

In Between Days

December 2021 Update

“Most market commentary is focused on... ‘expiring knowledge’. This is the headline news that fills our screens today, which in five and 10-years’ time we will look back on and realise didn’t actually mean anything from a long-term investment perspective.” - Paul Black, WCM Investment Management

Performance to Dec 31, 2021	1 month	3 months	Fiscal YTD	Last 12 months	3 years	Inception
Dragonfly Fund	-3.18%	-2.69%	+10.34%	+24.83%	+10.68% pa	+3.04% 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	\$1.1386
Inception	Sep 1, 2017
Bloomberg	EQUINDF AU Equity
APIR code	EQB7664AU
ISIN	AU60EQB76649

Portfolio Key Metrics

December 31, 2021	% NAV [#]
Cash (incl. cash ETF)	4%
Unlisted & Con Notes	26%
ETF	0%
Listed Equities	70%

Market cap <\$100m	63%

Market cap \$100m-\$1b	31%

Market cap >\$1b	6%
Top 5 positions	50%
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
 Note: In-the-money convertible notes treated as equity

Key Contributors to Performance

Month	Omni Bridgeway (OBL), Scout Security (SCT)
Quarter	8Common (8CO), Judo (JDO), MedAdvisor (MDR)
CY2021	Geo (GEO:NZ), Ellume (unlisted), Redflex (acquired)

SUMMARY

- **THE MONTH** | NZ-listed tradie app developer **Geo Limited (GEO:NZ)** was sold down on light volume in December, causing >70% of the decline in NAV for the month before bouncing straight back in the first few weeks of January 2022. GEO has been a key contributor to performance of the Fund over CY2021. That aside, December was a hard grind for the Fund with roughly two positions down for every one that moved higher.
- **THE QUARTER** | MedTech company **MedAdvisor (MDR)** worked its way up to be a key positive contributor with the November IPO of neobank **Judo (JDO)** and a re-rating of **FinTech 8Common (8CO)** also bolstered NAV. A couple of our strongest contributors post-COVID dragged on the quarter - GEO being one and RegTech company **Identiiti (ID8)** the other.
- **CY2021** | The investments that contributed the most to the 25% advance in NAV were a pair of businesses not listed on the ASX (NZ-listed GEO and unlisted digital diagnostics company **Ellume**) and a pair of takeover situations (IT consulting business **Empired** and traffic monitoring business **Redflex**).
- **OUTLOOK** | We are excited about the year ahead for our core, high conviction investments. The world is “in between days” with COVID-19 continuing to impact lives, businesses and economies and inflation hogging finance headlines. We continue to focus on the value catalysts and growth opportunities for the individual investments the Fund makes.

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

Ellume (unlisted)	Geo (NZX-listed)	MedAdvisor
Energy Technologies	Identitii	Scout Security
Earlypay	Intelligent Monitoring	Spacetalk

PORTFOLIO REVIEW

December: volatility, cash flows and milestones

Month-to-month volatility is part of the deal when executing our investment strategy and marking-to-market holdings in smaller and less liquid investments. In the long run we believe the Fund should benefit from this volatility by being opportunistic but the Fund's return in any one single monthly period can be impacted positively or negatively by relatively small volumes of trade in specific holdings. In December, tradie and field services app developer **GEO (GEO:NZ)** fell 22% from \$NZ0.18 to \$NZ0.141 with no negative news to drive the decline. As of January 12, 2022, this stock has popped back up to \$NZ0.175 with no positive news to draw attention to the story.

We think GEO's stock price mainly fell in December due to some retail investors dumping stock in light pre-Christmas trade after they had the chance to buy shares at \$NZ0.13 in the NZ equivalent of a share purchase plan (the Fund had participated in an institutional raise at the same price a month earlier). The impact of this price decline on the Fund in December was also magnified by a movement in the NZD/AUD exchange rate.

Coincidentally, we also called out month-to-month volatility in our update 12 months ago for [December 2020](#), month-to-month volatility. The Fund had a 7.87% gain in that month and we noted that key contributors to performance had oscillated with highs even >50% off their lows during the month. As stated in that update, "our real focus isn't on point-to-point returns for a month but on accumulating returns over time."

Some of the key contributors to portfolio performance during the month of December 2021 were:

- Litigation funder **Omni Bridgeway (OBL)**, a relatively new position for the Fund that investors would have read about in a profile by Equitable's Mickey Mordech for the final weekly *Small Talk* of December 2021. Equitable's Martin Pretty mentioned it on Ausbiz ([view here](#)) in the context of OBL's promising AGM commentary: management commentary at the AGM was that the company expects to collect between \$470m and \$1 billion over the next two to three years - we see that as impressive in the context of OBL's market cap of \$885m at the time of writing. OBL shares gained 13.2% for the month.
- Home security technology company **Scout Security (SCT)** has struggled with its share price in recent months, with one reason being concerns that it may have to repay a convertible note mid-2022 if its share price didn't improve (a circular situation). But December was a milestone month for SCT and its shares gained 20%:
 - ◆ SCT effectively refinanced and took the repayment issue off the table by: (1) undertaking a small \$200k share placement at a premium, led by the Board and co-founders; (2) getting an agreement to extend the term of 94% of the outstanding notes from July 2022 to December 2023; and (3) securing \$450k in further funding via a new convertible note on materially the same terms.
 - ◆ SCT built out its executive capability with the appointment of a new CEO with a focus on driving sales growth, freeing the founder to transition to a role focused on strategy and product development.
 - ◆ And evidence of the growth potential was advanced with annualised recurring revenue from SCT's first US telco partner, Windstream, increasing 89% in the month of November (albeit from zero in mid-September). The metrics from the first few months of US telco sales led SCT to confirm its

