

Challenging & Filled with Opportunity

March 2022 Update

“All of us might wish at times that we lived in a more tranquil world, but we don't. And if our times are difficult and perplexing, so are they challenging and filled with opportunity.” - *Robert F. Kennedy*

Performance to Mar 31, 2022	1 month	3 months	Fiscal YTD	Last 12 months	3 years	Inception
Dragonfly Fund	-3.93%	-14.44%	-5.59%	-10.58%	+4.43% pa	-2.58%

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	\$0.9713
Inception	Sep 1, 2017
Bloomberg	EQUINDF AU Equity
APIR code	EQB7664AU
ISIN	AU60EQB76649

Portfolio Key Metrics

March 31, 2022	% NAV [#]
Cash (incl. cash ETF)	4%
Unlisted & Con Notes	27%
ETF	0%
Listed Equities	69%
<i>Market cap <\$100m</i>	67%
<i>Market cap \$100m-\$1b</i>	33%
<i>Market cap >\$1b</i>	0%
Top 5 positions	48%
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 Quarterly Performance

Month	EML Payments (EML), Omni Bridgeway (OBL)
Quarter	Earlypay (EPY), Omni Bridgeway (OBL)

SUMMARY

- **THE QUARTER** | The score on the board for the March quarter was disappointing. There was little-to-no negative news across the portfolio in terms of operations and financials but, in keeping with the illiquidity discussion of the previous update, some key positions found themselves on the wrong end of lower activity and wider bid-ask spreads. The worst performed holdings for the March quarter, **Intelligent Monitoring (IMB)** and **MedAdvisor (MDR)**, both actually delivered upgrades to their financial guidance during the period. We've taken advantage of the cheaper prices on offer in these cases.
- **THE MONTH** | What stood out in March was that the market valued liquidity. Our best performed holdings were the largest and more liquid: **Omni Bridgeway (OBL)** and **EML Payments (EML)**. The Fund underperformed benchmarks like the S&P/ASX Small Ordinaries and Emerging Companies indices that are weighted to more liquid investments - and unlike the Fund they also feature a material exposure to the resources sector, which had a strong month.
- **STOCK PROFILES** | Fund investors recently received a profile on specialist wire and cable maker **Energy Technologies (EGY)** via our *Small Talk* updates.
- **NOT IN THE NAV YET** | Some of the Fund's unlisted investments are proposing to raise capital at substantial premiums to the Fund's carrying value. We will be monitoring progress and reviewing the Fund's carrying value of these investments. A potential side-effect of any revaluations may be that the Fund's weighting to unlisted investments increases.

Top Nine Positions (alphabetical order, as of March 31, 2022; ASX-listed unless otherwise stated)

Earlypay	Energy Technologies	MedAdvisor
Ellume (unlisted)	Geo (NZX-listed)	Omni Bridgeway
EML Payments	Intelligent Monitoring	Scout Security

