EQUITABLE INVESTORS®

Dragonfly Fund

Fund Update

Oct 2024

Issued: November 2024

Know what you own

"*Know what you own, and know why you own it.*" - Peter Lynch

Performance to Oct 31, 2024	1 month	Sep Qtr	FY2024	FY2023	FY2022	FY2021	Inception
	-4.96%	**+7.70%**	**+6.71**	**-34.04%**	**-23.53%**	**+74.34%**	**-7.57%**

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	$0.56852
Inception	Sep 1, 2017
Bloomberg	EQUINDF AU Equity
APIR code	EQB7664AU
ISIN	AU60EQB76649

Portfolio Key Metrics

Oct 31, 2024	% NAV#
Cash (incl. cash ETF)	2%
Unlisted	10%
Con Notes in Listed	8%
ETFs	0%
Listed Equities	81%
Market cap <$100m	*84%*
Market cap $100m-$1b	*16%*
Market cap >$1b	*0%*
Top 5 positions	51%
No. positions*	22

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 | Month

Positive	Adveritas (AV1), Gratifii (GTI)
Negative	Intelligent Monitoring (IMB), MedAdvisor (MDR)

SUMMARY

➔ **THE MONTH |** Strong gains came from technology businesses **Adveritas (AV1)** and **Gratifii (GTI)**, both companies that the Fund has invested in through capital raisings. The month was largely undone for the Fund by a 33% final-day plunge in Top Nine holding **MedAdvisor (MDR)**. Volatility like that is never enjoyable but MDR remains a business we see great value in, while also remaining a long-term positive contributor to the Fund.

➔ **STOCKS IN PROFILE |** We wrote about MDR and the strategic review it announced in November in our weekly *SmallTalk* publication for clients and friends of the firm. We also profiled **Intelligent Monitoring (IMB),** the other key detractor from performance for the month of October. As is the case with MDR, IMB is a business we see great value in (and it is an investment that has been a strong long-term positive contributor to the Fund).

➔ **OUTLOOK |** Small ASX listings are missing out on the fund flows from superannuation that are topping up slow-growth large caps to nose-bleeding multiples that imply near zero risk premiums relative to government bonds - see the 27x PE multiple on low-growth Commonwealth Bank (CBA). But small ASX listings are attracting material takeover premiums, reflective of our view of their current undervaluation - especially when you take into consideration that a bidder offering a 60%-100% premium is still doing so in the expectation that they will extract further value. Companies that can stay the course and execute on their plan for value creation should be rewarded by corporate or financial buyers if the public investment market does not appreciate them. Funding availability remains a key risk to being able to stay the course for earlier-stage companies.

Top Nine Positions (alphabetical order, as of October 31, 2024; ASX-listed unless otherwise stated)

Adveritas (AV1)	Intelligent Monitoring (IMB)	Spacetalk (SPA)
De.Mem (DEM)	MadPaws (MPA)	Spectur (SP3)
Energy Technologies (EGY)	Scout Security (SCT)	Upsure

PORTFOLIO REVIEW

The quarterly cash flow reporting cycle circled back around again in October and, as already noted, caused a dent in the Fund's performance on the last day of the month when **MDR** announced its September quarter figures. MDR said it grew revenue 3.5% year-on-year to $26.3m - on the back of 27% growth a year earlier. Quarterly cash flow is volatile between quarters, depending on the timing of US receipts and the payment of abatement to US pharmacies in its network. In this quarter Operating Cash Flow was -$2m but that was a $2.4m improvement from a year ago. While some investors clearly did not appreciate the slower growth in the September quarter, for us the more important quarterly financial report is the December quarter - where last year MDR delivered +$15.2m net operating cash flow on $50.2m revenue - and a period in which drug companies should be making marketing spend decisions for the year ahead.

Post month-end, MDR has now announced a formal review of strategic options, declaring that "The Board believes that MedAdvisor's current market valuation does not reflect the combined value of its Australian and US business units". That is a position consistent with our own take on the sum-of-the-parts of MDR. We ran through the numbers in this profile.

Alongside cash flow reporting, October and November are the traditional months in which Annual General Meetings are held. **IMB'**s AGM was not warmly received more because of what it did not say rather than what it did say. The company did not reiterate its earnings guidance and it did not update the market on its planned refinance. But maybe the reason for not saying much was the capital raising and acquisition (Dataline Visual Link) that were announced post month-end. IMB raised $20m of new equity and acquired a business generating $1.9m EBITDA for $5m cash and $2m deferred equity. It set FY25 EBITDA guidance as being "above $38m (before any contribution from the Acquisitions)". Net debt at September 30, 2024, was $68.6m. Following the acquisition and capital raising, pro-forma net debt would be $53.6m - adding to a $177m market cap for an enterprise value of just over $230m - meaning IMB is still sitting on an EV/EBITDA multiple of <6x.

