DMX Australian Shares Fund
March 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 (29 February 2024)	**$1.0607**
Unit price (mid) based on NAV (31 March 2024)	**$1.0793**
Number of Stocks	43
% cash held - month end	4%
Fund size (gross assets)	$11m

1-month return	1.8%
3-month return#	6.5%
12-month return#	14.8%
3-year return, p.a.#	6.4%
Since inception (1 March 2021, p.a.) #	6.3%
Since inception (cumulative) #	20.7%

 # Returns assume reinvestment of distributions.

Dear Investor,

DMXASF's NAV increased 1.8% for the month of March, lagging the ASX 200 Total Return Index which rose 3.3%, as well as the ASX Emerging Companies Index which extended its recent bounce, up 5.8% for the month.

Commentary

As has been the case for the past few months now, our positive returns have been attributable to the continued strength in presently-outsized **Findi** (which rose another 29% this month for a ~3% NAV contribution). Outside of Findi, the bag is very much mixed with many companies de-rating despite the resurging Micro-cap sector. In some instances, this is justified, while in others, we believe the prevailing market prices are increasingly attractive and are likely to help underwrite meaningful returns into the future.

Notable detractors included **Academies Australia** which declined another 9% in March as the international student industry continues to be challenging. **Careteq** dropped 22% on the back an ATO challenge to its R&D tax credits claimed. Resolving this will be time-consuming & costly, and is a distraction we'd rather avoid. Of less concern but certainly of interest is **Count Ltd** which has languished (down 13%) as the market absorbs an overhang of stock from previous Diverger investors seeking to monetise. We're comfortable with our current holding in Count, but believe this technical weakness would otherwise be a good entry opportunity for this interesting business. Finally, **Shriro**, too, has come under pressure, down 10% as the market has moved on from the excitement of its recent substantial capital return.

Offsetting some of the decliners, new (but small) holding in **Embark Education** rose 13% following the sensible and nicely sized acquisition of nine centres. **EML Payments** (also now a small position) rose 24% as it continues to clean up its balance sheet, divesting its loss-makers and potentially preparing for a sale of the overall business. **Fiducian Group** continued its re-rate, up 11% which we believe is justified for this quality operator with a long track record of value creation, and on still-attractive valuation metrics. Finally of note, **Frontier Digital** rose 28% on the back of positive results including strong operating momentum, clear language around dealing with underperforming assets, and the subsiding of prior concerns around its balance sheet.

The DMX Capital Partners report includes an update on Findi which has been a key driver of recent returns, as well as updates on commonly-owned **EDU**, **Careteq**, and **AF Legal**. We encourage you to read the DMXCP report alongside this report for this commentary. Across both funds, we're trimming Findi into price strength as the stock scales new heights, but despite having sold over 30% of DMXASF's shares now the position remains large for us at more than 10%. As previously indicated, at some point we'll pull this back further, but for now, and again – as previously noted – please be mindful of the larger exposure to this single name.

Portfolio Positioning & Risk Management

Outside of Findi, our top holdings are all in the 4-5% range and include **Smartpay**, **Fiducian**, **Tambla** (unlisted), **RPMGlobal**, and **Sequoia**. All of these (except for Sequoia) have become large holdings on the back of strong performance. We do like to hold our winners, allowing them to grow to fuller positions, provided we expect continued strong business performance over time, and that prevailing valuations remain attractive relative to prospects. If these good businesses continue to deliver over time, and pricing remains attractive, we hope to generate an increasing return from positions that are naturally becoming more important to the portfolio as they grow. But as we're experiencing now with Findi, there does need to be prudent portfolio limits.

The portfolio has benefited in recent times from the strong performance and recoveries for a number of key holdings (including Findi, Fiducian, RPMGlobal and Frontier Digital). It's also benefitted from takeover activity such as **Cirrus Networks** and more recently, **Ansarada**. Takeover proceeds in particular have been helpful to us as we seek to rotate into more prospective opportunities. So while a portion of the portfolio has re-rated, and another portion has rotated out through corporate activity, we've been able to re-deploy funds into attractive replacement and top-up opportunities, effectively keeping the portfolio loaded with – we believe – strong upside potential for the years ahead.

As is clear from a number of positions that have gone very much against us, a focus on risk management is important. This takes the form of being as diligent as we can in our research process to reduce the risk of investing in duds; together with taking prompt corrective action when we identify those duds among our holdings. We also need to ensure we're being honest with ourselves and not succumbing to the many natural human biases that muddy this process – or worse – lead to us buying more of any misidentified duds. In operating a 40+ stock portfolio we'd hope to have some good success with many holdings, while accepting we'll also having positions that don't work out. Containing and minimising losses, avoiding compounding mistakes by throwing good money after bad, and seeking to improve our win/loss hit rate are all as important to generating satisfactory long-term returns as how we manage and capture the upside from successful investments.

<u>Summary</u>

Another positive month albeit driven effectively by just one position. Beyond this, we're very happy with the composition of the portfolio, including many good businesses that are yet to re-rate in what's feeling like a market environment that is starting to take interest in the smaller end of the market. Where cash is being generated either from takeover activity, or trimming positions, we're seeking as always to put those funds to work among the most attractive of our opportunity set.

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	Chris Steptoe
Portfolio Manager	*Research Analyst*