DMX Australian Shares Fund
May 2023 – 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 April 2023)	**$1.0119**
Unit price (mid) based on NAV (31 May 2023)	**$0.9707**
Number of Stocks	42
% cash held - month end	5%
Fund size (gross assets)	$10m

1-month return	-4.1%
3-month return#	-6.8%
12-month return#	-5.4%
Since inception (1 March 2021, p.a.) #	0.7%
Since inception (cumulative)	1.6%

 # Returns assume reinvestment of distributions.

Dear Investor,

DMXASF's NAV declined 4.1% for the month of May, broadly in line with the declining market. The ASX 200 Total Return Index declined 3.3%, but the ASX Emerging Companies Index was down 6.4%. Smaller companies in particular continue to face selling pressure, and with just a month until the end of the financial year, tax loss selling we believe is accentuating this.

Commentary

May's decline extends what's turned out to be a ~18-month period of consolidation both for the smaller companies sector generally, and our portfolios specifically. As discussed in previous reports, the magnitude of the contraction in value to our portfolios has been less than that of the broader smaller-companies sector. But this hasn't really mitigated the pain, with a number of our holdings not working out as anticipated due to adverse developments outside of our control, together with a few own goals.

While maintaining a diverse portfolio exposure helps reduce the impact of any individual material movement, the 35% decline to **Cryosite** (mostly on the last day of the month) on a trivial number of shares traded is single-handedly responsible for almost half our decline.

Other meaningful detractors included **Earlypay** which declined 24% to hand back its prior partial recovery. With limited liquidity at present for smaller companies, **Energy One** declined 19% on no news and small volumes. **Frontier Digital Ventures** again cost us with its shares falling 26% over the month. We've heard the term "hate selling" to describe the shares recently, with investors very much anchored on the recent capital raise conducted at a distressed valuation. As previously noted, while the optics of the raise weren't good, the dilution was reasonable considering the capital raised and strengthening of its balance sheet. This is now likely being accentuated by tax loss selling as we head into June. We've added modestly to our Frontier holding to maintain its relevance in the portfolio in the face of its decline in recent times. Finally of note, NZX-listed **General Capital** declined 21%, handing back some of its prior gains. Having trimmed at higher prices, we've been well-positioned to opportunistically add to our holding at these marked-down levels. General Capital is discussed further, below.

Offsetting some of these significant declines have been continued strength in **Smartpay** which rose another 10% and has become our stand-out largest position (at an approximate 7% weighting). Despite its re-rate over the past year or so, SmartPay's pricing remains reasonable in our estimation considering its historic execution, current business momentum, and its anticipated growth potential for the years ahead.

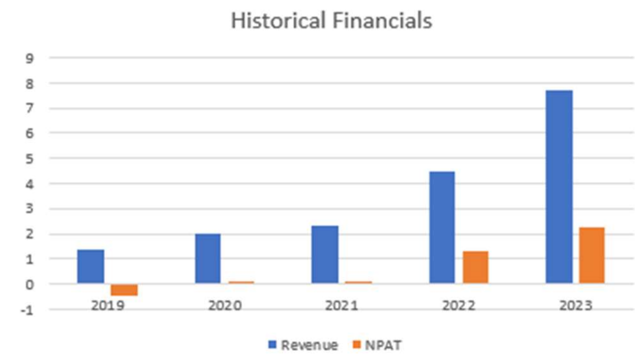
The DMX Capital Partners report contains updates on EDU Holdings and Pureprofile, each of which is commonly owned by DMXASF. As usual, this content is presented in an Appendix to this report.

General Capital: A Growing force in the NZ Non-Bank Finance Sector

General Capital is a non-bank deposit taker and lender that specialises in situational or bridging loans, with its loans having an average duration of around eight months. These loans cater to individuals, such as retirees, who want to downsize without rushing into selling their homes. The company charges higher interest rates, including approximately 2% establishment fees, reflecting a slightly higher risk profile as well as the borrowers' inability to access cheaper funding from traditional banks. Additionally, General Capital has a small advisory business that assists companies in listing on the New Zealand Stock Exchange (NZX).

Much of General Capital's loan book is effectively funded by retail deposits, alongside its own significant equity position, and the company enjoys a solid BB Credit Rating. The company's strong capital position, positive investment grade rating, and broad depositor base gives it an advantage over competitors that often have less reliable funding sources.

Loans for General Capital are primarily sourced through mortgage brokers who have been unsuccessful in securing loans from traditional banks who themselves are focused on lending to an increasingly narrow customer group (salaried individuals). Loans are individually approved on a case-by-case basis, with the CEO signing off all deals. The company's assets have grown significantly from $16 million to $136 million since 2018, demonstrating its ability to attract investors and source loans through its broker network.



