DMX Australian Shares Fund
September 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 August 2024)	**$1.127**
Unit price (mid) based on NAV (30 September 2024)	**$1.1435**
Number of Stocks	44
% cash held - month end	3%
Fund size (gross assets)	$13m

1-month return	1.5%
3-month return#	2.5%
12-month return#	15.9%
3-year return, p.a.#	3.4%
Since inception (1 March 2021, p.a.) #	7.8%
Since inception (cumulative) #	30.9%

 # Returns assume reinvestment of distributions.

Dear Investor,

DMXASF's NAV rose 1.5% in September, lagging the ASX 200 Total Return Index which rose 3.0%, and a very strong smaller companies sector, with the ASX Emerging Companies Index up 6.6% for the month.

Commentary

Many of our companies performed well this month, in a broadly strong market, though some of this progress was masked by declines to a handful of others for generally stock-specific reasons. Most notably was the continued decline to what was one of our larger holdings, **Smartpay**, which fell 19% on regulatory concerns. Smartpay, together with our education holdings which are also affected by government regulation, are discussed further, below. More positively, the portfolio benefited from **Findi**'s continued strength, with the shares up 9% for the month. On a nearly-10% position, modest movements can be impactful in either direction. **RPMGlobal** rose another 13% as it continues to gain broader investor interest. Each of Findi and RPMGlobal may have benefited from index inclusion this month, with Findi joining the ASX All Technology Index, and RPMGlobal the ASX 300 Index. RMA Global recovered 24% on the back of a strategic partnership with a major US real estate brokerage, while Raiz climbed 15% in the wake of the announcement of a strategic relationship and placement.

As noted in the DMXCP report, we met with a number of our existing and prospective holdings in September. The DMXCP report also includes detailed updates on our two unlisted companies: **Tambla** and **Yellow Brick Road**. We encourage you to read the DMXCP report for this additional relevant content. As noted in the report, Tambla is in the process of finalising the sale of its business units, and is commencing the capital return process. Most of the DMX Group's holdings in Tambla were acquired via a 2020 convertible note issue at 25c. DMXASF's holding though was acquired via an off-market offer to Tambla shareholders in 2022 at 60cps. Our current carrying value is $1.17, and we expect to ultimately receive somewhere in the $1.40-$1.50 as the investment is monetised over the coming 6-9 months. If all goes to expectations, DMXASF would generate a further ~20-30% return on this investment, around 130-150% on its original cost, and longer-term investors via DMXCP will have accrued a total return of more than 300% on its 32cps effective average price.

In terms of portfolio activity, in addition to our expectation of receiving Tambla proceeds shortly, we've now received the proceeds from the takeover of **Schrole**. We opportunistically added to our **Austco Healthcare** holding in September, participating in the sell-down of a now-retired founder. And we reintroduced enterprise software company, **ReadyTech**, to the portfolio following its solid full-year result and a positive meeting with management which has reinforced our medium to long-term view of the business.

Smartpay & Regulatory Risk

As noted above, Smartpay fell 19% over the month. Its shares are now down over 40% from their 2023 highs, partly on a slowing economy, but mostly around fears of regulatory change. The RBA, as well as politicians, have progressively increased their focus (and rhetoric) on card payment fees through the course of 2024, and investors are discounting the real potential for adverse change that may disrupt Smartpay's core growth engine. Smartpay's core value proposition to retailers is the provision of a free terminal, and all costs being passed on to consumers via transaction fees. If these fees are unable to be passed on, Smartpay (and others) will need to revert to charging the retailer, which takes away a large part of its appeal. We believe the shares are worth less, as a result of this clear risk, and the de-rate is probably appropriate while this cloud of heightened uncertainty sits above the business. But we also believe the risk has been over-discounted in the shares, with the market potentially having overreacted. Our assessment is that the market is focusing on the absolute worst-case scenario, and is overlooking the inherent value within its installed base in NZ and the potential to convert much of this to an acquiring model in the years ahead. In reality, we expect while there may be some regulatory impact, the impact will most likely be some massaging of the model in Australia. This may result in perhaps a lower growth rate and not-quite-as-attractive economics, but still a valuable cashflow stream and business.

Smartpay isn't our only holding to be operating under a cloud of regulatory uncertainty. The education sector is also suffering for government policy restricting the number of international students allowed into Australia. This is impacting **EDU Holdings** as well as **Academies Australia**. Not yet a problem, but at the periphery in terms of potential concerns, the childcare sector (and our holding in **Embark Education**) is exposed to the risk of government caps on childcare fees. As investors, we like to think we're fairly rational, thinking logically about the impact regulation would have on industry and companies. With childcare, for example, any regulation that affects the economics of childcare operators may consequentially affect service provision in terms of education quality, safety, etc. Rationally, we would think government wouldn't implement changes that result in adverse outcomes to young children. But in reality, when decisions are made by people or groups who perhaps aren't considering the full ramifications, or perhaps where there is political motivation, decision-makers can become overly focused on one objective at the expense of any collateral damage.

To manage this regulatory risk, we always seek to take a balanced approach in assessing regulatory risk. We may instinctively discount a risk using our rational minds. It's important to always be mindful that we may simply be wrong, or we may be correct but irrational policies may be adopted and affect us in ways we simply can't imagine or don't anticipate. With this, we're always extra cautious around adding to positions facing this uncertainty, and ensure we don't become overly biased one way or the other.

Summary

Following the reporting season and subsequent management meetings, we continue to be very happy with the portfolio's overall composition with a broad range of smaller growing businesses that are attractively priced. Casting the net relatively wide, and across a range of types of opportunities, helps manage overall portfolio risk while giving us the best chance of capturing meaningful upside from those companies that go on to perform very well.

We're enthused about the value we see today across much of the portfolio, with our views being reinforced by the generally quite positive developments and outlooks across our companies.

Thanks very much for your trust and support.

Steven, Michael, Chris & Roger
DMX Asset Management