

Occasions for a Good Learner

April 2022 Update

“Bad times have a scientific value. These are occasions a good learner would not miss.” - philosopher Ralph Waldo Emerson

Performance to April 30, 2022	1 month	3 months	Fiscal YTD	Last 12 months	3 years	Inception pa
Dragonfly Fund	-2.60%	-9.06%	-8.04%	-14.13%	+3.41% pa	-1.12%

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	\$0.9489
Inception	Sep 1, 2017
Bloomberg	EQUINDF AU Equity
APIR code	EQB7664AU
ISIN	AU60EQB76649

Portfolio Key Metrics

April 30, 2022	% NAV [#]
Cash (incl. cash ETF)	3%
Unlisted	32%
ETF	0%
Listed Equities	66%

<i>Market cap <\$100m</i>	78%

<i>Market cap \$100m-\$1b</i>	22%

<i>Market cap >\$1b</i>	0%
Top 5 positions	52%
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 Monthly Performance

Best	Scout Security (SCT), unlisted investment
Worst	EML Payments (EML), Spacetalk (SPA)

SUMMARY

- **THE MONTH** | In CY2022 we are seeing what we always thought would happen to the most over-hyped corners of the equity market but also the collateral damage for small stocks as skittish investors dive for cover. The best performed portfolio investments in one month are tending to fall among the worst of the next and vice versa. **EML Payments (EML)** went from being a rare strong performer in March to a drag in April after it lowered its earnings guidance. **Scout Security (SCT)** is illiquid and bounced in April after sliding in March. Monthly NAV also benefited from a revaluation of an unlisted business.
- **STOCK PROFILES** | Fund investors recently received profiles on automobile lender **Money3 (MNY)** and expense management software company **8Common (8CO)** via weekly *Small Talk* updates (Martin also discussed these names and Earlypay in this [article](#)).
- **OPPORTUNITY** | As we have recently written in *Small Talk*, in mid-May 2022 we see a world of opportunity opening up in the listed micro-to-mid cap space. A significant shift is evident in the valuation distribution table we publish in *SmallTalk* each week. The implied risk premium for equities has expanded. The valuation gap between small and large stocks has widened. There are good companies available at far more palatable prices and there are lesser companies presenting far better reward potential relative to the risk. We see a backlog of **recapitalisation opportunities emerging**. We are keen to take advantage of these opportunities and we invite investors to **consider putting more capital to work with Dragonfly Fund**.

Top Nine Positions (alphabetical order, as of April 30, 2022; ASX-listed unless otherwise stated)

Earlypay	Geo (NZX-listed)	MedAdvisor
Ellume (unlisted)	Intelligent Monitoring	Scout Security
Energy Technologies	Mad Paws	Upsure

PORTFOLIO REVIEW

DIY security app and hardware developer **Scout Security (SCT - disclosure Equitable Investors' Martin Pretty is a non-executive director)** closed April with its stock price back where it closed in January after two months of declines - probably mostly representing the vagaries of illiquid microcaps. SCT released its quarterly, in which it highlighted that it has built its annualised recurring revenue to over \$1m as its first white label US telco customer continued to scale up sales post launch in September 2021 - and that it continued to target zero cash burn by the end of CY2022 from its recurring revenue alone. SCT secured a working capital facility during the period.

We have been highlighting our **unlisted investments** in recent updates and in April made a first step in revaluing one of those businesses, based on the pricing of a completed transaction. We are now waiting for the catalyst for a more substantial revaluation of that business and will talk more about it when that occurs.

There had been very little negative news across the portfolio in the March quarter but pre-paid cards and payments business **EML Payments (EML)** broke that trend when it came out in April with a trading update that included a 13% decline in its FY22 EBITDA guidance range. EML's share price had an outsized response (-47%) to the downgrade. We view EML as having been "sin binned" by investors because the downgrade follows regulatory issues with an acquisition in Ireland and publicity over a potential private equity takeover that failed to eventuate. EML's management now has to work to restore credibility but its valuation metrics leave plenty of scope for upside, being priced on <11x the downgraded EBITDA estimate and on a single digit EV/EBITDA multiple for FY23, based on consensus estimates.

Family communications and safety app and device developer **Spacetalk (SPA - disclosure Equitable Investors' Martin Pretty is a non-executive director)** failed to find favour after reporting 11% total year-on-year revenue growth for the March quarter, including 41% growth in app ARR. That may have been due to a 0.4% decline in device sales. SPA highlighted that its revenue comes from selling to retailers like JB Hi-Fi, who manage their inventory, and SPA understood the "sell-out" from retailers to consumers was up more than 40%. It was also a poor market backdrop for the broader sector, with larger family safety app maker Life360's share price plunging 32% (SPA fell 24%).

OUTLOOK

As indicated on the front page, we see fundamentals being more compelling now than they have been for some time. That does not mean we see equity markets snapping back upwards. More likely there will be ongoing sentiment swings as the world adjusts to higher interest rates, central banks juggle inflation and employment targets and geopolitical instability looms.

We suspect that the momentum game is over for now - and that is a game Equitable does not really play. Instead, the period ahead is shaping up as one for opportunism, bottom-up fundamental research and constructive engagement with companies to deliver the best outcomes for shareholders.

We will be following up on the recapitalisation theme in particular in future investor communications to set out the opportunity we see there.

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.