DMX
ASSET MANAGEMENT

DMX Capital Partners Limited

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

DMX Capital Partners Limited

June 2018 – Shareholder Update

An investment company managed by:
DMX Asset Management Limited
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Opening NAV (1 June 2018) (1,2)	**$1.6792**	Fund size	$6.5m
Closing NAV (30 June 2018) (1,2)	**$1.6757**	% cash held - month end (4)	21%
NAV Return (June)	-0.211%	Gearing	nil

*DMXCP Share price = Closing NAV ($**1.6757**), 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							**-2.21**	**+1.98**

Dear Shareholder,

<u>Portfolio Review</u>

DMXCP returned -0.211% after all accrued fees and expenses for June 2018. The ASX All Ordinaries Index rose 2.44% during the month. DMXCP's NAV as at 30 June was **$1.6757**, down from **$1.6792** in May.

During the month, we saw weakness across some of our larger positions, with Pioneer Credit (-5%), Zenitas (-5%) and Joyce Corporation (-6%) all weaker on the back of no specific news. Elanor Investors (+6%), Apollo Tourism (+3%) and Easton Investments (+8%) showed pleasing gains. There was also general weakness across some of the more illiquid names in the portfolio, arguably resulting from end of financial year tax loss selling. Reflecting some of this, the XEC (Emerging Companies) micro-cap Index was down c. 2% for the month. We expect some of these losses will reverse in July.

For the 2018 financial year to June, DMXCP returned a modest +4.00% after all accrued fees and fund expenses. We view this result as disappointing given the generally strong equity market conditions. Whilst the fund has traditionally performed at a low correlation with the broader market, with better performance in weaker markets, some specific reasons for this underperformance are as follows:

- A number of our key holdings - Elanor Investors (ENN), Joyce Corporation (JYC), Blackwall Limited (BWF), Zenitas Healthcare (ZNT) and Gale Pacific (GAP) tracked sideways or generated negative returns for the year. However, these are all well run businesses that ended the financial year with far more compelling fundamentals than they started the year with.

- The returns from successful investments such as Pioneer Credit (PNC) and People Infrastructure (PPE) have been offset by some poor performers, namely Konekt (KKT) and Mitula (MUA).

- Strength in the broader market has been driven by high growth, high liquidity "momentum" stocks, often with little or no earnings. In such an environment, a value-biased micro-cap investment strategy focused on earnings driven stocks, has been challenging.

However, we are excited by the opportunities we have identified in a number of ignored, under-valued and under-appreciated micro-cap stocks.

The portfolio comprises a unique selection of profitable, small, growing, under-valued, undiscovered opportunities, with strong business momentum. While we can't predict performance in the short-term, we start the new financial year excited about the current portfolio holdings, and their medium to long-term prospects.

Supporting small companies with growth capital

We continue to be supportive of, and provide capital to, emerging, profitable, growing companies. We believe smaller companies investing is about helping build the best business models on the ASX over the long term by careful allocation of the capital we manage.

During the financial year we participated in our third round of funding for Zenitas Healthcare (following its reverse takeover in 2015 and subsequent IPO in 2016), whilst we also participated in a number of other capital raises for portfolio companies including Paragon Care, SRG and Konekt and in the reverse takeover for Janison Education.

Some recent opportunities that we have participated in are set out below:

UCW Limited
Market Cap: $17m
UCW provides vocational, higher education and graduate courses to international and domestic students. During June, UCW undertook a $4m equity raising to acquire a higher education provider that offers Bachelor degree courses.

Director related entities underwrote $2m of the amount raised. We like participating in equity raises where the directors set the price, and then take the opportunity to invest heavily.

UCW has grown its international student numbers at more than 30% over each of the last 3 years, and offers a strong organic growth profile.

We estimate UCW is trading on 10x FY19 earnings, while its key comparable Redhill Education (RDH) is trading on 18x FY19 earnings.

