Mood Swings

"*The mood swings of the securities markets resemble the movement of a pendulum... between euphoria and depression, between celebrating positive developments and obsessing over negatives*" - Howard Marks

Performance to Feb 28, 2025	1 month	FY25 to-date	FY2024	FY2023	FY2022	FY2021	Inception
	+0.98%	**-4.78%**	**+6.71**	**-34.04%**	**-23.53%**	**+74.34%**	**-8.14%**pa

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	$0.52887
Inception	Sep 1, 2017
Bloomberg	EQUINDF AU Equity
APIR code	EQB7664AU
ISIN	AU60EQB76649

Portfolio Key Metrics

Feb 28, 2025	% NAV#
Cash (incl. cash ETF)	1%
Unlisted	7%
Con Notes in Listed	8%
ETFs	0%
Listed Equities	84%
Market cap <$100m	*89%*
Market cap $100m-$1b	*11%*
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	Spacetalk (SPA), Spectur (SP3)
Negative	De.Mem (DEM), DXN (DXN)

SUMMARY

➔ **THE MONTH |** The Fund bucked the trend in February, recovering 1% of NAV while most S&P/ASX indices were down 2% to 4% (-2% for Emerging Companies & -4.4% for the top 100). Our previous update noted that Spacetalk (SPA) had been the greatest drag on the Fund's NAV in recent months but that was reversed dramatically in February with a +66% gain in its stock price in February, after announcing loan refinancing and its financial results.

➔ **SMALL TALK |** We have not profiled any stocks in the past month but have looked at the market influence of the "Iron Bank" stocks (five banks and two mega miners) in Australia, a shift in the factors driving markets and the extent to which large caps have dominated small caps over the past few years.

➔ **OUTLOOK |** Global markets are in a state of flux now - as suggested by the change in the "factors" driving returns referred to above and the dip in 2025 of the Iron Bank stocks and the "Magnificent 7" in the US. A key investor survey showing a huge swing out of US and into European equities is also notable. We don't necessarily see that as a bad thing for smaller companies at this point. The capital flows were not channelled to small stocks anyway - so small stocks should not directly suffer from the retreat of "hot money", although some contagion is likely, in-line with the >2% gap in performance in February between the S&P/ASX Emerging Companies and ASX 100. At the risk of sounding like a broken record on the theme, Iron Bank leader CBA should never have traded on a forward P/E of ~28x in our view, given single-digit EPS growth expectations; CBA's current ~23x remains well above the 10-year average of 17x. Maybe the current volatility will prompt some investors to look beyond mega/large caps.

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Top Nine Positions (alphabetical order, as of February 28, 2025; 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

MONTHLY PORTFOLIO REVIEW

Since the previous update, the one additional piece of news for family safety and communication tech company **Spacetalk** (SPA; *Equitable's Martin Pretty is a non-executive director*) has been the exclusive, worldwide licence it has secured for a gait biomarker algorithm that will be incorporated into SPA's wearables to predict health conditions including dementia, depression, stroke, heart attack and falls.

Remote security and safety tech company **Spectur** (SP3) had in late January reported positive operating cash flow of $287k for the December quarter, as revenue grew 6% year-on-year, including 17% growth in recurring revenue. It said "The expectation is that with the lower operating cost base and ongoing revenue growth, the business will deliver consistent profits that can be used in the future." In late February, it followed up with 1H25 financials showing it grew revenue 7% year-on-year to $4.46m in 1H25, including 26% growth in subscription revenue to $1.8m. Its 1H net loss after tax reduced to $157k from $678k and over the six months the company generated positive net cash from operating activities of $34k, compared to a cash burn of $200k in 1H24.

Water treatment technology company **De.Mem** (DEM) had been one of the best performers in the month of January, when it reported $533k operating cash flow for the December quarter - its second consecutive positive quarter, resulting in cash flow positivity over the full calendar 2024. DEM said then it had a "strong outlook for CY 2025", with 90% of cash receipts being recurring in nature. Its CY2024 financials were released in February and were consistent with what was already known (revenue increased 6% to $24.9m; gross margins increased from 35% to 41%; a net loss of $2.74m before tax included $2.4m depreciation and amortisation + M&A costs of $55k) - so we don't see any fundamental driver for the retreat in stock price in February.

