

# Not the “Stock Market”

Monthly Update - August 2021

“If the Chairman of the Federal Reserve with all the data and tools at his disposal couldn’t predict what the ‘market’ would do, it was unlikely others could either. Which made us focus on investing in well managed, competitively advantaged, growth businesses...not the ‘stock market’ ” - Baron Funds founder Ron Baron

Performance to August 31, 2021	1 month	3 months	Fiscal YTD	Last 12 months	Inception
Performance Hurdle	+0.38%	+1.42%	+0.95%	+5.51%	+5.73% pa
<b>Dragonfly Fund</b>	<b>+3.09%</b>	<b>+5.26%</b>	<b>+10.14%</b>	<b>+50.55%</b>	<b>+3.25% pa</b>

Performance Hurdle: a total return greater than the five year government bond rate + 5% pa over the medium-to-long term.  
Fund return is calculated net of all management fees, expenses and accrued performance fees.

## Fund Facts

<b>NAV</b>	\$1.13659
<b>Inception</b>	Sep 1, 2017
<b>Bloomberg</b>	EQUINDF AU Equity
<b>APIR code</b>	EQB7664AU
<b>ISIN</b>	AU60EQB76649

## Portfolio Key Metrics

August 31, 2021	% NAV#
<b>Cash</b> (incl. cash ETF)	1%
<b>Unlisted &amp; Con Notes</b>	30%
<b>ETF</b>	0%
<b>Listed Equities</b>	69%
Market cap <\$100m	67%
Market cap \$100m-\$1b	33%
Market cap >\$1b	0%
<b>Top 5 positions</b>	51%
<b>No. positions*</b>	27

# May not add up to 100% due to rounding  
\* excludes positions <0.1%; counts multiple security types in one company as one position  
Note: In-the-money convertible notes treated as equity

## Key Contributors to Monthly Performance

<b>Best</b>	Identitii (ID8), Geo (NZ:GEO)
<b>Worst</b>	Iselect (ISU), Scout Security (SCT)

## SUMMARY

→ **PORTFOLIO REVIEW** | There were few negatives for the Fund in August. The ASX earnings season didn’t surprise us much - as most portfolio companies had either issued quarterly updates or provided guidance. RegTech company **Identitii (ID8)** found renewed investor interest after highlighting its patent position, while field services app developer **Geo (NZ: GEO)** followed through on its targets, improving its unit economics, customer acquisition and recurring revenue position. On the flip side, the lack of a dividend disappointed some **iSelect (ISU)** holders while we think **Scout Security (SCT)** was watched from the sidelines, pending evidence of the ramp up of its white label opportunities.

→ **OUTLOOK** | Earnings season was a mixed affair across the ASX. Among micro-to-mid caps there were slightly more downgrades than upgrades to consensus revenue, EBITDA and EPS expectations for FY22 (within Dragonfly Fund’s portfolio, >80% of companies don’t have consensus estimates). It is difficult for companies to be bold with guidance but we believe Australia and the world will push through to a “new normal” where COVID-19 is a manageable part of everyday life and there are great opportunities to capitalise on that view.

→ As is the case in most months, the Fund’s unlisted investments haven’t contributed to the month’s gains (with no liquidity event or trigger for a valuation change) but we see positive developments that provide us with great optimism in their outlook. We look forward to news flow from this segment of the portfolio over the tail end of calendar 2021.

## Top Nine Positions (alphabetical order, as of August 31, 2021; ASX-listed unless otherwise stated)

Earlypay	Geo (NZX-listed)	Scout Security
Ellume (unlisted)	Identitii	Upsure (unlisted)
Energy World Corporation	MedAdvisor	8Common

## PORTFOLIO REVIEW

Some of the key contributors to portfolio performance during the month of August were:

- RegTech company **Identitii (ID8 +129% for August)** released financial results that were of little consequence with \$1.4m revenue from customers and \$8.6m in operating costs. ID8 has a patent protected technology enabling payment messaging to assist with Anti-Money Laundering (AML) and Know Your Transaction (KYT) requirements placed on financial institutions. It provides an easy pathway for institutions to adopt new ISO 20022 payments information standards. Ahead of its results release, ID8 noted its patent application was granted in April 2021 and that in August it had filed additional claims. ID8 said that in addition to direct commercialisation and licensing, it is looking at patent enforcement.
- Trade and field services app developer **GEO (NZ: GEO +9.6%)** had a messy FY21 financial result where reported revenue was down 17% to \$NZ4.0m largely due to the sale of a business - but also in part an initial negative impact from the COVID-19 epidemic in 1H21. GEO demonstrated it had gotten better at winning customers, with the June quarter new customer run-rate up 286% year-on-year. At the same time it lifted its new customer Annual Recurring Revenue (ARR) by 107%. GEO's total ARR was \$NZ3.1m as of June 30, which meant its enterprise value of ~\$NZ15m was <5x ARR. GEO reckons comparable companies are trading on 6x-12x annual revenue and we know many examples that support this view. The company also says just a 1% increase in market share will deliver ~\$5m in ARR - and growth in ARR is its FY22 priority.
- "Junior" telecommunications player **Comms Group (CCG +27%)** rebounded strongly in August after progressively drifting lower in May, June and July. The key figures from its FY21 results for us were that its current revenue run-rate was up to \$36m-\$38m (+100% over 12 months and aided by acquisitions) for EBITDA of ~\$5m. Its reported EBITDA for FY21 of \$3.2m saw base earnings grow by \$0.2m while acquisitions added \$0.6m on top of the FY20 figure. We are attracted to CCG's consolidation activity, being executed by a veteran telco CEO, while the company is priced at a considerable discount to its listed peers (<5x EBITDA compared to an average of ~8.5x for its peers). But we also like the opportunity presented by its Microsoft Teams unified communications offering for global businesses, which permits them to run IP telephony via Teams (with Microsoft's support for Skype for Business having ended in July 2021).

## Unlisted Investments

In the public domain, digital diagnostics company Ellume has been receiving press in the US because of a surge in demand for its COVID-tests.

The Wall Street Journal [reported](#) that "demand for at-home Covid-19 tests has risen sharply in recent weeks as the Delta variant surges across the U.S., causing test makers to scramble to keep pace." The report said Ellume has seen a jump in its use in the past month to more than 13,000 tests processed a day.

We've seen encouraging strategic investor interest in some of our other unlisted investments and also moves towards liquidity events in some cases.

## 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.