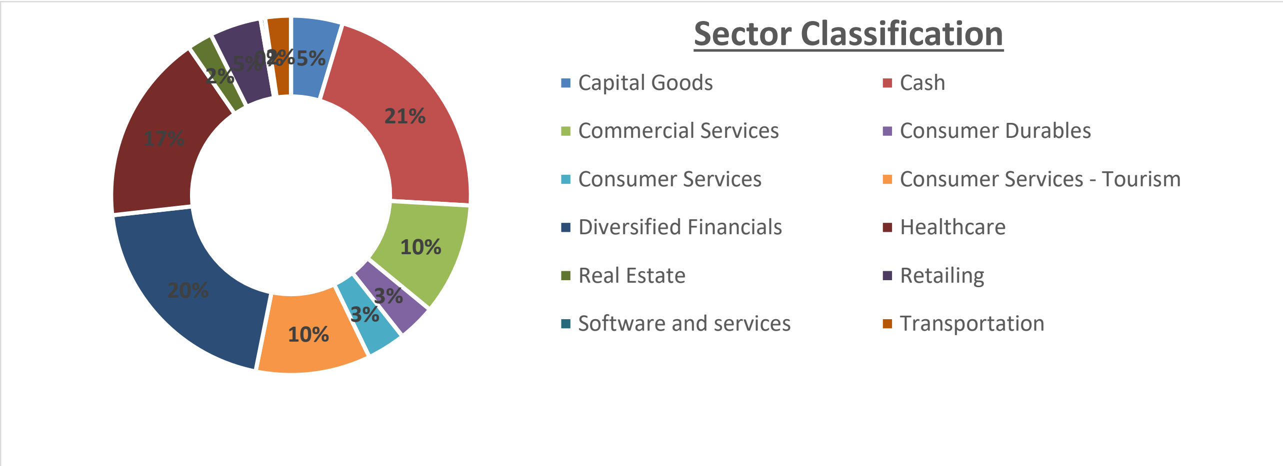
Traffic Technologies Limited
Market Cap: $16m
Traffic Technologies is Australia's leading supplier of road signage and traffic management systems. It recently raised $6m of which Directors and associated parties contributed ~$1.2m, the proceeds of the raising were used to significantly improve TTI's balance sheet. As a national infrastructure group of scale ($60m turnover), TTI also represents an attractive takeover target for a number of industry players.

Please refer to the attached report for a detailed description on the activities of TTI:
http://www.gordoncapital.com.au/wp-content/uploads/2018/06/Traffic-Technologies-Profile-final-June-2018.pdf

Sector Exposure

DMXCP provides exposure to a genuinely differentiated portfolio of profitable smaller companies, with bright prospects, and at attractive valuations. Correlation with the broader market remains low, and thus an investment in DMXCP is expected to bring diversification benefits to our investors' broader portfolios.

As set out below, the portfolio is exposed to sectors with some encouraging tailwinds, including above average weightings to healthcare, diversified financials and tourism. We expand on our tourism holdings below.

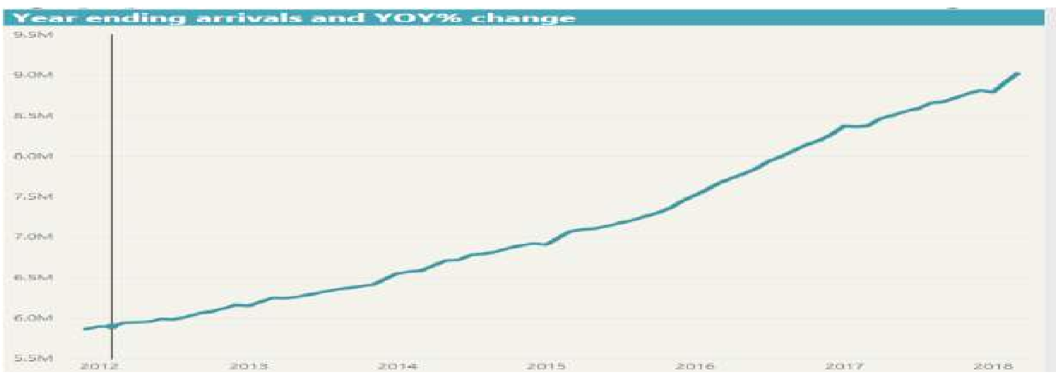


Tourism positions

Growth in the Australian economy in recent years has been primarily driven by the non-mining sectors. A key contributor to this growth has been the tourism sector which has been growing strongly in recent years on the back of growth in overseas visitors. To put this is context, at the end of 2011 there were 5.8m arrivals (on an annual basis). Today, this has increased to over 9m visitors, with recent trends still strong. This growth has been led by Chinese visitors. The tourism sector is now Australia's second largest export earner after iron ore.

Economically, a very interesting attribute of the tourism sector for investors is its countercyclical nature. Australia's economy enjoys a significant relief valve in the form of a freely floating currency. In the event of an extreme negative economic shock or downturn, one would expect the Australian dollar to fall materially. A dramatically weaker currency makes overseas holidays prohibitively expensive, so Australians' travel spend shifts to domestic endeavours; while Australian holidays become relatively much cheaper for foreigners. Indeed, a component of the 50%+ growth in arrivals over the past seven years would relate to the decline in the AUD.

