DMX Australian Shares Fund

February 2024 – 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 January 2024)	**$1.0405**
Unit price (mid) based on NAV (29 February 2024)	**$1.0607**
Number of Stocks	41
% cash held - month end	2%
Fund size (gross assets)	$11m

1-month return	1.9%
3-month return#	6.1%
12-month return#	8.8%
3-year return, p.a.#	5.9%
Since inception (1 March 2021, p.a.) #	5.9%
Since inception (cumulative) #	18.6%

 # Returns assume reinvestment of distributions.

Dear Investor,

DMXASF's NAV increased 1.9% for the month of February, adding to its recent recovery and slightly ahead of the broader market with the ASX 200 Total Return Index up 0.8%, but failing to keep pace with the ASX Emerging Companies Index which reversed its January losses, up 5.0% for the month.

Commentary

It's been a very mixed half-year reporting season for us with a number of disappointments. Our positive outcome for the month attributable really to the continued strength in now-outsized **Findi** (up 37% on a large position), together with a takeover off for **Ansarada** (up 36%). Despite the mixed bag of portfolio company developments and share price action, as we drill down into some of the action at the individual company level, we do remain very enthused about the prospects for the portfolio from these – in many cases – severely marked-down prices.

Thematically, our education companies suffered for various reasons. **Kip McGrath** (down 38%) is suffering with higher costs and a spread-too-thin operating platform. The DMXCP report includes a few choice words on this one. We're hopeful of some freshening up and re-focus on what should be a strongly profitable core business will yield a positive outcome in the periods ahead. The international student sector, which includes our holdings **Academies Australasia** and **EDU**, is under pressure with a high level of student Visa rejections impacting the post-COVID return of students and improvement to occupancy. Academies Australasia was down 19%, with its results being impacted by high Visa rejections together with ongoing council issues at their new Sydney campus. EDU's results were encouraging, helped by their domestic-student focused Ikon business, but its shares still fell 17%, perhaps reflecting negative sentiment toward the sector.

Finally of note in terms of adverse developments was the 40% decline to **SOCO Corporation**'s share price as that company suffers for an over-investment in staffing to support growth that hasn't eventuated. The company has a long track record of strong performance, has very strong insider ownership among key executives. Its CEO has recently resigned, with one of the founders stepping back into this role on an interim basis. We're comfortable with the risk/reward set-up from these levels as the business remains well-positioned to capitalise on increasing IT spend over the longer-term, once we get through the current lull.

While we took a few knocks this month, there are some clear bright spots. While the retail sector remains challenging for many, **Joyce Corporation** reported positively thanks to the continued strong performance of its principal asset, a 51% stake in KWB Kitchens. KWB fuelled continued sales growth for the group, as well as a bump to gross margins. Expenses across the group are well-controlled, resulting in a healthy bump to group-wide EBIT and NPAT margins. Its dividend was increased 37% as a consequence, and the outlook is for the positive trajectory to continue, notwithstanding the uncertain consumer environment. Joyce Corp (and KWB in particular) highlight the importance of focusing on quality businesses with a demonstrable track record of success through the macroeconomic and consumer cycles, and the benefits of not worrying too much about those cycles when you're invested in such good businesses.

Also of note as a bright spot that has assisted us in recent times, **Findi** continued its recent rally, up another 37%. We've held our position through this re-rate, bringing the weighting to an outsized 11% of the portfolio at 29th February. We've now commenced trimming, bringing it back to 10% of the portfolio at present. Depending on our opportunity set, we may pull it back more aggressively (our next largest positions are 5% of the portfolio – to give a sense for the sizing approach). As mentioned last month, investors should be mindful for now of this outsized position size.

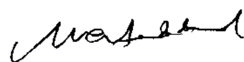
Fiducian Group rose 11% on the back of strong results, while **RPMGlobal** jumped 24% as investors are increasingly focusing on the strong operating leverage the company is enjoying and what this will likely mean for profitability in the years ahead. **EML Payments** ticked up another 11%. Finally of note, **Ansarada** rose 36% on the back of a takeover offer. We're comfortable enough with the pricing. We're also pleased to receive cash as we do have other compelling opportunities. But conceptually, we reiterate previous comments that it's a shame these companies and substantial shareholders are seemingly so willing to deal. The short-term sugar hit is too compelling, and we often overlook the potential for these interesting (software in particular) companies to scale on a global stage.