General Capital must disclose its capital position to its regulator quarterly. These disclosures highlight a conservative capital ratio of 21.8% and a loan profile showing that the bulk of loans are first ranking and have LVR's of < 70%. Additionally, their deposit and lending cashflow profiles are well matched to ensure adequate liquidity.

In terms of financials, General Capital reported net revenues of $7.7m (up 71%) and net profit after tax of $2.3 million (up 68%) for financial year (31st March) 2023 (up 68%).

Inside ownership is high with Chair Rewi Bugo holding 35% and MD Brent King holding 5%. More recently, Auckland-based private equity firm Ascentro has joined the register with a 24% stake following a significant private placement, and has installed two new directors. The non-bank finance industry in NZ is highly fragmented, and the introduction of a hands-on private equity operator of Ascentro's calibre, we believe, positions General Capital well as a vehicle to drive some consolidation in the sector. The cash injection from its significant capital raising provides valuable equity that will help support the company's next big leg of growth.

We find the situational or bridging loans financing space attractive with high security and favourable economics, and believe General Capital as well placed to continue to grow and achieve operating leverage in the periods ahead. We initially invested in General Capital in late 2022, and have taken advantage of a little liquidity and an attractive price point to add to our holding recently. Where we have been recently buying, the shares have been trading at just a 10% premium to tangible equity value, and just 10 times last year earnings (perhaps 8-9 times forward earnings), despite holding surplus equity capital of 20%+ of its market capitalisation. As the company puts its freshly raised equity to work, together with reinvesting profits, we expect earnings can grow 50%+ over the next 2-3 years.

<u>Summary</u>

The declines to our NAV that we've experienced over the past 12-18 months are never pleasant to report. And while we've clearly absorbed some material declines across various individual portfolio holdings, the portfolio is virtually fully exposed to a diverse range of what we believe are quality businesses with good long-term prospects and trading at very attractive levels.

We're very happy with our portfolio positioning and are enthused about the future as we continue to methodologically and diligently execute on our time-tested investment process.

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.

Michael Haddad
Portfolio Manager

Chris Steptoe
Research Analyst

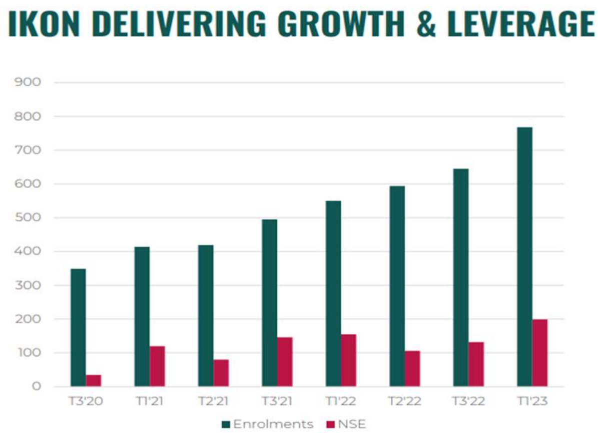
Appendix – DMXCP Commentary

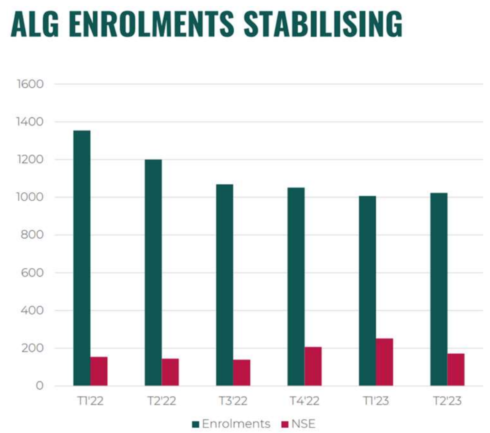
EDU Australia (ASX:**EDU)** – AGM presentation and Quarterly Update

EDU held its AGM during May. During the month we also undertook a site visit of its Sydney campus and have spent time with management. EDU has two businesses: 1) ALG a vocational educational business offering courses in the likes of childcare, aged care and physiotherapy to international students, which, prior to COVID, had been consistently growing at 25%+. And 2) IKON a domestic focused higher education business offering fully accredited bachelor's degrees and post graduate qualifications primarily to domestic students (now EDU's largest business).

After pleasing progress prior to COVID, ALG student numbers have halved over the last three years given the limited new international students enrolling to replace graduating students. ALG's revenue in FY22 also halved to ~$10m in FY22 from ~$20m in FY20 and became loss-making. However, in the semester just commenced (second term), for the first time in three years, net ALG student numbers have increased, and ALG is again growing its revenues.