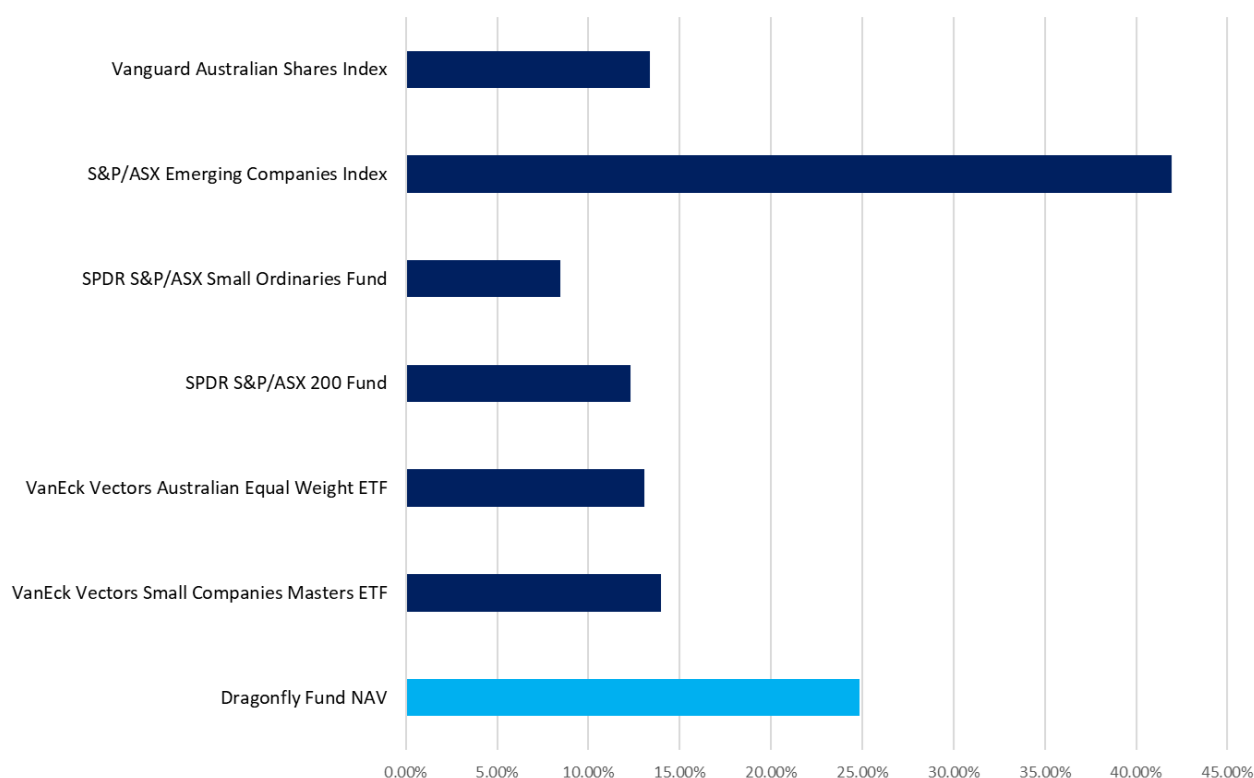
“confidence that this partner continues to target a penetration of at least 10% of its 1.4 million customers over 18-24 months.” A master agent for T-Mobile and other US telcos, meanwhile, signed SCT up to a partnership agreement to market SCT’s home security offering to its channel partners.

Disclosure: Equitable’s Martin Pretty is non-executive chairman of SCT.

CY2021 Fund Wrap

A second consecutive calendar year of double-digit percentage returns is a positive step in a longer game where we continue to have lofty ambitions for the current portfolio and our investment strategy.

Figure 1: Context for CY2021 performance of Dragonfly Fund



Source: Sentieo, Iress, Equitable Investors

At a portfolio level we’ve climbed up the market cap scale - 37% of listed investments had a >\$100m market cap at month-end, compared to 15% a year ago.

Technology continues to be the key sector in which the Fund is invested - and most investments classified in other sectors under Figure 2 - particularly Health Care - are also driven by or leveraging off technology and innovation.

Unlisted investments have become a larger % of assets - up to 26% from 14% a year ago as a result of a revaluation of the Fund’s investment in digital diagnostics company Ellume and several new investments. We are looking for CY2022 to be the year in which some of these investments become liquid and provide valuation catalysts, with IPOs slated for three of the Fund’s holdings.

Fund investors will receive a separate CY2021 Market Review.

Figure 2: Sector Breakdown

Sector	Weight
Information Technology	37.5%
Health Care	28.0%
Industrials	16.4%
Financials	10.2%
Utilities	5.1%
Consumer Discretionary	2.0%
Communication Services	0.6%
Consumer Staples	0.2%

As of Dec 31, 2021, inclusive of both listed and unlisted investments.

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.