Is This Different?

"*The four most dangerous words in investing are: 'this time it's different.'*" - Sir John Templeton

Performance to Nov 30, 2024	1 month	FY25 to-date	FY2024	FY2023	FY2022	FY2021	Inception
	+1.40%	**+3.79%**	**+6.71**	**-34.04%**	**-23.53%**	**+74.34%**	**-7.31%**

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	$0.57649
Inception	Sep 1, 2017
Bloomberg	EQUINDF AU Equity
APIR code	EQB7664AU
ISIN	AU60EQB76649

Portfolio Key Metrics

Nov 30, 2024	% NAV#
Cash (incl. cash ETF)	4%
Unlisted	9%
Con Notes in Listed	8%
ETFs	0%
Listed Equities	80%
Market cap <$100m	*80%*
Market cap $100m-$1b	*20%*
Market cap >$1b	*0%*
Top 5 positions	46%
No. positions*	23

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), MedAdvisor (MDR)
Negative	Spacetalk (SPA), Spectur (SP3)

SUMMARY

➔ **THE MONTH |** Digital ad fraud protector **Adveritas (AV1)** continued to re-rate while MedTech **MedAdvisor (MDR)** recovered part of the 33% plunge it suffered on the final day of the prior month. Family connectivity and safety tech company **Spacetalk (SPA)** drifted while it completed a 1:10 consolidation The Fund returned +1.4% against a backdrop where the S&P/ASX Emerging Companies Index fell 0.9%.

➔ **STOCKS IN PROFILE |** We recently profiled AV1 and cybersecurity company **Archtis (AR9)** in our weekly *SmallTalk* publications.

➔ **OUTLOOK |** There's been no sign of the fabled "Santa Rally" so far in December - more like a "Grinch Slide" with the Emerging Companies Index -3.6% at the time of writing. But we lean into CY2025 asking what kind of market will continue to support a near-29x forward PE multiple on a large-cap bank expected to report negative EPS growth this year and low-single digit growth after that; yet ignore the greater growth and/or value evident among smaller companies.

Momentum has ruled for a number of years. Fundamentals have taken a back seat. It has been easy to buy large/mega cap-oriented, low-cost index-tracking investment vehicles and let them run. The weight of new money making that easy decision each day created a virtuous circle. The opposite has occurred for smaller stocks. It has been tough. But we have seen such swings before and we have seen the opposite play out too. In the US, the 2000s are described as the "lost decade" because the S&P 500 fell 24%. Yet over the same 10 years US Small Cap Value generated 140% and International Small Cap value generated 191%. Interestingly, with CY2024 drawing to a close it is currently shaping as the first calendar year in three in which the Emerging Companies Index has outperformed the S&P/ASX 100.

Top Nine Positions (alphabetical order, as of November 30, 2024; ASX-listed unless otherwise stated)

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

For the record - the year-to-date price returns of the two indices were +8.88% and +6.44% at the time of writing.

In the second half of CY2024 we have seen some "rotation" by investors out of the lazy equity positions, spreading capital around a little wider - more so in the US than Australia. We have seen the multi-year plunge in trading activity in small ASX stocks level out. More capital raisings have been successful late in the year. Takeover action has been the highlight with 60% premiums becoming normal as corporates and financial buyers do the fundamental analysis and recognise value portfolio investors have ignored. The small-to-mid category has benefited more than the nano-to-micro category this Fund has a considerable focus on. With interest rates stable or falling, smaller equities should be positioned for CY2025 BUT there is always the risk of contagion should the megacap end of the market start to roll over.

MONTHLY PORTFOLIO REVIEW

AV1 continued to find investor support and lead the portfolio for a second month - a month after it said trials of its TrafficGuard solution were underway with large advertising agencies and first revenues are expected in the December (current) quarter.

MDR recovered from its dramatic fall on the last trading day of the prior month, having 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 (however, we note that MDR has fallen once again in December, continuing a volatile run that currently leaves its stock price flat with where it was a year ago.

The other investment that dipped in October, **Intelligent Monitoring (IMB)**, did not recover like MDR in November, although we continue to see it as fundamentally representing great value, with its flagged debt refinance a key upcoming catalyst as it moves away from expensive non-bank debt to facilities from a "big four" bank.

