DMX ASSET MANAGEMENT

DMX Capital Partners Limited

Investing in the most compelling small and micro-cap value opportunities

DMX Capital Partners Limited

June 2019 – Shareholder Update

An investment company managed by:
DMX Asset Management Limited
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DMXCP directors: Roger Collison
Dean Morel
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Opening NAV (1 June 2019) [1,2] **Closing NAV (30 June 2019)** [1,2]	**$1.6785** **$1.6855**	Fund size % cash held - month end [4]	$7m 15%
NAV Return (June)	+0.418%	Gearing	nil

*DMXCP Share price = Closing NAV (**$1.6855**), being: Share portfolio value + cash – fees payable – tax payable + franking credits*

**References to All Ords are for illustrative purposes only*

Monthly DMXCP Net asset value (share-price) returns (after fees) since inception (April 2015) [3] (%):

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	All Ords
2015	n/a	n/a	n/a	+0.201	+9.448	+1.104	+6.524	+1.971	+9.711	+0.958	+3.568	+2.470	**+41.62**	**-8.83**
2016	-3.590	+1.323	+2.049	+2.045	+2.143	+0.020	+5.389	+7.056	+2.156	+1.058	+1.520	+0.321	**+23.10**	**+7.01**
2017	+0.885	-0.816	+1.790	-0.741	-1.990	+0.210	+1.071	+1.208	+0.822	+3.494	-0.267	-0.055	**+5.54**	**+7.83**
2018	+0.445	-1.625	+0.008	-1.173	+0.310	-0.211	+1.017	+4.112	+1.604	-3.438	-2.827	-2.257	**-3.66**	**-7.24**
2019	+0.122	-0.010	-1.624	+3.754	+3.014	**+0.418**							**+5.70**	**+16.9**

Dear Shareholder,

DMXCP's NAV increased 0.418% after all accrued fees and expenses for June 2019. The NAV as at 30 June 2019 was **$1.6855**, up from **$1.6785** as at 31 May 2019. The ASX All Ordinaries Index increased 3.33% during the month, while the XEC Emerging Companies Index was down 0.38%.

For the 2019 financial year, (after accounting for all accrued fees and expenses) DMXCP has returned net 3.72%, while the XEC (Emerging Companies Index) declined 4.60%.

Monthly summary

The portfolio recorded its third consecutive month of positive performance, delivering a 7.20% return for the quarter.

On an absolute basis, key contributors during the month to performance included CV Check (ASX:CV1) (up 45%), People Infrastructure (ASX:PPE) (+15%) and Dreamscape (ASX:DN8) (+15%).

Key detractors in the portfolio included Kip McGrath Education Centres (ASX:KME) (-6%), CML Group (ASX:CGR) (-7%) and Knosys Limited (ASX:KNO) (-25%). There was general weakness across some of the more illiquid names in the portfolio, potentially resulting from end of financial year tax loss selling, with the decline in the XEC (Emerging Companies) micro-cap Index reflecting this.

A recap of the 2019 financial year

For the 2019 financial year to June, DMXCP returned a modest 3.72% (after all accrued fees and fund expenses). Whilst this was ahead of the Emerging Companies Index (which fell 4.60% over the year) and the Small Ordinaries Accumulation Index (up 1.92%), we consider this result to be below expectations, given the generally strong broader equity market conditions. Pleasingly, the fund finished the year strongly, and commences FY20 with good momentum.

As mentioned in previous updates, the fund has traditionally performed at a low correlation with the broader market, with better performance in weaker markets. Key observations in relation to performance during the year include:

- A number of our key holdings such as Easton Investments (ASX:EAS), Joyce Corporation (ASX:JYC) and Blackwall Limited (ASX:BWF) tracked sideways or generated slightly negative returns for the year. However, these are all well run businesses that ended the financial year with more compelling fundamentals than they started the year with.

- The returns from successful larger-weighted investments such as Zenitas Healthcare (ASX:ZNT), People Infrastructure (ASX:PPE) and Kip McGrath Education Centers (ASX:KME) have been offset by some poor performers, namely CML Group (ASX:CGR) and UCW Limited (ASX:UCW). Konekt (ASX:KKT) continued to disappoint through the year.