The tech-oriented companies that offset some of the downdraft from IMB and MDR were digital ad fraud identification company **Adveritas (AV1)**, which we profiled back in May 2024, and digital loyalty and rewards business **Gratifii (GTI)**. AV1 said trials of its TrafficGuard solution were underway with large advertising agencies and first revenues are expected in the December (current) quarter. It also said Annualised Recurring Revenue (ARR) had increased to $6.5m from $6.0m at June 30, 2024, and $3.65m the year before that. GTI reported +$676k positive operating cash flow for the September quarter, up $1.1m from the June quarter as cash receipts grew 14.4% year-on-year to $8.31m. GTI is currently working to settle its purchase of Club Connect and Rapport, which it said will lift annual revenue to $84m and lift the company to EBITDA positive territory.

WHAT'S ON OUR MINDS

Liquidity in small stocks	The multi-year recession in trading activity in the S&P/ASX Emerging Companies Index does appear to have come to an end. The year-on-year change in the trailing 12 month tally of the value of trade in stocks in the index was +4.9% for the 12 months to October 31 - the first positive reading since 2022. We use trading data from the Emerging Companies Index as a proxy for micro and small caps but the Index has an average market cap of $274m and we expect the deterioration in liquidity over the past few years was greater for sub-$100m market cap companies than was evident via the Index data.
Private Market Valuations	Private markets continue to slowly adjust to reflect change in the cost of capital that has occurred over the past two years. Clearly not all is rosy in the world of unlisted VC, PE and "real assets" - and despite marketeers labelling private assets as low volatility, there is underlying volatility in the pricing of private assets AND correlation with public markets. ➔ Private equity's annualised IRR fell below 10% in the year to March 2024, according to PitchBook data cited by the *Financial Times*, compared to a target of 25%. Meanwhile, the *Wall Street Journal* reported in June 2024 on how stakes in private equity funds were being traded at "big discounts to the official values"; with subsequent signs of improvement as he Financial Times reported in October 2024 that sales of buyout fund stakes were now being priced between 93% and 98% of a fund's reported value - but including deferred payment worth up to four percentage points. ➔ In US secondary markets for VC investments, on average, the ZX Index Values for October 2024 showed an average 11% discount compared to the last fund raising round's price per share.
"Recap" risk and opportunity	Australasian equity capital raising activity has continued to gain momentum and - as of November 19 is up 24% year-to-date, compared to the same period a year earlier (as measured in USD by Dealogic). IPOs remain scarce. We analysed quarterly cash flow reports for the June quarter of 2024 and found over 262 companies with no more than four quarters of cash funding at hand based on their most recent burn rates - and also 95 companies in net debt positions that reported negative operating cash flow. With these companies competing for new capital, there is a funding risk for existing investments that are not self-funding at this stage. The situation is also an opportunity for investors to apply bottom-up, fundamental research and engage constructively with companies to provide them with capital on attractive terms.
Interest rates & inflation	Interest rates remain low by historical standards (see 700 years of declining rates charted here). Our view through the first half of CY2024 had been that there was not a strong case for reducing interest rates in the near-term and that if central banks do walk back rates materially, the implication will be that the economy has deteriorated. Increasing signs of softness in the economy has led the Federal Reserve to begin cutting rates in the US. In Australia there remains more uncertainty regarding central bank policy. Shifting market sentiment regarding the extent to which interest rates could decline will influence the market in the short term.
Energy	We see energy as a quasi-currency - if you have energy you hold something valuable and exchangeable. The world is going to need all forms of energy to sustain or further advance standards of living. "Electricity demands from AI data centres are outstripping the available power supply in many parts of the world" already, reported Bloomberg. In Ireland there has been a ban imposed on new data centres connecting to the grid until 2028. Dragonfly Fund does not invest in the resources sector directly but we do own and seek out opportunities to participate in the energy economy - through industrial and technological angles.
Unlisted	A key lesson for us from FY2023 is the importance when investing in unlisted entities to have some form of influence.

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.

OLIVIA123
Apply Now

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.

Equitable Investors Pty Ltd
ABN 72 120 965 979

contact@equitableinvestors.com.au
www.equitableinvestors.com.au