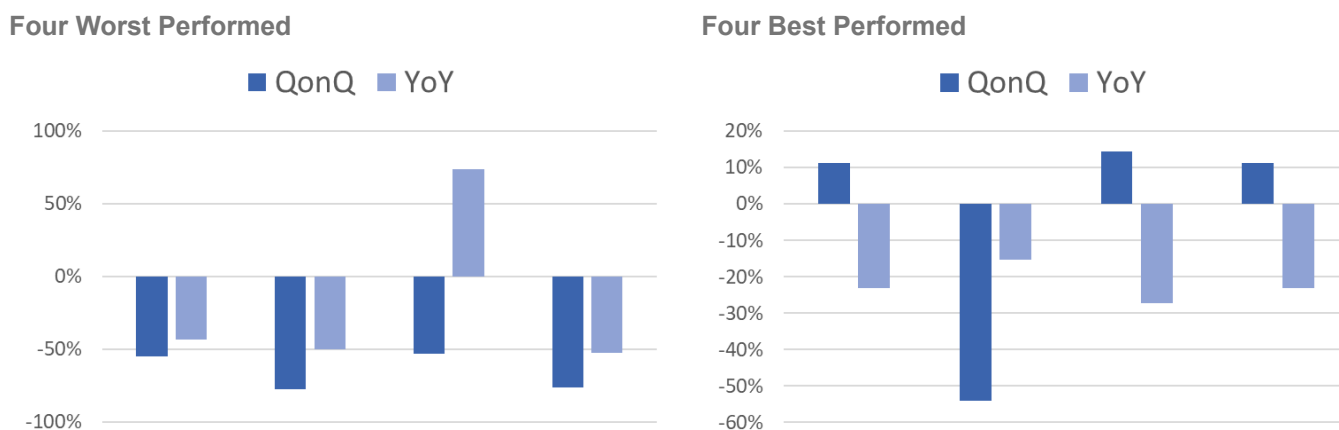
PORTFOLIO REVIEW

In [January](#) very little went right for holders of equities generally but the Fund fared better than the S&P/ASX Small Industrials. In [February](#) things continued to be tough for small stocks in particular as investors that were already grappling with inflation and interest rate concerns were further disrupted by the Russian invasion of Ukraine. The Fund was still holding up better than the Small Industrials over the two months. In March the Funds' NAV continued to drift lower while the Small Industrials and other indices recovered a little ground. We are absolutely focused on the medium-to-long-term but nevertheless it was a frustrating outcome.

The portfolio holdings that made positive contributions in the quarter were generally those with a track record of profitability, such as Earlypay (EPY), Omni Bridgeway (OBL), Pental (PTL) and Reckon (RKN). Three of the four of those names have market caps greater than \$100m (OBL is just shy of \$1 billion, PTL is the odd one out at ~\$70m).

At the other end of the spectrum, three of the four worst performed investments for the quarter had market caps less than \$50m. The volume of shares traded declined by at least 50% for each of these four names when comparing the March 2022 quarter with the December 2021 quarter - and volume for three of the four was at least 40% lower compared to the prior March quarter. As we have said many times, including last month, liquidity is a double-edged sword and in this quarter it hurt our mark-to-market NAV pricing.

Figure 1: Quarterly % change in volume of shares traded for the best and worst performed portfolio holdings (March quarter on December quarter - QonQ); and March quarter 2022 on March quarter 2021 - YoY)



OUTLOOK - UNLISTED INVESTMENTS

Last month we highlighted some of the progress being made in our unlisted portfolio. This month we are flagging potential revaluations. To date we have only ever revalued one of our unlisted investments, digital diagnostics company Ellume, based on a material shift in its positioning that has since resulted in significant revenue growth.

Several early-stage businesses that the Fund has invested in via “SAFE” notes (effectively convertible notes) are currently undertaking or preparing for a funding round.

In these cases, the implications for the Fund are as follows:

- In each of these companies we invested in a note that converts with a specific valuation cap (in one case our investment round was followed by another in which a strategic investor and a financial investor also took SAFE notes, converting at higher valuation caps than our own).
- These companies are now negotiating or preparing for capital raisings at proposed valuations that are multiples of the valuation cap on our SAFE notes.
- These raisings may trigger the conversion of our SAFE notes into ordinary shares - and revaluations of our investments.

There is more water to flow under the bridge in each case - the deals aren't done yet - but we are pleased with the progress made to date.

Separately, several of our unlisted investments have been working towards an IPO later this year. No doubt the companies are monitoring the state of the IPO market, which was very quiet in the March quarter. One of these investments has just updated shareholders that it has prepared its IPO with its advisers and brokers and is ready to list “when a favorable window is available”.

On the subject of unlisted investments, those of you who co-invested with us in Equitable Investors Fintech 1 Fund should have received a separate quarterly update via email.

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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Applications to invest in Equitable Investors Dragonfly Fund can now be made online with Olivia123 - click [here](#).

**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.