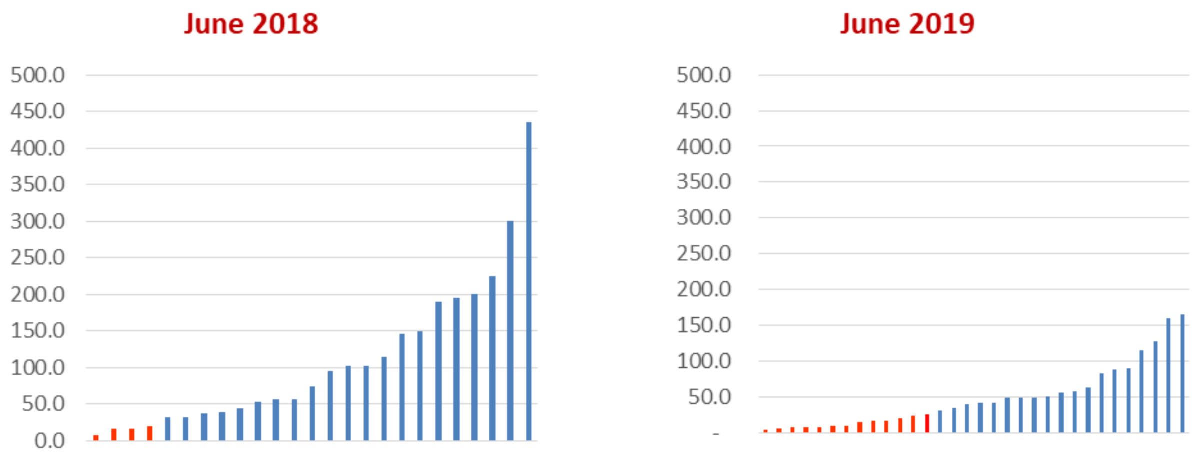
- Strength in the broader market has once again generally been driven by larger, high growth, high liquidity "momentum" stocks. In such an environment, a value-biased investment strategy focused on illiquid stocks, continues to be challenging.

Given the modest recent performance, it is reasonable to ask what initiatives are we undertaking to ensure that the portfolio is better placed to generate stronger performance in the future? We hope the discussion below provides some colour around strategies we are focused on, and which we believe enhance DMX Capital Partners' investment proposition for clients.

Portfolio construction during FY19

Whilst the core of the portfolio remains unchanged, we are currently identifying the most compelling opportunities among companies with low market capitalisations (less than $50m). The charts highlight how the DMXCP portfolio has evolved over the last twelve months.

DMXCP PORTFOLIO HOLDINGS BY MARKET CAPITALISATION (M) – JUNE 2018 & JUNE 2019
(Nano-cap (<$25m) stocks in red)



In analyzing this evolution, a key change has been the increase in stocks with market caps less than $25m (nano-caps) with a corresponding decrease in positions with market caps greater than $100m. The recycling out of larger names and into smaller opportunities is reflected in the median market cap of our holdings reducing from $84m in June 2018 to $40m in June 2019. We explain our thinking behind this below:

- **Opportunity.** In the current environment we simply see more compelling opportunities in the smaller (nano-cap) part of the market. The XEC Emerging companies Index was down ~5% for the year, when most of the broader indices were well up. A number of nano-caps were sold down heavily in the later part of 2018, when there was the major market correction, and have not yet recovered. Therefore we are finding good value opportunities still available in these smaller sized companies. Indeed, the smaller the company, the greater the potential for asymmetric returns, as we discuss here.

- Conversely, with market strength we are seeing a real lack of opportunities in stocks with larger capitalisations where the market behaves more efficiently. Increasingly, those larger stocks that continue to look cheap, are turning out to be 'cheap for a reason' (or 'value traps'). We have experienced this first hand across our portfolio, and are now extra sensitive to this in our portfolio construction.

- **Greater edge**. We feel we have a number of advantages operating in a part of the market where there are limited other participants. We 'turn over a lot of rocks' and talk and meet with the management of many small companies. In some instances, we have been the first investors to have met with the management team for some time. While management don't disclose market sensitive information, by meeting with them we feel we can better understand drivers of company performance and obtain an informational edge.

- **Differentiation**. We want to offer our investors a portfolio that contains interesting exposures, that is unique and difficult to replicate. In our view, we can add little value by following the crowd and constructing a portfolio of popular, larger, liquid, and more often than not over-valued, widely held names. Where we can add value is investing sensibly in under the radar companies that are growing, and that have a good chance of strong capital appreciation from a low base. We can add further value by using our strong relationships with management to provide insights to management around strategy and company performance, and to provide further growth capital when needed.

Given the dynamic market we are investing in we must be pragmatic and seek to find the best opportunities within our value orientated investing framework. We continue to recycle funds from our larger holdings into smaller positions that we feel have more obvious upside. <u>The team are all value investors at heart, and our investment process remains unchanged irrespective of market capitalisation – that is detailed cash flow modelling and DCF valuations together with sound fundamental analysis underpin all our investment decisions.</u>

Whilst we are seeing more opportunities among smaller companies at the moment, the market as mentioned, is dynamic and we are more than happy to look up the market cap scale for opportunities if they happen to present in the future.

The other key feature highlighted on the charts above is the increase in the number of stocks held in the portfolio (and by extension, smaller position sizes). This has increased from 24 at 30 June 2018 to 31 at 30 June 2019. We discuss below some of our thoughts behind this change:

- **A wider net**. Despite focusing on identifying compelling opportunities with what we would hope to be near term catalysts, it is the nature of the market that it is very hard to pick which particular 2 to 3 stocks in a portfolio will significantly 'perform' over any given period. So rather than putting our head out, we instead are taking a prudent portfolio-wide approach to seeking exposure to different, quality assets, and expect that over the course of any reasonable time period if we've cast the net wide enough (25-30 compelling opportunities), in each period, hopefully a small number of our under-valued stocks will be 'on the move' and help drive meaningful portfolio-wide outcomes.

