

## Distant Sun

July 2022 Update

"Still so young to travel so far. Old enough to know who you are. Wise enough to carry the scars. Without any blame, there's no one to blame. It's easy to forget what you learned. Waiting for the thrill to return." - "Distant Sun" by Crowded House

Performance to July 30, 2022	1 month	3 months	1 year	2 years	3 years	Inception pa
<b>Dragonfly Fund</b>	<b>+0.48%</b>	<b>-16.4%</b>	<b>-28.1%</b>	<b>+20.3%</b>	<b>-1.4% pa</b>	<b>-4.67%</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>	\$0.7929
<b>Inception</b>	Sep 1, 2017
<b>Bloomberg</b>	EQUINDF AU Equity
<b>APIR code</b>	EQB7664AU
<b>ISIN</b>	AU60EQB76649

### Portfolio Key Metrics

July 31, 2022	% NAV <sup>#</sup>
<b>Cash</b> (incl. cash ETF)	1%
<b>Unlisted</b>	35%
<b>Notes in Listed</b>	7%
<b>Listed Equities</b>	57%
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Market cap <\$100m	91%
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Market cap \$100m-\$1b	9%
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Market cap >\$1b	0%
<b>Top 5 positions</b>	54%
<b>No. positions*</b>	27

<sup>#</sup> 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>Positive</b>	Scout Security (SCT), Veem (VEE)
<b>Negative</b>	Geo Limited (GEO: NZ), Leaf Resources (LER)

### SUMMARY

- **THE MONTH** | Things were positive with a 0.5% gain for the month - but a little slow-moving relative to the bounce seen in indices for smaller stocks, thanks in part to the weighting the Fund has in unlisted investments but also due to our pursuit of the "recap" opportunities we have been hunting. At month-end, capital was tied up in commitments to a number of such opportunities that we expect will benefit the Fund in the future.
- We don't usually price the Fund mid-month but have done so for opportunistic reasons - so we can report that NAV increased another 4.16% as of August 11, 2022. The Fund's cash weighting mid-August is currently higher than reported as of July 31 and we continue to hunt for opportunities such as those highlighted below.
- **"RECAP" THEME + STOCK PROFILES** | Our overview of three "recap" opportunities, as published in [The Australian](#) and in our weekly *Small Talk* updates, touched on MedAdvisor (MDR), Leaf Resources (LER) and DXN (DXN). We also profiled Prophecy International (PRO) in *Small Talk* during the month.
- **OUTLOOK** | We've seen a bounce of sorts in early FY23 in speculative stocks like loss-making Buy Now Pay Later (BNPL) companies and "story" or "meme" stocks. We focus on establishing what we consider to be realistic scenarios for investment opportunities and in general couldn't get enthused about the prospects for these stocks a year ago and still can't today. But we see plenty of value out there thanks to the market shake-out in the first half of calendar 2022.

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

Edu Holdings (EDU)	Geo (NZX-listed)	Scout Security (SCT)
Earlypay (EPY)	Leaf Resources (LER)	Spectur (SP3)
Ellume (unlisted)	MedAdvisor (MDR)	Upsure (unlisted)

## PORTFOLIO REVIEW

We were more excited about the stories around some of the investments that didn't drive performance last month than those that did.

- Long-time core holding **MedAdvisor (MDR)** struck a very strategic deal to acquire its only Australian competitor of substance, bringing on the Pharmacy Guild as a key shareholder and strengthening its capital position in the process.
- Remote monitoring technology company **Spectur (SP3)** conducted a capital raising, subject to shareholder approval, that removed funding as an immediate issue and will allow management to focus on growing the business.
- Pine chemicals company **Leaf Resources (LER)** completed its capital raising and re-listing and by the end of the month it looked like any stale shareholders had exited on the market.

### Best & Worst

Positive price action in the shares of home security tech company **Scout Security (SCT)** was reflective of a general bounce back for illiquid micro-caps that appeared to have suffered from tax loss selling in May and June. SCT did report that it had sustained the penetration rate with its first US telecommunications white-label partner at 1,000 per month, with its Annualised Recurring Revenue (ARR) growing ~30% to \$1.3m as a result (*Disclosure: Equitable Investors' Martin Pretty is a non-executive director of SCT*).

Marine propulsion and stabilisation systems maker **Veem (VEE)** was another to recover with the beginning of a new financial year. VEE dropped to \$0.38 a share on June 30 from \$0.63 a month earlier and rebounded to \$0.56 a share by the end of July.

On the flip-side, our holding in NZ-listed trades app developer **Geo (GEO:NZ)** fell 9% in NZ dollars after cornerstone investor North Ridge Partners distributed some equity in GEO held by its Co-Investor No. 3 PIPE Fund to the underlying investors, as part of the end-of-life wind-up of that fund.

### Outlook

We see continuing opportunities both of the transactional variety (recapitalisations etc) and simply of the attractive pricing variety. Yes, there has been a bounce back in illiquid stocks in July but that recovery hasn't been as broad-based as we might have imagined, with speculative money having another swing at questionable business models in the Buy Now Pay Later (BNPL) space and "meme" stocks, leaving shares in a company like expense management software company **8Common (8CO)** fractionally lower at the end of July than it was at the end of June.

8CO has a market cap of \$22m. It delivered \$4.5m revenue in FY22, up 25% on FY21, with \$2.9m in transactional and recurring subscription revenue. It burned \$124,000 in the June quarter and held \$3.25m cash. Momentum is evident with fourth quarter revenue up 45% on the prior quarter. 8CO continues to roll out its solution across the Federal government under a Federal Gov ERP contract it was awarded - it said it has now added \$1.4m pa in business so far. For context on the size of the opportunity, boutique broker Veritas is forecasting 8CO grows revenue to \$7.5m in FY23 and \$13.9m in FY25.

## 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.