From a portfolio perspective, we like to be exposed to sectors with strong tailwinds, good long term fundamentals, and that bring valuable economic differentiation. Tourism fits the bill. Given the importance and size of this sector, there are surprisingly few tourism related names on the ASX. However, as set out above, 10% of the portfolio has exposure to this increasing tourism spend. Below is a summary of the key listed tourism companies in our small cap universe, and our investment view on each.



Source: Tourism Australia

Reef Casino Trust (RCT) **MC $154m**	RCT owns the Cairns casino in North Queensland. The trust has been a steady performer over the years and pays out 100% of distributable earnings (unfranked). 2018 is shaping up to be a stronger year as Chinese flights return to Cairns. After the first 4 months of 2018, total rental paid to the trust is up 19% on last year. The jump in revenue may seem unusual for a property trust, but the rental received by the trust is related to the revenue generated by the Casino operator. RCT is exposed to significant single property risk. The risks associated with this property have been clearly evident in recent years where profitability has been impacted by the number of flights in Cairns and the competitors expanding their poker machine footprint.
Our View:	*While the dividend is strong, the upside earnings growth appears limited and the risks too pervasive to hold a position.*
Apollo Tourism and Leisure (ATL) **MC $296m**	Established in 1985, Apollo is an Australian multinational, vertically integrated manufacturer, rental fleet operator, wholesaler and retailer of a broad range of RVs, including motorhomes, campervans and caravans. Since listing in 2016, ATL has made a significant acquisition of rental fleet operator in Canada, multiple retailers in Australia, and more recently a UK based rental fleet operator. Financially, the company has met forecasts and the share price has risen from a listing price of $1 to $1.60. While the share price has risen 60%, forward eps have risen 50% justifying the price move. Yet, ATL still trades at a steep discount to its closest peer, Tourism Holdings(THL). ATL trades on a FY19 pe of 12.9 vs 17.9 for THL. Operationally, we like the global nature of their rental business providing exposure to a diversity of geographies.
Our View:	*We continue to see upside for ATL and hold it as a core position in the DMXCP portfolio.*
Sealink (SLK) **MC $431m**	SLK is one of Australia's premier tourism and transport operators - an established diversified business with operations in key tourism markets under the well-recognised brands "SeaLink" and "Captain Cook Cruises". Since listing in 2013, the company has expanded into new operating geographies by acquisition, reducing their reliance on the Kangaroo Island service for earnings. These quality assets have been recognised by an unnamed acquirer who were looking to buy SLK at $4.75 per share (current price $4.40). The SLK board rejected the offer on the basis that it undervalued the company. Given the strong alignment of key directors, we see the rejection of the offer as a positive. If business conditions were deteriorating and it was getting difficult to manage, you would suspect the company would have taken up the offer. Given they rejected it at that level, it suggests they see further value.
Our View:	*We think the first offer is unlikely to be the last given the quality of the assets. DMXCP holds a position in SLK.*
Elanor Investors (ENN) **MC $190m**	Elanor Investors (ENN) owns and/or manages a number of hotels and tourism assets including the Featherdale Wildlife Park and the Cradle Mountain Lodge. Approximately 50% of their owned assets are tourism related providing good exposure to tourism demand. With a share price of $2.06 and asset backing of approximately $1.85, our attraction to ENN is the small premium being paid for its fund management business. In the last 12 months, ENN have nearly doubled FUM to $1.25 billion
Our View:	*ENN will continue to be a core position while it is growing its FUM at such a fast rate.*

Experience Co (EXP) **MC $359m**	Experience Co started out their listed life as Skydive the Beach, a skydiving operation with drop sites around Australia. Recently, they have diversified their operations with acquisitions in Northern Queensland. These include white water rafting, coral reef trips, Island Day Trips, Hot Air Ballooning, Rain Forest Tours, and Canyoning. The company has changed its name to better reflect the diversity of operations and its ambition to "capture a significant proportion of the domestic and international adventure tourism market in Australia, New Zealand and beyond". The company has delivered strong eps growth despite significant share issuance; however, the company is not without risks. The tropical cyclone season in 2018 has highlighted their dependence on the weather to maintain profitably. There have also unfortunately been fatalities in their sky-diving operations in NZ and North Queensland over the last 12 months, but to date this has not impacted operations.
Our View:	*We want to see evidence the acquisitions made in FY17 perform to expectations and that the sky-diving operations can show some operating leverage going forward (which we felt was lacking in 1H18). We will keep EXP on our watchlist.*
Others (NZ)	New Zealand is experiencing the same tail-winds in tourism as Australia. For those that wish to investigate further, other names in the small cap space include: - • Tourism Holding (THL.NZ). Primarily a motor home rental operation with some other tourism activities • Millennium & Copthorne Hotels NZ (MCK.NZ). Primary operations are as a Hotel Owner and Operator with Hotels throughout NZ. Also has a majority investment in a Subdivision Developer. Trading well below NTA with strong revenue growth. • Skyline (trades in the unlisted exchange). Owner/Operator of Gondolas throughout NZ and overseas

