DMX ASSET MANAGEMENT

DMX Australian Shares Fund

Investing in the most compelling Australian smaller company opportunities

DMX Australian Shares Fund

March 2021 – 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

Opening NAV (2 March 2021) [1,2]	**$1.0000**
Closing NAV (31 March 2021) [1,2]	**$1.0021**
Number of Stocks	25
% cash held - month end [4]	46%

1-month return	0.21%
Since inception (1 month)	0.21%
Fund size (gross assets)	$5m

Dear Investor,

The DMX Australian Shares Fund (DMXASF) commenced on 2nd March 2021 with the support of a broad range of existing DMX Capital Partners (DMXCP) investors, as well as a number of new investors. We're appreciative for the support, have co-invested significantly alongside you, and are excited about the potential to generate value for us all in the years ahead.

We expect the format of our reporting will evolve in the months ahead as we work through this implementation period and dovetail into the highly-regarded monthly reporting structure of DMXCP. The audience for these DMXASF reports will include some who will be reading only this report, as well as some whom we expect will digest both. With some overlapping investments, we expect we will highlight the overlap and perhaps reference some of the content from DMXCP, while perhaps placing slightly more emphasis on what makes DMXASF different from DMXCP. We welcome your feedback as we move forward in the months ahead.

Commencing with 100% cash and 0% equities, and slowly building to 54% equities (but still 46% cash) by 31 March, performance for now has been slightly muted. We are working diligently to continue to add names and further build positions in already-initiated holdings. But expect we may hold more-than-normal levels of cash for a little while to come. Again, this should continue to moderate NAV movements (in both directions) until we become more fully invested.

Performance for the initial period 2nd March to 31st March was 0.21% which compares to the ASX 200 Total Return Index's 0.52% gain. For performance comparison purposes, we intend to reference the broad-based ASX 200 index which is a good approximation of the broader Australian equity market, including dividends. While we do have a strong micro and smaller-companies focus, this particular fund does have a broader market capitalisation mandate and the decision to focus on smaller companies itself is an active one. So, we believe it appropriate to consider performance (for better or worse) against a broader equity benchmark which would be more reflective of a default position for most investors seeking Australian equity exposure.

Leveraging our Experience & Knowledge in Micro-caps

As outlined in our Information Memorandum, we intend for the DMXASF to have a significant (>50%) overlap with DMXCP's portfolio, once fully implemented. Where DMXCP has really focused on $5m to $100m market value companies, DMXASF will focus more on the $50m to $500m space, but will freely move outside of that currently identified sweet-spot as we uncover appropriate opportunities. Already, the median market value of DMXASF holdings is around $80m, which is around double that of DMXCP. While there are and will continue to be interesting differences between the two funds, DMXASF has invested in many of DMXCP's holdings with around 43% of the 54% deployed thus far into common holdings.

Our approach in seeking to replicate a portion of the DMXCP portfolio has been 3-pronged. Firstly, we determined which of the DMXCP holdings have adequate liquidity, where DMXCP itself isn't actively buying, and where we believe our involvement wouldn't impact on DMXCP's activities in a given holding moving forward. This is in keeping with the framework outlined in our Information Memorandum assuring that DMXCP will take priority on any investments in companies with market capitalisations under $100m. Secondly, we considered how the fundamental risk/return profile of any given DMXCP holding fits within the anticipated portfolio of DMXASF, including how they will blend with investments being considered outside of the DMXCP universe. (Ie: we would express less interest in replicating certain DMXCP names where we have identified thematically similar stocks at perhaps higher market capitalisation levels than where DMXCP is actively focused.) Thirdly, bringing these together in a portfolio context, our current targeted weighting for various names reflect their relative prospectiveness at prevailing market prices, again, alongside how various components fit with each other, including holdings not owned by DMXCP.

Through this process, and as at 31st March, we have deployed 43% of DMXASF into a broad range of 20 stocks currently owned by DMXCP (out of around 35 in the DMXCP portfolio, excluding immaterial holdings in run-off). These are a broad-based group of stocks that we have built significant experience with over the years. We believe the inclusion of these positions has no noticeable impact on the investment operation of DMXCP, and we are committed to ensuring we preserve our core nano and micro-cap capability for that vehicle while leveraging appropriate holdings that have more scalability for the benefit of DMXASF investors.