- **Smaller companies = smaller positions**. The smaller companies that we are investing in often necessitate smaller positions. This may be a function of liquidity – for example, even for our relatively small size, to establish a 1% portfolio position in a $3m market cap company can be difficult. We are also conscious of the impact of illiquidity on our ability to effectively manage the overall portfolio. Generally, smaller companies are also earlier stage and may not have the long term track record of execution that our larger positions exhibit. For this reason, while prospective on an individual basis, we do restrict our portfolio-wide exposure to nano-caps as a portion of the overall portfolio in order to manage liquidity risk.

- **Minimising drawdowns**. Our average position size has decreased, which naturally allows more stocks into the portfolio. Smaller position sizes reduces the sensitivity on the downside when we're either wrong, or the world moves adversely in a way that no one could reasonably anticipate. While we want good exposure to things that go 'right', we are also focused on protecting the downside.

Looking forward to the 2020 financial year and Beyond

With the above initiatives in place, we commence the 2020 financial year with strong price and newsflow momentum across the portfolio, and we can see significant value and upside in our positions. While we don't know whether the portfolio next ticks up or down, we do feel confident and enthused that we've sown the seeds of attractive long term returns, and likely in a way that is different from other assets and funds will be exposed to.

At the corporate level, we have had pleasing net inflows in June (well in excess of $500k), so we have meaningful cash resources to deploy into compelling opportunities as they arise.

We have initiated a number of new prospective investments with strong growth profiles in recent months, to complement our core portfolio which continues to represent attractive value. We are genuinely pleased at how the portfolio is looking and the interesting exposures that we are now nicely positioned in. We look forward to the year ahead with confidence.

For further updates and news on portfolio holdings, please visit us on twitter or go to our blog.

Again, thank you for your trust, support, and patience as we continue to execute on our time-tested well-considered philosophy and process. If you would like to discuss either initiating an investment or topping up your holding at this prospective time, please do feel welcome to contact Steve McCarthy on 0403 869 632 or email steven.mccarthy@dmxcorporation.com.au at any time.

We look forward to reporting to you again in early August.

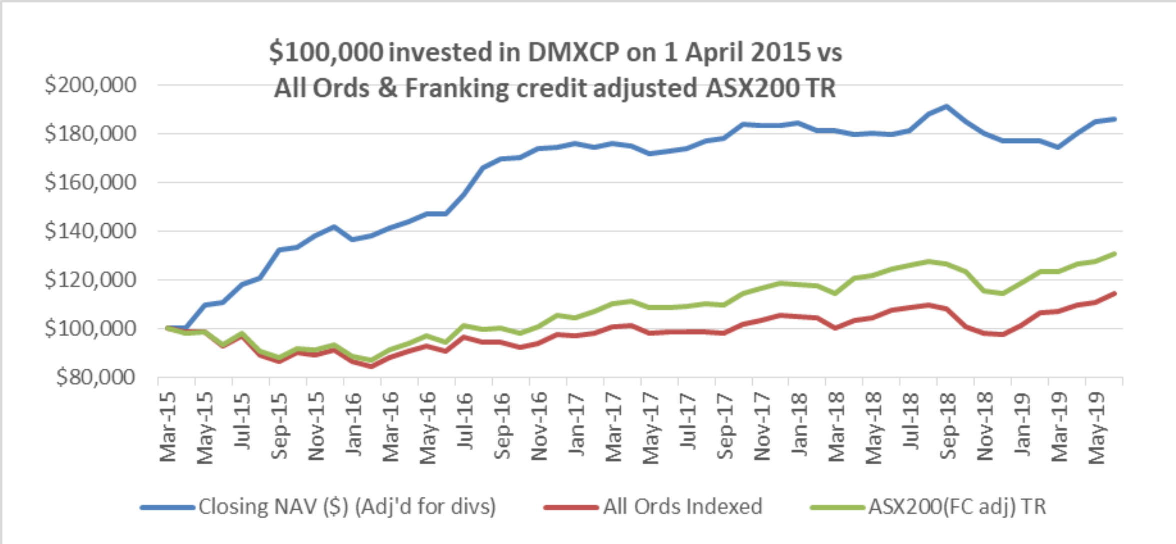
Kind regards

Roger Collison	Steven McCarthy	Chris Steptoe
Chairman	*Portfolio Manager*	*Research Analyst*

Note 1: Net asset value (NAV) is after all tax accruals but includes an estimate of franking credits available. Refer note 5, unaudited
Note 2: Unaudited result
Note 3: All DMXCP disclosed returns include the payment of dividends and franking credits
Note 4: Excludes cash received during the month for the application of new DMXCP shares to be issued
Note 5: Franking credits per share are franking credits arising from dividends received and for tax paid or payable on realised portfolio gains

Appendix 1: Performance

The following chart illustrates the return from investing $100,000 in the fund (including dividends and attached franking credits) since inception (April 2015). DMXCP is an absolute return fund, focused on generating positive absolute returns over the medium to long term.



Appendix 2: Portfolio Sector classification