolio of 40+ companies, we had a wide range of outcomes over the month. Software/IT names like **Ansarada** and **Energy One** each fell 9% - the latter being impacted by a very small capital raise, in which we participated, recently completed. Other detractors included **DataDot** and **AF Legal** which each fell 15-17%, while our small remaining position in troubled **EML Payments** was again halved.

Strong contributions from key holdings offset declines and drove a positive overall result for the month. **ELMO Software** rose 107% on the back of a private equity takeover offer. Note that while we did add to our holding at lower levels, much of our holding was purchased closer to the takeover price than to the company's distressed recent lows. And we're not happy with this takeover development – discussed below. **Academies Australia** rose 32% as market participants continue to anticipate a flood of returning overseas students. **DDH**, **Smartpay** and **ReadyTech** each rose 13-16%, with the latter too being subject to an announced private equity takeover approach subsequent to month-end. Perhaps in the context of private equity picking over high growth quality software names, each of **AVA Group** and **Janison** recovered 31-35%.

The DMXCP report highlights some of the current economic challenges many of our businesses are presently facing, and sets out our thoughts on these. Additionally, it includes detailed commentary on two commonly-held companies – **Laserbond** and **AVA Group** – all of which is included as an Appendix to this report.

Disappointing Takeover Developments

It's human nature to feel good about receiving takeover offers at premium prices. The experienced dopamine surge overwhelms any sense of logic in terms of what the takeover means for that specific investment, as well as conceptually for a rationally-managed portfolio. We've recently received offers/expressions of interest for each of **PTB Group**, **Nearmap**, **ELMO Software**, and – in early November – **ReadyTech** and now **PropTech**. In the short term, these all result in a "better" NAV outcome than having not received the offers. But in the long-term, we're losing quality investment opportunities and companies that have the potential to become multi-baggers. (Why else would private equity want them?!)

From a broader portfolio perspective, the dynamic is threatening and challenging. Consider the construction of a diverse portfolio/basket of say 20 companies that have that long-term 'multi-bag' potential, but perhaps also a high degree of risk on an individual stock basis. If private equity comes along and picks over this portfolio, conducting in-depth due diligence (deeper than passive external investors can go), and removes five of the best from that portfolio – yes – in the short term, one receives a nice premium. But over time, it becomes increasingly difficult for the remaining future winners to make up for the duds. In a sense, a form of Winner's Curse: the best opportunities get taken away.

A further risk emerges from this: reinvestment. We're not as concerned about this problem as we do have a 40+ portfolio of opportunities, and a strong pipeline of prospective opportunities. But it shouldn't be minimised. For each PTB Group that leaves, we lose years of cumulative knowledge and experience of analysing the company, engaging with management, and assessing its potential. We then replace that holding with something that we inherently probably won't be as intimate or confident in, and hence our risk profile increases. Again, this dynamic isn't of major concern to us as we do have a broad portfolio and opportunity set. For someone running say a 10-stock portfolio, this would be very problematic.

As a final note on the subject, we'd probably call out boards and short-term oriented institutional investors who we feel could all probably have a bit more guts in these situations. Just because a takeover offer is "fair" from a theoretical valuation perspective, doesn't mean boards and institutional investors should simply sell. We have no issue with management here. We get it from *their* perspective. First, they often get to roll their investment over into the private entity. ELMO's CEO gets to hold on to his shares while if the offer is successful, we'll be forced to sell *ours*! Second, they will likely be compensated well in their new private environment. Third, they don't need to spend potentially 20%+ of their time on investor relations. And finally, they don't have to worry about their share price and ability to raise capital if needed to accelerate the growth and development of their business. But boards: they represent us as shareholders and we think they should hold firmer in these situations. And large institutional investors: they're too fixated on monthly reporting cycles, and relative performance, and value too highly the short-term win at the expense of long-term multi-bag potential.

In Summary

Despite any frustration or disappointment around potentially losing some of our holdings, we do have a broad and fundamentally diverse portfolio of highly prospective companies. We continue to diligently assess these, as well as new opportunities, both as part of our ongoing management process, as well as to selectively look to add to and establish positions if and as we are required to rotate capital from these takeover subjects.

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

Thanks for your trust and support.