We see some of the risks set out in the "What's On Our Minds" segment writ large as CY2024 closes out. Small listed companies and unlisted companies that are not yet cash flow positive may have bright prospects but still need the funding to get there.

The Fund has held investments in four unlisted companies over the past 12 months or so (plus a tiny holding in formerly ASX-listed Updater). We would rate it a 50/50 hit rate at the moment. On the positive side of the ledger was one the Fund realised for a near-20% pa gain; and another that continues to grow quietly, using capital efficiently. On the negative side is a formerly-listed investment that delisted; and an early-stage investment that has had external factors hinder its business one too many times.

In the listed space, the fund is invested in DIY smart security tech company **Scout Security (SCT)**. SCT successfully completed a recapitalisation in August 2024 under which it converted $3.5m of debt to equity, raised its target $1m of new equity and planned to place a rights shortfall (up to $0.95m). SCT voluntarily entered suspension from trade on the ASX at that time to ensure an orderly market while it negotiated with multiple parties. But the ASX has kept it suspended ever since, without having previously indicated any issue nor indicating what the specific issue was once SCT was suspended or how SCT could remedy it. This has proven a material handicap for the company.

SCT is a company with exciting prospects (in our view) if it has the capital to execute. In December, SCT announced a transaction to lift it into a self-sustainable category, with the proposed acquisition of a highly synergistic business, Roo Inc. This acquisition is expected to lift the combined entity to positive EBITDA and neutral-to-positive cashflow, with ~$6.5m pro-forma revenue on a pro-forma enterprise value of ~$17m - for a revenue multiple of 2.6x, compared to the median of 3.7x for ~70 tech listings on the ASX with historical revenue between zero and $10m (of whom 90% have been burning at the EBITDA level). The transaction has been structured such that cash is not going out to the vendors - consideration is structured in equity priced at a 30% premium to SCT's recent entitlement offer and the assumption of some debt - subject to the company raising $0.95m for working capital (to complete the Roo transaction, continue to operate its own business and extract the synergies post merger). Should it not be able to access that capital, the opportunity may slip through its grasp to create this self-sustained platform and pursue further M&A ambitions (in a smart home / smart security market where billions have been burned and company cash balances are running low), while waiting for its organic opportunities to take off. We hope the ASX confirms what we understand it now expects from SCT - and the company can execute on those requirements, raise the capital and relist. The risk is that this does not occur or drags on too long. *Disclosure: Equitable's Martin Pretty is a non-executive director of SCT.*

MONTHLY PORTFOLIO CHANGES

Digital loyalty company **Gratifii (GTI)** was a classic example to us of the recapitalisation opportunities we have been looking for in the current market environment. GTI was a negative cash generator that made an acquisition to drive its EBITDA into the black and raised new equity at an adjusted $0.06 a share in September (there were some similarities here with the SCT-Roo situation set out above). GTI quickly re-rated to >10c on the back of this transformational deal. Having participated in the capital raising, we took some profits and reduced our exposure in November. On the flip-side, we topped up on IMB in its capital raising, priced at $0.48, a sharp discount to the $0.62 it had closed out the prior month at. IMB ended November on $0.515.

WHAT'S ON OUR MINDS

Liquidity in small stocks	November's trading activity was consistent with our view last month that the multi-year recession in trading activity in the S&P/ASX Emerging Companies Index may 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 +11% for the 12 months to October 31. Still, trading over the past 12 months to November 30 was 36% lower than the peak figure recorded in the 12 months to April 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 $270m 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. ➔ 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 the 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 November 2024 were 11% lower than last round price per share, the lowest it's been in the last 24 months
Our private Investments	A key lesson for us when investing in unlisted entities has been the importance of having adequate influence with the investee. When problems arise, exiting private investments is often not an option. But if we can influence the actions taken in response, we can push for the best possible outcome.
"Recap" risk and opportunity	Australasian equity capital raising activity has continued to gain momentum and - as of December 17 is up 45% year-to-date, compared to the same period a year earlier (as measured in USD by Dealogic). IPOs remain scarce and have struggled to trade above issue price once listed (eg recent ASX listings Digico Infrastructure and Cuscal). 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).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. The most recent shift has seen anticipation build that the RBA will cut in February 2025.
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.

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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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.

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