Outlook

We continue to remain wholly focused upon what is within our control: executing on a well-considered, time-tested, value-conscious investment philosophy.

We are enthused by the medium to long-term prospects across our current portfolio holdings. These are high quality businesses, with great management teams with whom we've built strong relationships. Importantly, pricing remains attractive, and ultimately will drive returns over time. We continue to add new holdings to the portfolio that have significant medium to long term upside.

We invite you to follow us on twitter to keep up to date with our articles and commentary: https://twitter.com/DMXAsset

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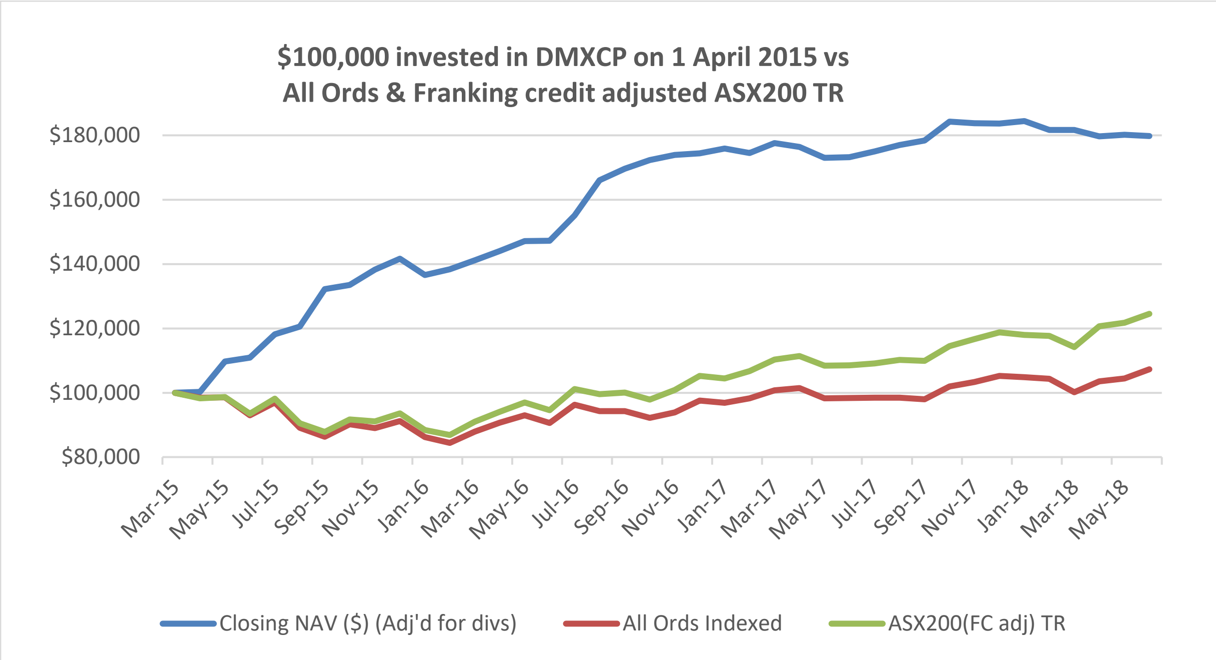
The following chart illustrates the return from investing $100,000 in the fund (including dividends and attached franking credits) since inception (April 2015). DMXCP is an absolute return fund, focused on generating positive (absolute) returns over the medium to long term. The fund is benchmark unaware, however for illustrative purposes, also presented below is 1) the corresponding indexed returns of the ASX All Ordinaries Index and 2) the S&P/ASX 200 Franking Credit Adjusted Annual Total Return (TR) Index (that adjusts for dividends and the tax effect of franking credits).



We start the new financial year with confidence, and look forward to updating you again in early August.

Kind regards

Roger Collison	Steven McCarthy	Simon Turner
Chairman	*Portfolio Manager*	*Head of Client Services*

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: Includes 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