DMX ASSET MANAGEMENT

DMX Capital Partners Limited

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

DMX Capital Partners Limited

May 2018 – Shareholder Update

An investment company managed by:
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Opening NAV (1 May 2018) [1,2]	**$1.6741**	Fund size	$6.5m
Closing NAV (31 May 2018) [1,2]	**$1.6792**	% cash held - month end [4]	25%
NAV Return (May)	+0.310%	Gearing	nil

*DMXCP Share price = Closing NAV ($**1.6792**), 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								**-2.00**	**-0.80**

Dear Shareholder,

DMXCP returned 0.31% after all accrued fees and expenses for May 2018. The ASX All Ordinaries Index rose 0.83% during the month. DMXCP's NAV as at 31 May was **$1.6792**, up from $1.6741 in April. For the 2018 financial year to date (July – May), DMXCP has returned +4.15% after all accrued fees and fund expenses, whilst the fund has returned +80.02% after fees (including dividends) since inception (April 2015).

DMXCP remains invested in the most compelling ASX listed small and micro-cap opportunities which are in our opinion both high quality and under-valued. The fund provides exposure to a genuinely differentiated portfolio of profitable 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.

Portfolio Review

The portfolio finished May slightly ahead. Solid performances were recorded by our key healthcare stocks **Paragon Care** (+10%) and **Zenitas** (+8%). Both stocks have recently confirmed their FY18 earnings numbers and have guided for very strong earnings uplifts in FY19. Both stocks are also likely to benefit from initiatives introduced in May's Federal Budget Further commentary on the budget and its impact on our portfolio is set out later in this update.

A significant detractor during the month was online education services company **Janison Education** (-15%). Janison has spent the last several years working with the Australian government to transition the Australia-wide NAPLAN exams (years 3,5,7 and 9) from a pen and paper assessment to an online assessment. In May, over 200,000 students used Janison's assessment platform for the first time to sit their NAPLAN exams online (expected to increase to all ~1.2m students being assessed by 2020). From all accounts, this was a successful transition and proof that Janison's digital assessment platform can be reliably delivered to large scale clients. Whilst this was very much a positive for the company, a significant public debate ensued as to the future of NAPLAN, with some in the education sector questioning the relevance of a national assessment. As NAPLAN currently represents Janison's largest customer, this impacted sentiment towards the stock. We believe that NAPLAN, in some form or other, will continue to be an important part of the education system in the medium term, and that it will increasingly be delivered online.

DMX Asset Management is pleased to introduce a new initiative - a smaller companies stock picking competition for FY19 aligned to the DMXAM investment philosophy.

The rules:
- One stock pick per person;
- All stock pick entries must have a market cap below $500m as at 30th June, 2018;
- The only other requirement is that all entries must be sustainably profitable - ie. they must have generated a positive operating cashflow in FY18 & the investment case must be based upon expected profitability in the future.

Competition timings:
- The competition will run from 1st July, 2018 and will end on 30th June, 2019.
- All entries must be received by close of business on Friday, June 29th, 2018.

The prize:
- The winner will receive $2000 of shares in DMX Capital Partners (funded by DMXAM)

Entries are now being accepted – please refer to dmxam.com.au or https://twitter.com/DMXAsset for details.

2018 Federal Budget – a Portfolio Perspective

At DMXCP, we undertake a 'bottom up' stock picking strategy – that is we look to identify particular companies with fundamentals that offer compelling opportunities, rather than a top down strategy which focuses initially on the macro or industry conditions.

However, with federal government spending representing around 25% of Australian economic activity, the annual federal budget can have a direct or indirect impact on a number of our portfolio positions. Below we provide a high level summary of the 2018 federal budget highlights, and comment on budget initiatives relevant to three key sectors (healthcare, infrastructure and tourism).

BUDGET HIGHLIGHTS

The budget announced on 8 May 2018 was positive in its outlook, with the expected budget outcomes across the forward GDP growth estimates being the strongest since the Global Financial Crisis.

The Government noted that momentum is building in the Australian economy, as it moves into its 27th consecutive year of growth. The economy's transition towards broader–based growth and less dependence upon mining investment has driven a pick–up in non–mining business investment with business conditions at their strongest level since the Global Financial Crisis.

