DMX Capital Partners Limited

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

DMX Capital Partners Limited
December 2018 – Shareholder Update

An investment company managed by:
DMX Asset Management Limited
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Opening NAV (1 December 2018) (1,2) **Closing NAV (31 December 2018)** (1,2)	**$1.6310** **$1.5945**	Fund size % cash held - month end (4)	$6m 23%
NAV Return (December)	-2.257%	Gearing	nil

*DMXCP Share price = Closing NAV ($**1.5945**), 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**

Dear Shareholder,

DMXCP's NAV declined 2.26% after all accrued fees and expenses for December 2018. The NAV as at 31 December was **$1.5945**, down from **$1.6310** as at 30 November. The ASX All Ordinaries Index declined 0.60% during the month, while smaller companies again bore the brunt of the market sell-off with the XEC (Emerging Companies Index) down 4.02% and the XSO (Smaller Companies Index) down 4.50%.

For the first six months of the 2019 financial year, DMXCP's net asset value has decreased 1.71%.

Positive contributions to the portfolio over the month included Konekt (+12%) and CML Limited (+6%).
Detractors included Apollo Tourism (-10%), Blackwall (-11%), People Infrastructure (-12%) and Sequioa (-17%).

December was a very quiet month in terms of portfolio newsflow, with share price movements across the portfolio primarily driven by broader market sentiment and low trading volumes. Two companies that did release news during the month were education technology company Janison Education (ASX: JAN) and financial services business Sequioa (ASX: SEQ).

JAN announced two significant contract wins in December:

- a four-year contract with NSW Government's Roads & Maritime Services NSW (RMS) for $4.3 million to modernise and digitise the RMS's current driver/rider knowledge testing / assessment platform.
- a three-year contract with Westpac for an employee learning and assessment solution for $4.2 million.

These wins are further evidence of JAN's ability to offer innovative solutions to substantial Tier 1 customers that will generate significant recurring revenues in future years.

SEQ is experiencing some boardroom upheavals, with one of its substantial shareholders requesting a general meeting to propose the removal as a director of Scott Beeton, a founding shareholder of SEQ. We understand that this is a result of a battle for management control between Scott Beeton, and shareholders aligned with SEQ's executive chairman Garry Crole. This action is disappointing and a distraction. Meanwhile, Sargon Capital, the acquisitive, well-funded financial services consolidator, that has recently emerged as SEQ's largest shareholder, continues to acquire in the space, spending $45m to buy the trustee services business of Onevue Holdings.

ASX Micro-cap performance in 2018

S&P/ASX Emerging Companies Index 1-year return in 2018

Index Name	Price Return	1 Yr Ann. Returns
S&P/ASX Emerging Companies Index Launch Date: Jul 30, 2009	1,195.06	-21.36 %

Source: https://au.spindices.com/indices/equity/sp-asx-emerging-companies-index

Micro cap stocks had a very disappointing 2018. The S&P/ASX Emerging Companies Index which measures the performance of the Australian microcap market segment based on 200 low capitalisation securities, finished calendar 2018 down over 21%. In our view, this weakness has been driven by:

- A number of highly priced, over-valued small cap growth stocks that were very popular at the start of the year retreating significantly during the year;
- There has been broad weakness in resource stocks that make up a key portion of the XEC Index;
- A move away by institutional and retail investors from asset classes considered risky (smaller companies) in a more 'risk off' environment;
- A general flight away from illiquid stocks as volatility has increased. There has been a recent trend for some small cap managers with a more short-term focus to exit positions with low liquidity.

As we commence 2019, valuations are well down from the start of 2018. The current environment is therefore providing us with more opportunities to buy quality companies at compelling prices. Companies that we have previously avoided on valuation grounds are now beginning to look attractive, although we have yet to see any major capitulation selling, which usually represents the most favourable entry point. With concerns around the macro environment, we are focusing on opportunities that are able to generate strong organic growth and that can perform across all economic conditions. On the whole, we are enthused by the opportunity set today with the lower prevailing valuations sowing the seeds of strong future returns. We look forward to the periods ahead playing out from these attractive price points.

Another dynamic we are likely to see more of during 2019 is cashed-up global and domestic buyout funds making offers for companies undervalued by public markets. Having benefited from the private equity led takeover of Zenitas which completed in December 2018, we believe that there are several other likely takeover candidates across the portfolio. Such corporate activity can be bittersweet, with short term boosts to the portfolio being offset by the disappointment of losing quality long-term compounders that could deliver handsome returns over time. As always though, we remain pragmatic and are prepared to allow some natural rotation across the portfolio whether or not such rotation is hastened by corporate activity.

As previously mentioned, we are conscious of illiquidity in our portfolio construction, but are not put off by it. Rather, we view illiquidity as an opportunity to invest ahead of the crowd in compelling, high conviction investment cases. In our portfolio construction we are focused on ensuring the portfolio has appropriate short- and medium-term liquidity.

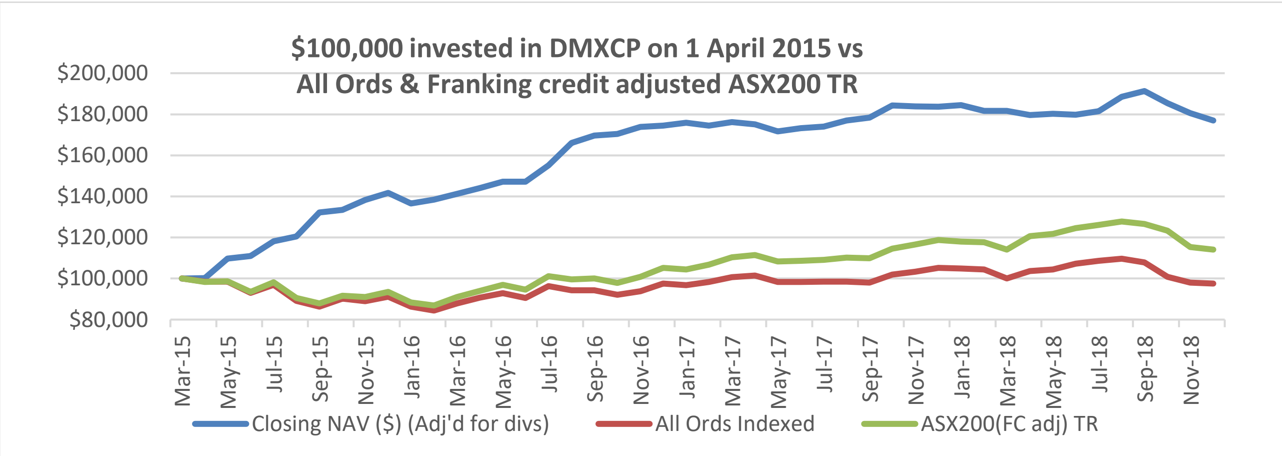
We are confident that our portfolio companies are well managed with good growth prospects, which will support an increasing intrinsic value of the portfolio over the year ahead, notwithstanding the negative market sentiment and macro concerns. Further, we have ample cash liquidity to take advantage of compelling opportunities at the appropriate time.

Portfolio Sector classification

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

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.



We wish you all the best for 2019, and look forward to reporting to you on DMXCP's progress through the year.

Kind regards



Roger Collison

Chairman

Steven McCarthy

Portfolio Manager

Simon Turner

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