

## Score your points

Monthly Update - April 2021

“The game of life is a lot like football. You have to tackle your problems, block your fears, and score your points when you get the opportunities.” - Lewis Grizzard, *Don't Sit Under The Grits Tree With Anyone Else But Me*

Performance to April 30, 2021 (after fees)	1 month	3 months	Fiscal year to-date	Last 12 months	Since inception (Sep '17)
Performance Hurdle	+0.47%	+1.13%	+3.82%	+4.62%	+5.83% pa
<b>Dragonfly Fund*</b>	<b>+1.43%</b>	<b>+24.30%</b>	<b>+86.71%</b>	<b>+84.32%</b>	<b>+2.76% pa</b>

\* Fund return is net of all management fees, expenses and accrued performance fees

### Fund Facts

NAV	\$1.1051
Inception	Sep 1, 2017
Bloomberg	EQUINDF AU Equity
APIR code	EQB7664AU
ISIN	AU60EQB76649

### Portfolio Key Metrics

April 30, 2021	% NAV#
Cash (incl. cash ETF)	5%
Unlisted & Hybrids	24%
ETF	1%
Listed Equities	70%
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Market cap <\$100m	66%
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Market cap \$100m-\$1b	34%
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Market cap >\$1b	0%
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Top 5 positions	47%
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No. positions*	31

# May not add up to 100% due to rounding

\* excludes positions <0.1%; counts multiple security types in one company as one position

### Key Contributors to Performance

Best	Geo (NZ:GEO), Energy World (EWC)
Worst	Scout Security (SCT), MedAdvisor (MDR)

The Fund aims to deliver a total return greater than the five year government bond rate + 5% pa over the medium-to-long term.

### SUMMARY

- **MONTHLY COMMENTARY** | There were few catalysts within the portfolio in April but NAV advanced as gains in one of our larger software positions, field services and trades app developer **Geo (NZ:GEO)**, offset a drift in a couple of others, DIY security tech company **Scout Security (SCT)** and MedTech software play **MedAdvisor (MDR)**. The Fund participated in several capital raisings during the month that contributed positively.
- **STOCK PROFILES** | Over the past month our weekly *Small Talk* update for Fund investors has profiled family safety app and wearables company **Spacetalk (SPA)**; gourmet food & dairy group **Maggie Beer (MBH)**; and **MDR** and **NZ:GEO**.
- **OUTLOOK COMMENTARY** | We always remain focused on the company-specific medium-to-long term prospects for Fund investments and we are very optimistic about those prospects. But movements in the Fund's NAV within any monthly period will always be influenced by broader market sentiment.

Right now (May 12) we think equity markets are going through a choppy transition period where the high flying tech stocks of the past year have lost momentum, causing traders and investors to reassess their market exposures, with potential flow-on effects to smaller and less liquid stocks. It will also be interesting to see whether there is much in the way of tax-driven trading ahead of June 30. In the period leading to June 30 we'll be watching for opportunities.

## Top Nine Positions (alphabetical order, as of April 30, 2021; ASX-listed unless otherwise stated)

Comms Group	Geo (NZX-listed)	MedAdvisor
Ellume (unlisted)	Identitii	Scout Security
Energy World Corporation	Maggie Beer Holdings	Spectur

## Monthly Commentary

Field services and tradie app developer **Geo (NZ:GEO)** has a share price that has been on a relatively steady upward trajectory since the Fund participated in a capital raising in November 2020, increasing 44% in the March quarter than another 21% in April (in NZD). We highlighted in a recent *Small Talk* the improvements GEO demonstrated in its half-year results and its objective of 20%-30% annualised growth in monthly recurring revenue. There hasn't been much in the way of additional news flow but we see the share price performance as reflective of a market becoming aware of the company, with a market cap of just \$NZ13m for a business that nearly broke even last half (losing \$NZ107k at EBITDA line) with > \$NZ3m Annualised Recurring Revenue (ARR) and strong growth targets.

Fund returns for the month were also bolstered by participation in a capital raising by **Energy World Corporation (EWC)**. EWC is a historically profitable and cash generative business with reported net tangible assets significantly above its current share price. It is completing development of a modular LNG processing plant in Indonesia and in February overcame a long-standing obstacle when Indonesian authorities came down with a favourable finding on the zoning of the land upon which it has been constructing the plant.

In March we noted our frustration with a decline in the price of **Scout Security (SCT)** just as it reached an inflexion point operationally with key partners progressing to commercialisation. SCT shares slipped further in April with no news flow other than a cash flow statement that was more of a holding statement ahead of the realisation of commercial sales from partners Prosegur and Windstream (*Disclosure: Equitable's Martin Pretty is a non-executive director of SCT*).

**MedAdvisor (MDR)** showed strong growth in its quarterly release and forecast CY21 revenue of \$US55-57m, which at the midpoint is up 13% on the pro-forma set out when it acquired US-based Adheris late in CY20. The sentiment problem for MDR with this release was that after a near break-even December quarter, it burned \$8.4m in the March quarter. We are comfortable with the drivers of that burn - primarily a shift in payment terms from a key global pharmaceutical company that saw \$4.9m of revenue that historically would have been paid in the quarter get pushed back to the June quarter. MDR retained \$10m cash at March 31 and has sought to ease concerns regarding funding demands by lining up \$US9m in debt facilities from US-based Partners for Growth and a \$5.25m share placement led by Perennial Value.