Modular data centre maker **DXN** (DXN) was another that fell in February despite its 1H25 financials being prefaced by quarterly cash flow reports - and despite debt being converted to equity at above-market pricing. Broker PAC Partners considered that "revenue was in line" but gross margin was softer than it expected. Probably the main short-term issue with DXN, as we see it, has been the lack of material growth in its order book over the past quarter. In February it reported "$13.5m total revenue visibility before new wins" for FY25, having achieved $1.8m in year-to-date project wins. Back in October 2024, DXN forecast $16m revenue for FY25. DXN maintained that $16m guidance in February, with "a number of material orders under discussion".

DXN converted $1m of its loan from Pure Asset Management to equity, in addition to $0.22m of fees converted to equity. The conversion was priced at $0.07 a share, compared to the market price at the time of $0.04. Another $2m of debt remains outstanding with Pure.

Meanwhile, we continue to flag that we have been working with **Scout Security** (SCT; *Equitable's Martin Pretty is a non-executive director*) and the very real funding risk it is facing. The company needs to close out a $500k convertible note round to fund it through a highly-synergistic acquisition that will bring early Updater Inc backer SCV in as a material shareholder.

MONTHLY PORTFOLIO CHANGES

We engaged in very little movement in the Fund in February, other than nibbling at a couple of $100m+ market cap companies we feel we know well and have been sold down to more attractive levels than we have seen in the past 12 months.

WHAT'S ON OUR MINDS

M&A	So far in the current quarter there has been $US20+ billion worth of transactions in Australasia, compared with $US16.8b for the full March quarter of 2024.This follows a 34% increase in Australasian M&A spend in CY2024, in USD, according to dealogic. There has been a regular flow of transactions involving small-to-mid cap ASX-listed companies.
Liquidity	Trading in the S&P/ASX Emerging Companies Index has remained well below the peak dollar values of 2022 (33% below the peak 12 month period, which ended April 2022) but up 26% year-on-year, using the 12 month trailing trade value in the Emerging Companies Index (through to the end of Feb 2025) as a proxy for micro and small caps.
Private market valuations	Private markets continue to slowly adjust to changes in the cost of capital that have occurred over the past few years. Despite marketeers labelling private assets as low volatility, there is underlying volatility in the pricing of private assets AND correlation with public markets. ➔ Companies valued at >$US500m experienced "down rounds" when IPOing (Reddit and ServiceTitan), noted PitchBook, ➔ Discounts in secondary market fund trading ranged between 60% and 70% of NAV in early-stage and late-stage venture funds in CY 2024, according to Lazard. For private credit the pricing was 76% to 86% of NAV. ➔ Interesting to see amid current volatility that in US secondary markets for VC-backed companies, on average, the ZX Index Values for February 2025 moved to a 5.2% premium on the last round price per share, a reversal from recent discounts and the highest premium in the last 32 months. The average bid-ask spread also reduced to 8% from 12% a month earlier.
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 - up 44% in CY2024 (as measured in USD by Dealogic) and up 88% year-on-year in early CY2025, thanks largely to the Goodman Group capital raising. 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). Increasing signs of softness in the economy led the Federal Reserve to begin cutting rates in the US in September 2024 but it has held steady so far in CY2025. The Reserve Bank of Australia (RBA) followed suit in February 2025 but uncertainty remains 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	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. Dragonfly Fund does not invest in the resources sector directly but we do seek opportunities to participate in the energy economy.

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 founder has well over 20 years of experience.
Alignment of Interests	Seeded by the Manager & all our best ideas go into the Fund.

Applications to invest in Equitable Investors Dragonfly Fund can now be made online with Olivia123 - click here.

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.