Australia's economy is expected to grow by 2¾ per cent in 2017–18 and a further 3 per cent in 2018–19 and 2019–20. Strong labour market performance is expected to continue and the unemployment rate is expected to decline further. As the labour market tightens, wages are also expected to increase.

HEALTHCARE

After social security / welfare, healthcare represents the second largest area of government spending at approximately 20%. The 2018 Budget fully funds a new five-year public hospital agreement with the states and territories that will deliver more than $30 billion in additional funding between 2020-21 and 2024-25. This represents a 30 per cent increase over the previous five years. Commonwealth funding to Australia's public hospitals is now on track to more than double from $13.3 billion in 2012-13 to $28.7 billion in 2024-25. The DMXCP portfolio remains invested in **Paragon Care** (ASX:PGC), one of the two largest consumables suppliers into Australia's hospital and aged care sector. PGC sells its wide range of capital equipment and consumables into most of Australia's public hospitals and aged care facilities and, following a series of acquisitions in a very fragmented market, should deliver 20% EPS growth in FY19.

More and more Australians are choosing to access aged care in their homes rather than in aged care facilities. To support Australians who wish to stay at home, the 2018 budget provided for an extra $1.6 billion to support 14,000 additional high-level home care packages by 2021-22. DMXCP has been a long time investor in **Zenitas Healthcare Limited** (ASX:ZNT) – a provider of community healthcare solutions. Zenitas is the only ASX listed company which provides exposure to this growing home-care spend. In early May, Zenitas acquired Australian Home Care Services from Multiple Sclerosis Ltd to complement its existing Nextt home care business. The acquisition adds another 1,302 carers to the Zenitas team and another 4,109 clients requiring services within the home care industry. After generating EBITDA of $7m in FY17, ZNT is forecast to deliver FY18 EBITDA of ~$14m and then FY19 EBITDA of ~$20m.

The implementation of the NDIS remains on track to be fully rolled out from 2020. There are currently more than 140,000 participants benefiting from the NDIS. In late 2017 we participated in the IPO of **People Infrastructure** (ASX:PPE). As the largest provider of workforce management services to the Australian disability sector, People Infrastructure is well positioned to benefit from major growth in demand for disability services through the implementation of the NDIS. Expenditure on disability services is forecast to more than double to $22bn over the four years to 2020 and the roll-out of the scheme is expected to drive major demand for employees in the disability sector. Following a very pleasing first half result, PPE is on track to report a very strong full year result, with significant momentum heading into FY19.

INFRASTRUCTURE / ROADING

This Budget includes funding of $24.5 billion for new major projects and initiatives that form part of the Government's $75 billion investment in transport infrastructure over the next decade. These strategic road, rail and public transport projects are intended to boost productivity, reduce congestion and improve safety. In particular, $3.5 billion is to be invested in roads of 'Strategic Importance', including $1.5 billion for Northern Australia, $400 million for Tasmanian roads and $100 million for the NSW and ACT Barton Highway Corridor. Our portfolio is well leveraged to this spend through:

- **Traffic Technologies Limited** (ASX:TTI). TTI is a leading supplier of LED road lights to the Australian roading market and the largest supplier of lights for major roads (Category V) in Australia. TTI continues to be the dominant supplier of traffic signals to the Australian market and a major supplier of traffic light controllers. TTI is trading on a single digit NPAT multiple.

- Engineering services company **SRG Limited** (ASX:SRG) offers a diversified range of infrastructure, civil, building and mining services and has a market leading position in bridge works and bridge construction systems and has been designing, constructing, repairing and strengthening bridges since the 1960's. SRG is likely to be involved in many of the bridge construction projects.

- Engineering solutions provider **Legend Corporation** (ASX:LGD) supplies a range of components, consumables and tools to major infrastructure projects and is well placed to benefit from this infrastructure spend. During the month LGD provided NPAT guidance for FY18 of $5.7m (+19%) and is trading on a single digit NPAT multiple.

TOURISM

As mentioned, growth in the Australian economy in recent years has been driven by non-mining sectors. A key contributor to this growth has been the tourism sector, which is now the second largest export earner after iron ore. The Government, through the 2018 Budget, continues to increase its funding into Tourism Australia.