Kind regards

Michael Haddad
Portfolio Manager

Chris Steptoe
Research Analyst

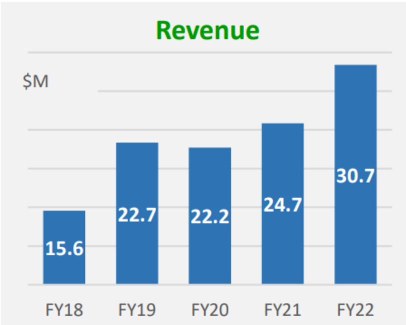
Appendix – DMXCP Economic & Common Holdings Commentary

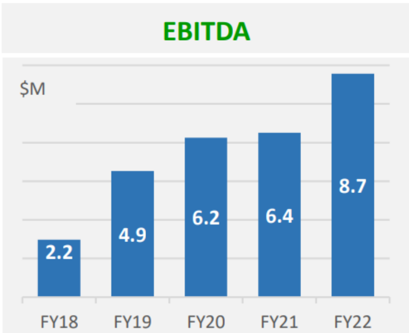
Responding to economic challenges

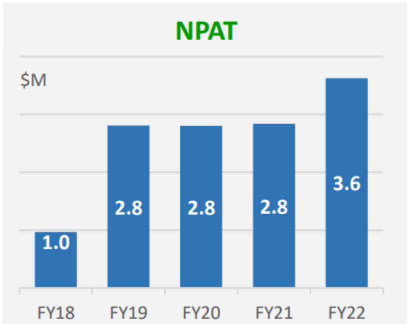
The economic conditions for businesses at the moment are challenging: unemployment remains at record lows continuing to restrict the ability for companies to recruit, inflation has increased to over 6% while interest rates are at nine year highs and are beginning to impact consumer demand. Globally, economic growth is slowing, and consumer sentiment weakening. With this backdrop, we continue to engage regularly with our portfolio companies to understand the specific challenges they are facing and how they are responding to those challenges. While we are long term focused holders, we are mindful of short term operating conditions and how they may result in opportunities and/or challenges. Pleasingly though, based on AGM updates and September quarterlies announced during the month, the majority of the portfolio is reporting well, and demonstrating strong top line growth and improving cash flows. We discuss below some key holdings that reported during the month.

Laserbond (ASX:LBL)

Engineering technology company LBL celebrates its 30th year this year – the founding Hooper family remain the largest holders with over 30% of the company. Reflecting the experiences of navigating various business cycles over many years, LBL is a nice example of a company that continues to adapt and prosper despite facing some meaningful headwinds.







As illustrated above, while LBL has performed relatively well in recent periods, growth was constrained in FY20 and FY21. This was initially due to COVID travel restrictions impacting sales and logistics, and, more recently, challenges in recruiting appropriately skilled workers to maintain productivity. With the Australian borders opening to offshore skilled workers, LBL had 15 skilled visa workers organised ready to start last quarter, while it has also significantly increased its apprentice and trainee programs to help upskill its workforce. With these additional resources, LBL has been able to reduce lead times and improve machine utilisation this year, delivering revenue growth of 36% to $9.5m in Q1.

At its AGM update, LBL acknowledged that it is seeing inflationary pressures significantly worsen, and it has responded by negotiating price increases across its product lines and with its technology and services customers. LBL has also negotiated fixed electricity pricing across its sites for a 2-year period. These initiatives provide LBL with confidence it can maintain its margins in this current environment.

The strong start to the year in revenues, and confidence in its margins, means LBL is well placed to meet/exceed expected FY23 broker revenue growth of >30% and expected EPS growth of >40%. In addition, LBL has affirmed its medium-term growth aspirations with a revenue target of $60m by FY25. Growth is set to come from each of its three revenue streams (its propriety products, licensing of its technology, and the provision of services through its network of Australian workshops). Driving this sustained growth is increasing demand for LBL's remanufacturing technology and IP, which extends the life of a piece of heavy-duty equipment by between two to 20 times of a standard part. The typical carbon footprint for a LBL remanufactured part is less than 1% of making a new part, so LBL offers strong ESG benefits for heavy emission industries.

AVA Group (ASX:AVA)

Security technology company, AVA is another business that had been impacted by Covid restricting travel and by supply chain delays and challenges, but has been able to navigate through these and is now positioned for a stronger FY23 and ongoing growth. A recent acquisition in the UK has been helpful in diversifying the business and, with supply chain issues resolving, AVA has now established a revenue base of ~$30m. At its AGM update during the month, AVA noted sales orders in the first quarter were up 28% and provided strong revenue guidance for the half, along with expectations of continued growth in the second half.

AVA has stated that based on current opportunities in front of it, it is targeting to grow revenue organically to $70m - $100m over the next three years while, like LBL, maintaining its gross margin. AVA expects this revenue growth (200% - 300%) can be achieved with much less incremental investment in operating expenses, highlighting the significant earnings operative leverage within the business.

AVA's growth is being driven by long term supportive tailwinds: global security concerns driving rapid adoption of high security technology, and increased government, military and corporate spending on protecting critical infrastructure and high value assets. These represent powerful ongoing drivers of demand, that should be expected to continue, irrespective of the prevailing economic conditions.