DMX Australian Shares Fund
October 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 (30 September 2024)	**$1.1435**
Unit price (mid) based on NAV (31 October 2024)	**$1.1595**
Number of Stocks	45
% cash held - month end	3%
Fund size (gross assets)	$13m

1-month return	1.4%
3-month return#	3.0%
12-month return#	23.0%
3-year return, p.a.#	1.9%
Since inception (1 March 2021, p.a.) #	8.0%
Since inception (cumulative) #	32.7%

 # Returns assume reinvestment of distributions.

Dear Investor,

DMXASF's NAV rose 1.4% in October, ahead of the ASX 200 Total Return Index which fell 1.3% as well as the ASX Emerging Companies Index, which was flat at 0.0% for the month.

Commentary

While at face value the portfolio ticking up in a down to flat broader market looks OK, it was a challenging month for us with two formerly larger holdings – **Medadvisor** and **Smartpay** – having negative fundamental developments and being marked-down 45% and 34% respectively. Each had previously had periods of strong price performance, and had been allowed to grow to be larger positions, which had the effect of magnifying these de-ratings. A number of other holdings performed well, and these more than offset decliners. Of note, **Advanced Braking**, and **Energy One** rose 11% and 10% respectively. Financial services businesses, **Count** and **Fiducian** rose 8% and 7%, while retail/consumer facing holdings **Joyce Corporation**, **Shriro** and **Michael Hill** rose 9%, 8% and 20%. Michael Hill on the back of positive signs with its turnaround programme, and Shriro (discussed below) on the back of its announced major capital return event. As has been the case through calendar 2024, our still-outsized position in **Findi** continued to contribute handsomely, up 32% for the month. We further trimmed this position near month-end, and into November, with our current weight now a much moderated 8% of the portfolio, the lowest it's been since the stock took off earlier in the year.

Last month we discussed the regulatory risk profile around the payments sector and our holding in Smartpay. We'd felt the market's prior declines were probably an over-reaction, and likely reflecting the very worst-case scenarios. We've been caught wrong-footed on this one, with the government announcing a proposed ban on surcharging which would negatively impact Smartpay in particular with its model of providing free terminals to merchants and costs effectively rolled into surcharges to consumers. Our position has fallen significantly across our portfolios, so the impact of the 34% further decline this month is somewhat muted, but nevertheless, it's a painful development. We continue to believe the shares are likely over-discounting the risk here, with the company having levers to massage its business model and offer. It does own a valuable fleet of terminals in each of Australia and New Zealand, and we continue to see value in the opportunity to develop an acquiring business on top of its current NZ terminal rentals business. We also see considerable value to third parties for each of the two businesses, with considerable cost-out potential to an acquirer of the business. At its low current market value, the potential for corporate activity with this business is real, though we wouldn't expect it to be on anyone's radar until some of the uncertainty around surcharging has abated. Our expectation is it may take a year or so to have a clearer sense for the landscape, but once a full process has been worked through, the goal posts re-set, and the various operators pivoting and repositioning their offers accordingly, we'd expect the story for Smartpay to be much cleaner.

The DMX Capital Partners (DMXCP) monthly report includes a detailed update on our other key detractor, Medadvisor, along with more positive commentary on a number of key holdings owned across both portfolios: **Pureprofile**, **Raiz**, **Advanced Braking**, **Evolve**, **Pharmx** and **Austco**. We encourage you to review the DMXCP report for this additional content.

Shriro Update

Shriro Holdings is a consumer products marketing and distribution group that operates in Australasia and exports globally. Key distribution partnerships are with Casio and Pioneer. On the product side, their BBQs are its growth engine for export markets.

Shriro has always been a strongly cash-generative company that pays a high dividend. However, last year it sold its underperforming Australian appliance division and built up a cash reserve well in excess of its needs. While the company returned 18c per share in a capital return last year, some capital was retained to fund an accretive acquisition. Its stong cash generation has seen this cash balance increase, and efforts to identify suitable acquisitions at appropriate prices have proved unfruitful. Accordingly, Shriro have announced the cessation of M&A efforts in favour of organic growth, and with this, an intended equal-access share buyback to repurchase up to 19% of its shares outstanding at a 12% premium to its then market price. We view this as a modest premium, struck high enough to win support from key larger shareholders while low enough to be value accretive to those who don't participate.

We've owned Shriro since 2021. While its performance has been mixed during this time due to economic conditions and the exiting of some distribution lines, they have remained strongly profitable and cash-generative. Despite the lack of inorganic growth, we still see potential form organic growth initiatives as the company expands its BBQ business and looks to initiate new distribution partnerships.

The board and management have been disciplined in their capital allocation approach and are focused on delivering strong shareholder returns. While we would prefer a clearer growth profile, we're very pleased with the decision to return excess capital to shareholders, and in a way that we believe will enhance per-share value.

Summary

While mark-downs on a couple key holdings were a drag, the continued strong performance of Findi, together with positive contributions for a number of other companies were pleasing. We've more aggressively pulled Findi back now, freeing up more capital for rotation into other prospective opportunities. This rotation, in our estimation, improves the risk/reward set-up for the portfolio. Where we've suffered de-rates, these companies now are much more interestingly priced, and where performance has been strong recently, this has followed positive fundamental developments and these holdings remain prospective.

Thanks very much for your trust and support.

Steven, Michael, Chris & Roger
DMX Asset Management