## Outlook Commentary

Almost two weeks into May we can report there is increased volatility in the market. The S&P/ASX Emerging Companies Index is down 3.3% for the month-to-date. The previously hot Buy Now Pay Later (BNPL) sector has taken a hit with Afterpay (APT) down 22% (the Fund does not currently have any exposure to this sector). Over in the US, the ARK Innovation ETF, which was the "poster child" for high-momentum tech investing over the past 12 months, is down 12%. As noted on the front page, we see lost momentum as a trigger for traders and investors to reassess their market exposures, with potential flow-on effects to smaller and less liquid stocks.

Compounding whatever is happening globally, tax-driven trading in May and June is a unique characteristic of the Australian market - and just as this commentary was being written we received the first broker note for the period highlighting a stock as offering “substantial value” with share price weakness attributed to tax loss selling.

In our most recent *Small Talk*, we said that in this environment you would expect the old “sell in May and go away” line to be repeated ad nauseam. But we took a look at the numbers and made the following key conclusions:

- Pre-COVID, the month with the worst average return is June for the Emerging Companies Index (XEC in Figure 1 below).
- But June only featured a decline in the index four times out of eight - so that’s not a bankable trend.
- Immediately following that, July was the month with the highest average return - so getting out in May and June could result in an investor missing the following uplift.

We won’t be playing the market timing game but will look for opportunities to pick up stocks we like at a discount.

**Figure 1: Monthly index price returns from January 2013 to April 2021 and “Pre-COVID” (pre-March 2020)**

	Average price returns		Down months / total	
	<u>XSI</u>	<u>XEC</u>	<u>XSI</u>	<u>XEC</u>
Jan	-0.42%	1.98%	4 / 9	1 / 9
Feb	1.65%	-0.61%	3 / 9	4 / 9
Mar	-2.40%	-4.93%	6 / 9	7 / 9
Apr	2.70%	2.79%	2 / 9	3 / 9
May	1.59%	1.97%	4 / 8	3 / 8
Jun	-2.17%	-1.34%	5 / 8	4 / 8
July	3.09%	6.48%	3 / 8	1 / 8
Aug	1.43%	1.90%	3 / 8	4 / 8
Sep	-0.37%	1.45%	5 / 8	3 / 8
Oct	-0.06%	-0.33%	3 / 8	4 / 8
Nov	1.38%	-0.78%	3 / 8	6 / 8
Dec	0.69%	-0.01%	2 / 8	4 / 8

Pre-COVID

	<u>XSI</u>	<u>XEC</u>		
Jan	-0.50%	1.70%	4 / 8	1 / 8
Feb	3.19%	0.96%	2 / 7	3 / 7
Mar	0.16%	-1.46%	5 / 7	5 / 7
Apr	1.09%	-1.16%	2 / 7	3 / 7
May	0.45%	0.31%	4 / 7	3 / 7
Jun	-2.11%	-1.72%	4 / 7	4 / 7
July	3.56%	6.43%	2 / 7	1 / 7
Aug	0.89%	0.23%	2 / 6	3 / 6
Sep	-0.47%	1.34%	4 / 6	2 / 6
Oct	-0.05%	-0.59%	2 / 6	3 / 6
Nov	-0.29%	-3.03%	3 / 6	5 / 6
Dec	1.08%	-0.10%	1 / 6	3 / 6

Source: Iress, Equitable Investors

## Fund Details

<b>Strategy</b>	Long only. Seeking growth or strategic value at an attractive price.
<b>Management fee</b>	1.5% pa
<b>Expenses</b>	Capped at 0.5% pa
<b>Benchmark</b>	5 Year Australian Government Bond Yield + 5% pa
<b>Performance fee</b>	20% (above benchmark)
<b>High watermark</b>	3 year rolling
<b>Minimum initial investment</b>	\$50,000, wholesale only
<b>Investment Manager &amp; Trustee</b>	Equitable Investors Pty Ltd
<b>Custodian</b>	Sandhurst Trustees
<b>Administrator</b>	William Buck Managed Funds Administration (SA) Pty Ltd

## Key Characteristics

<b>Unique Opportunities</b>	Invests in businesses that often lack widespread investor awareness.
<b>Proprietary Research</b>	Continually updating investment views, meeting companies, researching, evaluating.
<b>Constructive Approach</b>	Open dialogue with companies assists in maximising value.
<b>Expertise</b>	Equitable's directors have over 50 years of experience.
<b>Alignment of Interests</b>	Seeded by the Manager & all our best ideas go into the Fund.

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**STOCK  
SWAP**

Dragonfly Fund has the capability to "swap" shares in a company or companies for Fund units where Equitable Investors finds them attractive and suitable investments. To date we have used this capability sparingly, rejecting all but a very small number of proposals, but we continue to seek favourable opportunities. Further info is available [here](#).

Past performance is not a reliable indicator of future performance. Fund returns are quoted net of all fees, expenses and accrued performance fees. Delivery of this report to a recipient should not be relied on as a representation that there has been no change since the preparation date in the affairs or financial condition of the Fund or the Trustee; or that the information contained in this report remains accurate or complete at any time after the preparation date. Equitable Investors Pty Ltd (EI) does not guarantee or make any representation or warranty as to the accuracy or completeness of the information in this report. To the extent permitted by law, EI disclaims all liability that may otherwise arise due to any information in this report being inaccurate or information being omitted. This report does not take into account the particular investment objectives, financial situation and needs of potential investors. Before making a decision to invest in the Fund the recipient should obtain professional advice. This report does not purport to contain all the information that the recipient may require to evaluate a possible investment in the Fund. The recipient should conduct their own independent analysis of the Fund and refer to the current Information Memorandum, which is available from EI.