DMX Australian Shares Fund
May 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 April 2024)	**$1.0842**
Unit price (mid) based on NAV (31 May 2024)	**$1.0869**
Number of Stocks	44
% cash held - month end	2%
Fund size (gross assets)	$11m

1-month return	0.3%
3-month return#	2.5%
12-month return#	19.6%
3-year return, p.a.#	5.3%
Since inception (1 March 2021, p.a.) #	6.2%
Since inception (cumulative) #	21.5%

 # Returns assume reinvestment of distributions.

Dear Investor,

DMXASF's NAV was fairly flat for May, up 0.3%, in a slightly positive broad market with the ASX 200 Total Return Index up 0.9% and the ASX Emerging Companies Index up 0.6%.

Commentary

We suffered a few material declines this month, including **Field Solutions** which fell 26% on no specific news, but perhaps on heightened uncertainty given its recent challenges, together with some tax loss selling. **Frontier Digital** and **Joyce Corporation** fell 14% and 11% respectively, each handing back some recent positive performance. **EML Payments** and **Ansarada** fell 7% and 9%, EML perhaps as a substantial holder continues to unwind its position; while the takeover of Ansarada hit a speed bump with the ACCC reviewing the proposed transaction. We think the takeover will *probably* go ahead, though on a delayed timeframe. The 9% fall to its share price, we believe, is appropriate, and is discounting some potential for the deal to fail. We'd reduced earlier in the takeover process so have a relatively small remaining position. The shares, we believe, could be an attractive opportunity in the event of the deal falling over, or otherwise a relatively prompt ~10% return if it gets back on track.

More concerningly has been the continued erosion to the operational performance of **Michael Hill**. This now-small position declined a further 33% in May on the back of a negative trading update. The company is suffering from weakening consumer demand, tighter consumer credit availability, the impact of crime on its NZ business & the associated additional security costs, contracting gross margins, and troubles with the integration of the acquired Bevilles business in Australia. This investment's proving to be a painful reminder of the difficulties of retail in general, but also that the world changes, companies have a lifespan and go through phases of growth, maturity, and unfortunately, decline. We don't need to make our money back the same way we lost it, but at current levels, we believe the shares are being priced for disaster. We'd previously reduced our position as the company started reporting negatively, and its price erosion has further reduced it to a relatively small holding now. We're comfortable to give this one some time to see if they can successfully reduce costs and restore a basic level of profitability. Its 40+ year history should be worth something here, and we're hopeful of at least a partial recovery to our remaining investment.

On a positive note, the portfolio enjoyed some positive developments, and having allowed our winners to run to some degree has helped magnify some reasonably positive outcomes. Recent strong contributor, **Findi**, rose another 9% as the company reported positively. We continue to trim into price strength in order to contain our position size around the 10% level. Steve & Chris from our team joined a recent research trip to India to visit the company's operations. The visit reinforced our positive view on the opportunity. You can read a detailed note **here**.

Positive contributors also included **Medadvisor** which rose 47% on the back of strong revenue momentum and the articulation of plans to materially reduce its cost base, leading to a substantial uplift in expected profitability in the next few years. The longer-term potential for this business in a large (US) marketplace and with multiple ways to win, is substantial. **RPMGlobal** continued its re-rate, rising another 11% for the month, and is discussed further, below. Finally of note, **Verbrec** rose 43% on the back of a positive update and investors' increasing focus on the value on offer.

<u>RPMGlobal</u>

As noted above, RPMGlobal rose 11% for the month, and has nearly doubled since we repurchased a position last year. Our position has been left largely untouched, and allowed to run to over 5% of the portfolio at present. The story hasn't been super-clean, with for example, some quirky management reporting around lumpy incentive compensation rattling or annoying some investors (us included). But at its core, we believe we have a high quality software business that despite its recent run, remains attractively priced and offers meaningful further upside over time. The company has been focused on transitioning to a SaaS model (from one-off software sales), and accounting for these transitions always obfuscates underlying progress as large upfront receipts are replaced by smaller ongoing payments. Further, the sales cycle for this specialised (mining services) software is long, so disruptions from the COVID-era inability to pound the pavement hampered growth for some time.

The company, now, however seems to be enjoying something of a purple patch, and this is reflecting in its share price. Years of hard work in building, buying and integrating its software give it a strong platform to grow. The company has reached an inflection point in terms of cashflow, and is now generating strong free cashflow, which is expected to grow significantly from here. Its stock buy-back programme has enhanced value, and continues to be an effective mechanism for tax-effectively returning surplus cashflow to shareholders. With its market value rising to the $500m+ zone, the stock is now on the radar of small-cap fund managers, with new institutions taking interest and investing in the shares. Finally, we believe management's long-term objective here is to sell the business. Transactions of this nature tend to be conducted on higher multiples than that currently applied to RPMGlobal, and the continued growth of the business will likely bring this enterprise onto the radar of substantial global software players. We believe the continued growth in the business plus eventual trade sale, or wider institutional investment interest – both together with the consistently-executed stock buy-back programme – position the stock for another potential double from here over the next few years.

<u>Summary</u>

Developments at the individual company level, as highlighted above, are very much mixed. But we're confident in the embedded value within the laggards, and the continued upside potential for the leaders. With our successful investments growing to be a larger portion of the portfolio by weight, the impact of their continued success may grow relative to the negative impact of continued weakness in challenged investments. That said, where value is becoming more obvious with the decliners, opportunities to selectively top-up are presenting, while in other cases losses are being taken and funds rotated to other higher-conviction opportunities.

Thanks very much for your trust and support.

Michael Haddad	Chris Steptoe
Portfolio Manager	*Research Analyst*