

Fear of Failure, Love of Success

September 2021 Update

“There are two ways you can get yourself revved up - fear of failure and love of success. Personally, I like both things to be working in you, the same as you can win a game at one end of the ground and save it at the other.” - Melbourne Football Club legend Ron Barassi.

Performance to Sep 30, 2021	1 month	3 months	Fiscal YTD	Last 12 months	Inception
Performance Hurdle	+0.37%	+1.42%	+1.42%	+5.54%	+5.71% pa
Dragonfly Fund	+2.95%	+13.39%	+13.39%	+59.89%	+3.92% pa

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

NAV	\$1.17010
Inception	Sep 1, 2017
Bloomberg	EQUINDF AU Equity
APIR code	EQB7664AU
ISIN	AU60EQB76649

Portfolio Key Metrics

September 30, 2021	% NAV#
Cash (incl. cash ETF)	19%
Unlisted & Con Notes	25%
ETF	0%
Listed Equities	55%
Market cap <\$100m	70%
Market cap \$100m-\$1b	30%
Market cap >\$1b	0%
Top 5 positions	42%
No. positions*	28

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

Best	Geo (NZ:GEO), Identitii (ID8)
Worst	MedAdvisor (MDR), Scout Security (SCT)

SUMMARY

- **PORTFOLIO REVIEW** | September is considered to be a tough month for equities and it has also been a barren time for supporters of the Melbourne Football Club. This September the Fund held its own despite broad declines in equities AND the Melbourne Demons cast off their 57-year curse to finally secure a 13th AFL premiership (your investment manager has invested a lifetime to see that transpire). Fund returns of 2.95% for the month and 13.4% for the quarter were achieved without any contribution from the 30% of NAV invested in unlisted opportunities. The divergence from market returns highlights the Fund's low correlation with “the market”, which comes from our focus on achieving absolute returns over the medium to long term.
- **OUTLOOK** | More volatility early in October is reflective to us of a shift in sentiment rather than in the economic environment. It isn't news that inflation has risen and some attempts to tighten monetary policy will be made. It isn't news that COVID-19 is continuing to be disruptive to global trade and local economies. Nor is it news that mega-cap tech stocks are on extreme valuation metrics. Sentiment may continue to oscillate in this far-from-perfect world but we remain focused on investing in businesses striving to create and demonstrate value.
- **EQUITABLE INVESTORS** | During the quarter we were excited to welcome PSC Insurance (PSI) founder Paul Dwyer into the fold as a shareholder, director and investor. We also successfully raised capital for an early-stage co-investment opportunity in the FinTech space that Dragonfly Fund, Equitable and related entities have participated in. Fund investors can expect to be invited to a quarterly video conference in coming weeks.

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

Earlypay	Geo (NZX-listed)	Scout Security
Ellume (unlisted)	Jaxsta	Comms Group
Energy World Corporation	MedAdvisor	8Common

PORTFOLIO REVIEW

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

- Trade and field services app developer **GEO (NZ: GEO +25%)** continued to re-rate in-line with the view that: (a) it was priced at the bottom end of the range of its peers on <5x Annual Recurring Revenue (ARR); (b) it has demonstrated favourable economics for customer acquisition; and (c) it operates in a market where it estimates just a 1% increase in market share will deliver ~\$5m in ARR. Late in September GEO released its annual report, in which it said that “to continue creating shareholder value the fastest path is to now accelerate sales and marketing investment and to cautiously scale other markets where customers can be won on attractive metrics” - and that it has been testing the UK market in recent months. GEO also said that amid the latest Australia lockdowns its new customer acquisition growth moderated from the prior quarter but was still up 75%-85% year-on-year. GEO ended the month in a trading halt for a \$NZ6m capital raising.
- RegTech company **Identitii (ID8 +50%)** finally converted a long-standing relationship with Standard Chartered into a contract, signing a three year licence agreement for ID8’s Software-as-a-Service (SaaS) platform for Anti-Money Laundering (AML) and Counter Terrorism Financing (CTF). ID8 now has agreements in place with HSBC, Standard Chartered and Mastercard. This Standard Chartered agreement has activity broken into individual orders, the first of which is worth \$0.3m to ID8.
- Home security tech platform provider **Scout Security (SCT -17%)** was the only significant drag on the portfolio. On August 31 SCT announced its white-label partner Windstream (a US telecommunications company) had officially launched its SCT-powered offering. We expect investors will be looking for evidence that this white-label strategy is finding demand from end customers. SCT’s annual report was released and said that through the latter half of FY21 it saw hardware sales and revenue increase, earning more revenue in the last quarter than the other quarters combined. “This trend is expected to continue into FY22 as it’s underpinned by an agreed order program with one customer and we anticipate new geographical launches with another,” SCT said. *Disclosure: Equitable’s Martin Pretty is non-executive chairman of SCT.*

Quarterly Review

GEO and ID8 were also the leading contributors for the three months of the September quarter. In a very benign quarter for the fund, the greatest negative impact of a single investment over the quarter was just ~0.4%. The Fund’s 13.4% return for the quarter compared to a 2% total return for the S&P/ASX All Ordinaries Accumulation Index (before dividends the benchmark was down slightly) and a 3.8% total return for the S&P/ASX Small Industrials Accumulation Index. The relative benchmark that was supercharged for the quarter was the S&P/ASX Emerging Companies Index, which shot up 18% (but, unlike Dragonfly, has a large exposure to small resources).

Among our unlisted investments, we made the early-stage FinTech investment noted on the cover page. Another FinTech investment closed a deal to bring on an ASX-listed strategic investor. Then there was digital diagnostics company Ellume, which throughout the quarter benefitted as US demand for COVID home test kits took off. The post-quarter-end dampener was news this week that Ellume recalled some product lots because of a defect that led to some false positive test results. Ellume has now resumed shipping to the US and also received authorisation for its home test in Canada. Another of our unlisted investments has just confirmed completion of a pre-IPO raising.

Fund Details

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

Key Characteristics

Unique Opportunities	Invests in businesses that often lack widespread investor awareness.
Proprietary Research	Continually updating investment views, meeting companies, researching, evaluating.
Constructive Approach	Open dialogue with companies assists in maximising value.
Expertise	Equitable's directors have over 50 years of experience.
Alignment of Interests	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.