Examples of companies in the portfolio and which are also owned by DMXCP include PTB Group, Easton Investments, Sequoia, Joyce Corporation, Dusk, and Enero. Our thesis for these companies has been highlighted in past DMXCP monthly reports and we encourage any new DMXASF investors to review these to learn more about our core process and important portfolio holdings.

Blending with Interesting & Prospective Opportunities

In addition to building overlapping exposures with DMXCP in portfolio holdings that remain highly prospective and where liquidity allows, we've deployed nearly 12% of the fund into five companies that are not owned by DMXCP. Examples include Michael Hill, Redbubble, and SDI.

DMX investors will know that we view opportunities along the lines of core thematics. These include "low multiple" companies, "higher multiple, higher growth" companies, "not yet profitable" companies but where long range prospects are significant and misunderstood/underappreciated by the market, and "asset plays". "Cash" as something of a by-product of our value-conscious process serves as an additional bucket that moves around in size and plays an important role as a risk mitigant.

As we set out on this new journey at DMXASF, somewhat in parallel with that already in train at DMXCP, we are adhering to this core multi-thematic, almost 'style agnostic' approach to sensibly managing your capital. Our new names reflect this with Michael Hill and SDI both being "low multiple", and Redbubble being a "higher multiple, higher growth" opportunity (and to some degree currently emerging from "not yet profitable" status). A business like Redbubble has significant long-range global growth potential and simultaneously a core 'current' business underpinning at least a significant portion of present market value. Within the "asset play" bucket, we've also taken a small position in an as-yet unnamed company that trades at a material discount to underlying tangible asset backing, and where we believe its assets are likely to show an improving return profile which will help see them re-rated over time by the market.

Putting on Idiosyncratic Risk

We've long considered the two key features of an investment with DMX as being: (1) the reasonable expectation of strong returns over time; and (2) delivering differentiated investment exposures to investors. The benefits of the former are obviously well-understood by all. But the latter can be more subtle. What differentiated exposures and the assuming of idiosyncratic risk means for investors is that the path to an outcome can be quite different which allows the exposure/fund to blend well with other investments an investor may have. For example, if one invests in each of two funds with identical *expected* return profiles and similar risk profiles, but where the two funds are less than perfectly correlated, the overall risk profile becomes reduced without giving up *expected* return. Aiming at taking on idiosyncratic risk helps improve the robustness of a portfolio. The smaller company universe excites us in that most listed companies are smaller, yet most investors tend to be primarily exposed to the largest of companies (via mainstream, index, or index-hugging funds; and even through direct investment into our largest companies). So to the degree we can move away from these and provide exposure to differentiated opportunities, value is added over-and-above that which may be expected in terms of investment returns.

Bringing this concept back to the portfolio, we believe *Redbubble* with its $1.5b market capitalisation blends really well with *Cryosite* which we purchased (to a similar weighting) with its $10m market value (less than 1% the size of Redbubble). Across a portfolio of what we expect will soon be more than 30 companies and with considerable fundamental diversity among those portfolio constituents, we believe a broad portfolio exposure to DMXASF will provide an interesting investment solution for investors with a range of opportunities across the core themes we focus on, as well as along the market capitalisation spectrum, albeit with a strong focus on smaller companies where we have significant experience and a proven capability established over the past six years.

In summary

We're pleased with and appreciative of the support we've garnered to date from a range of investors. We're enthused about the prospects for the DMXASF in the years ahead as we seek to both co-invest with DMXCP across various micro-cap opportunities, while simultaneously seeking to identify additional appropriate names to build into the portfolio. The Australian smaller companies universe is populated by many wonderful businesses with excellent long-term prospects. While markets always move up and down in the short term, we believe in a low interest rate and potentially inflationary environment the case for investing in quality equities at sensible prices is as strong as ever and of great importance in seeking to preserve and cautiously grow one's hard-won capital over time.

We look forward to updating you in early May with further progress in putting your capital to work.

Kind regards

Michael Haddad
Co-Portfolio Manager

Chris Steptoe
Co-Portfolio Manager