The budget also includes $45 million in grants through the Building Better Regions Fund to help move tourists beyond the major cities. These funds will support projects in regional areas and encourage more visits and expenditure in regional locations. The Government continues to focus on Australia's most valuable inbound tourism market, China, with further funding for the Approved Destination Status Scheme which allows Chinese tourists to travel to Australia in guided groups.

Given the importance and size of this sector, there are surprisingly few tourism related names on the ASX. Nevertheless, our portfolio has strong exposure to this increasing tourism spend, through our holdings in **Elanor Investors** (ASX:ENN) and **Sealink Travel Group Limited** (ASX:SLK). Elanor Investors owns and/or manages a number of hotels and tourism assets including the Featherdale Wildlife Park and the Cradle Mountain Lodge, while Sealink is one of Australia's largest tourism and travel operators operating Captain Cook cruises business on Sydney Harbour and Perth's Swan River, ferry services in Queensland and the Kangaroo Island ferry off South Australia. We also remain invested in **Apollo Tourism and Leisure** (ASX:ATL) which owns the largest fleet of recreational vehicles (campervans) in Australia.

With economic growth heading towards 3%, unemployment falling and business confidence rising, the key economic metrics in Australia are trending in the right direction. Our portfolio is well positioned to capture this momentum through investments in well managed high quality companies, purchased on low multiples, and benefitting from favourable tailwinds.

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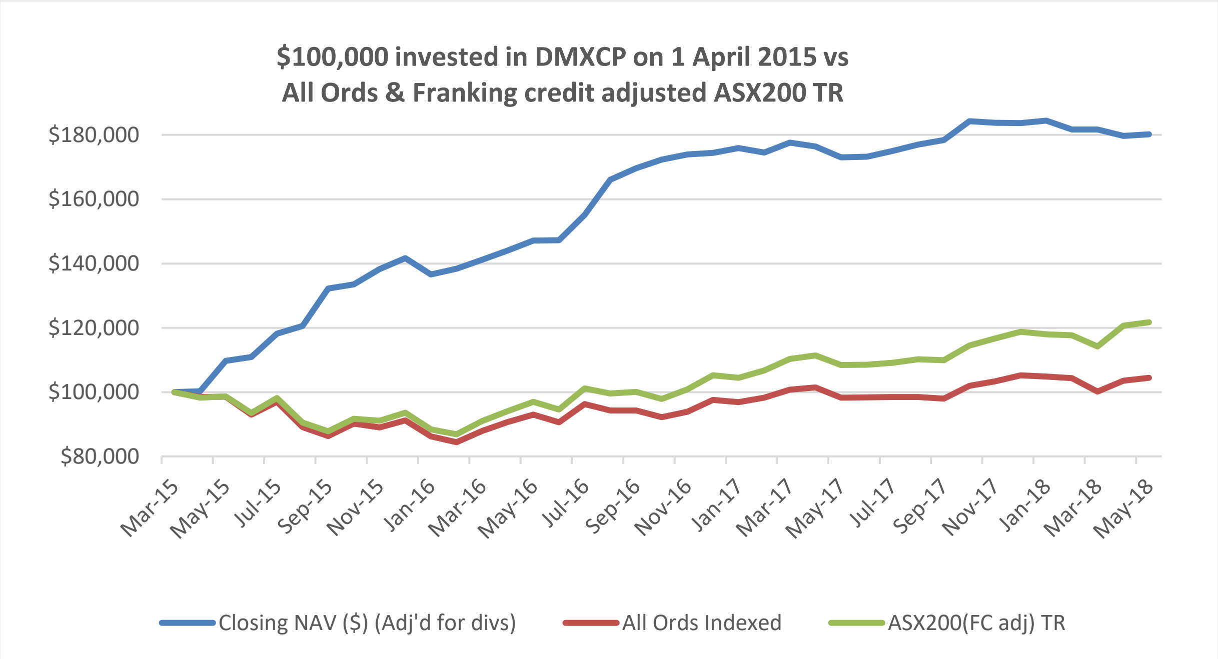
The following chart illustrates the return from investing $100,000 in the fund (including dividends and attached franking credits) since inception (April 2015). DMXCP is an absolute return fund, focused on generating positive (absolute) returns over the medium to long term. The fund is benchmark unaware,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

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
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