In contrast, EDU's IKON domestic focussed business has performed, and continues to perform, very strongly, with increasing margins and revenue growth trending at +40% generating cash EBIT margins of 10%. New courses developed by EDU are generating this growth – as an example IKON developed and commenced offering a Bachelor's degree in Early Childhood Education two years ago with an initial intake of 6 students. This has grown now to 250+ students, paying $65,000+ for a three-year course – an attractive price point relative to a $100,000+ degree from a university, and generating strong multi-year cash flows for EDU.





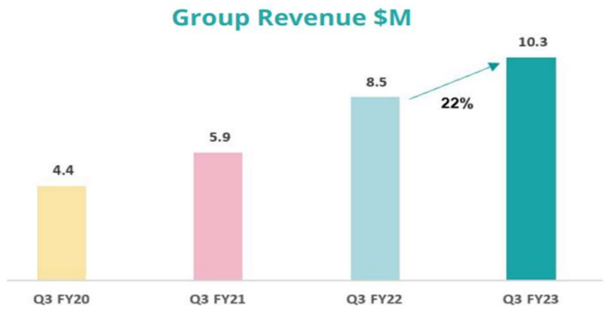
At a group level, the cash flows, profit and revenue growth of IKON have been offset by the challenges faced by ALG, although, as noted, ALG has now stabilised. Attending the AGM, the tone was upbeat:

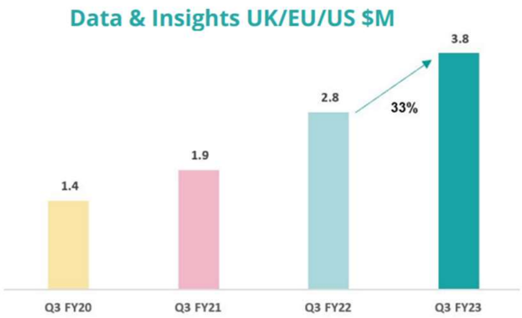
- The group delivered a cashflow positive March quarter;
- After three years of declining student numbers, ALG is now growing its enrolment numbers again, with significant upside and operating leverage as classroom utilisation is still <50%;
- Student numbers and the profit of IKON continue to grow very rapidly *(+46% revenue growth in 1Q23*); and
- Average study time for a student across EDU courses is now over 2 years, with a number of new courses, including Masters' degrees, in development to further extend the average student duration.

With the worst of trading conditions now behind it, EDU is positioned to deliver operating leverage, strong revenue growth and to continue to build out an attractive, high margin education business with numerous avenues to grow. Unlike English language focussed businesses (such as ASX:**NXD**) which offer commoditised, lower margin, short duration (less than 26 weeks) English courses, EDU provides a unique ASX exposure to high quality, highly regulated, higher education business with multi-year courses (providing a significantly larger lifetime value student spend) focussed on courses where there is a high demand for jobs. Assuming EDU completes its proposed nursing acquisition, it will qualify students towards four of the top ten occupations identified by the government as having critical skills shortages: early childhood teachers, childcare workers, aged and disability carers and registered nurses. The current immigration settings and demand for the jobs that EDU's qualifications support, provide strong tailwinds for EDU from here, and a return to growing profits, and the 20-25% organic revenue growth the business was delivering pre COVID.

Pure Profile (ASX:**PPL**) – Third quarter results

PPL announced its third-quarter results in early May. PPL's core business experienced 22% revenue growth, thanks to the investment in the sales team made over the last year. Pleasingly, PPL's UK operations continue to grow very strongly (+33%) in a tough macro environment, validating Management's investment in recent years in building out this geography. Revenue here has grown organically 150%+ over the last three years, providing some confidence in PPL's global growth strategy as it looks to capitalise on opportunities in America and Southeast Asia





PPL's media business, Pure Amplify, has faced challenges in the current economic climate. Following the closure of its UK office last year, the Australian business will also be gradually shut down in the coming months. Although it was a difficult decision, it appears to be a sensible one as it is a non-core division that was incurring losses. Now that the significant investment in the sales team is behind them and the unprofitable businesses closed, PPL is optimistic about achieving higher margins and profitability in FY24.

Towards the end of the month, Linda Jenkinson joined the board as Chair. Linda is known to us for her role as Chair at Medadvisor (ASX:**MDR**), where she has overseen a number of positive operational and governance improvements since her appointment. Importantly, under her leadership, MDR is now growing and approaching profitability. As Linda divides her time between the US and Australasia, she hopes to contribute to PPL's ambitions in the American market. PPL's board has been overdue some renewal and we believe this change of chair to be positive, and we look forward to PPL continuing its global growth under Linda's stewardship.