The DMX Capital Partners report includes an interesting thought-piece on Unlisted Positions and the concept of very small ASX-listed companies delisting. **Tambla** is highlighted as one of our largest holdings that was previously listed but has made solid progress in a less public and more nimble unlisted environment. This commentary is included in an Appendix to this report.

Summary

A positive month in terms of fund performance, and despite some negative developments with a few holdings, many holdings reported positively and are well-placed for the period ahead. Everything comes back to pricing, and for the most part, positive share price movements have been justified, prospects remain very favourable, and positions maintained. Negative price action has for the most part been justified too, but magnitudes of some the declines we believe represent an overreaction, with pricing down to levels that imply highly favourable risk/reward set-ups from here. For the portfolio as a whole, we remain enthused about the potential for strong returns over the medium to long-term. Our enthusiasm can be evidenced, too, in our cash weighting which is persistently near zero. We're constantly looking for liquidity to pursue attractive new opportunities and to add to existing holdings. We look forward to participating in the journey for many of our great companies for years to come.

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 on Unlisted Position – Tambla – and the small end of the ASX

During the month, Tambla (an unlisted position) in which DMXAM is a substantial holder, reported its full year results for 2023 with revenue of $28m (+20%) and underlying EBITDA of ~$5m (+65%). 2024 is expected to see continued double digit revenue and profit growth, underpinned by a significant backlog in new business wins to deliver.

We note that last year Tambla was featured in the AFR in which the sale of the business was discussed: Allier Capital in to shop HR software biz Tambla (afr.com) *"Street Talk can reveal the human resources software company has called in boutique corporate advisor Allier Capital to run a sale process that's slated to fetch the vendor a deal between $50 million and $100 million."*

The sale process continues, and we would be hopeful of a conclusion by the end of the financial year. When Tambla delisted in 2020, the strategy was to take out the public listing costs and grow the business with a three year exit plan. While the three years has now become four years, the execution here under the leadership of Chris Fydler has been very strong, with significant value added since it delisted with a market-cap of around $5m. While we have previously re-valued our position on the back of Tambla's strong execution, achieving a result at the lower end of that noted in the AFR ($50m) should result in a nice uplift to our current carrying value of our Tambla holding. While it is not a position that we have been actively involved in, all stakeholders were aligned to secure a value-adding exit. We have had very good access to management and the board and high-quality financial information and updates through this process.

We continue to see and own a number of companies that have similar set-ups to Tambla – good businesses but with an illiquid, tightly held register and very much off the mainstream investment radar, a low share price valuation that restricts them from using their shares as currency, and Management teams that have grown frustrated at being listed and the lack of interest in their company, notwithstanding much improved fundamental progress. We highlighted PPL and KNO above as two such companies delivering their maiden NPAT profits, and the market yawned. Importantly, small, listed companies bear a much higher proportion of listing and ASX costs relative to their cost base, so removing ~$1m of these costs can make a material difference to their profitability, and thus to their value.

During the month we saw Bike Exchange (ASX:**BEX**) (not owned), a company which is now on the cusp of profit after much restructuring, announce its de-listing with one of the key reasons given as "*The Board is of the view that the low trading volumes have had an adverse impact on the share price. The Board is confident that the Company's valuation has a greater prospect of growing towards the Board's assessment of fair value as an unlisted company*."

If this lack of interest and liquidity in very small companies continues, we would expect to see more such delistings and for more interesting growing companies like Tambla and BEX to be lost to the ASX, as they transform from being listed to unlisted public companies. There will be a transfer of wealth to those holders who are happy to remain in an unlisted vehicle and who will likely benefit from the value uplift from a lower cost structure, a more focused management and greater opportunity for corporate activity outside of the confines of an ASX listing.

As patient, long term focussed holders, the lack of liquidity is generally not a concern for us and we are not averse to holding unlisted positions, providing 1) they are profitable, 2) they won't need capital & 3) there is a clear exit strategy. However, we are conscious of the overall liquidity of the portfolio, and are careful not to have excessive exposure to unlisted positions.

We have had a good experience with Tambla as noted above, where Management and the Board were aligned and committed to working towards a value-realising exit strategy/liquidity event. As noted, when Tambla delisted it had a market cap of ~$5m - it is now generating $5m EBITDA and is being put up for sale with expectations north of $50m.

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