

Value-ish

October 2021 Update

“Many people believe that investors must make the macro decision to be either bullish or bearish. Our preference is to be agnostic, objectively finding absolute bargains... we are neither bullish nor bearish. We are value-ish.” - Seth Klarman.

Performance to Oct 31, 2021	1 month	3 months	Fiscal YTD	Last 12 months	3 years	Inception
Dragonfly Fund	+2.19%	+8.45%	+15.87%	+45.96%	+8.84% pa	+4.38% 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	\$1.1957
Inception	Sep 1, 2017
Bloomberg	EQUINDF AU Equity
APIR code	EQB7664AU
ISIN	AU60EQB76649

Portfolio Key Metrics

October 31, 2021	% NAV [#]
Cash (incl. cash ETF)	0.1%
Unlisted & Con Notes	25%
ETF	0%
Listed Equities	75%

Market cap <\$100m	65%

Market cap \$100m-\$1b	23%

Market cap >\$1b	13%

Top 5 positions	51%
No. positions*	27

[#] 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	Geo (NZ:GEO), MedAdvisor (MDR)
Worst	Jaxsta (JXT)

SUMMARY

→ **PORTFOLIO REVIEW** | Dragonfly Fund continued to make advances in the month of October in an environment where top 100 ASX listings and Small Industrials struggled but some elements of the microcap segment found investor demand. Longer-term returns are far more important to us than the monthly figure and we are pleased that the value we see in the portfolio has been recognised with a 46% return over the past 12 months and a three-year annualised return of 8.84%.

→ **OUTLOOK** | Last month we commented that an increase in volatility early in October was reflective more of shifting sentiment than any change in fundamentals. It is more of the same in early November as bond yields remain volatile while investors digest higher inflation numbers and second guess central banks.

Our position also remains unchanged - we are focused on investing in businesses striving to create and demonstrate their unique value - and we typically avoid “nose-bleed” valuations based on cash flows not expected for many, many years - if they ever actually arrive. Partially misappropriating the words of Baupost’s Seth Klarman, “we are value-ish”.

→ **EQUITABLE INVESTORS** | We are excited to be welcoming a new member to our investment team in the week ahead - Mickey Mordech is joining Equitable Investors from Intelligent Investor. We will host our first quarterly video conference for investors post Mickey’s arrival to introduce him.

Top Nine Positions (alphabetical order, as of October 31, 2021; ASX-listed unless otherwise stated)

Ellume (unlisted)	Identitii	MedAdvisor
Energy Technologies	Jaxsta	Scout Security
Geo (NZX-listed)	Judo Capital Holdings	Threat Protect

PORTFOLIO REVIEW

Some of the key contributors (and detractors) to portfolio performance during the month of October were:

- Trade and field services app developer **GEO (NZ: GEO +19%)** has featured as a key contributor in each of the past three months. The update since our last report is that GEO successfully completed a \$NZ6m capital raising and is following that up with a share purchase plan that is open at the moment. GEO raised the new equity at \$NZ0.13 a share and rallied to close out the month at \$NZ0.188 a share.
- MedTech company **MedAdvisor (MDR +20%)** has, in our opinion, struggled to attract the attention on the ASX that it deserves. A little good news during the month at least fostered some buying: its US business signed up Walmart; and MDR set targets to lift its digital penetration of its ~200m network-wide patients from less than 10m to over 100m; indicating revenue per digitally accessible patient should grow from \$0.25 to >\$1.00 for a target of over \$100m annual revenue - at a 35%+ EBITDA margin. Not to forget, MDR also announced that September quarter revenue was up 36.5% year-on-year, on a like-for-like basis to factor in its acquisition of US unit Adheris, leading to positive operating cash flow of \$2.1m.
- Music industry data aggregator **Jaxsta (JXT -13%)** was the only notable down-weight on the portfolio for the month. JXT has a lot to prove, with the first trickles of revenue only just becoming evident, but strategically it is in a very interesting position as the "IMDB of the music industry".

During the month we also participated in the IPO of "neobank" **Judo (JDO)**, which listed November 1, and therefore did not contribute to the Fund's performance in October. JDO is the first IPO Dragonfly Fund has participated in for quite some time (other than a couple of backdoor listings in CY2020). Our reasons for getting behind JDO were summarised in the [AFR](#): "Too many entrepreneurs look at financial services and think they can disrupt by acquiring customers digitally, without understanding that they are still in the business of capital and need an edge on the cost of funding, risk assessment and pricing of loans. Judo appears to have the right capabilities and is turning profitable this year, based on its prospectus forecasts."

Unlisted Investments

In the prior month's update we noted that Equitable Investors had led a funding round for an early-stage FinTech. The business we were referring to was Parpera, which during October publicly announced that its \$1.5m capital raising had been led by Equitable Investors, alongside a Family Office with strong and relevant industry experience (wish we could say who). We were also excited to see Parpera [featured in the AFR](#), with the article noting that Afterpay "has been pipped to the post getting a BaaS [Banking as a Service] product into the market by Parpera."

Digital diagnostics company Ellume [was declared](#) as the top ranking innovative health company in Australia by AFR Boss. Literally just as we were about to release this update news hit that Ellume has had to recall 2.2m of its at-home COVID-19 tests distributed between mid-April and late August. The US Food & Drug Administration (FDA) said it had received 35 reports of false positives. Ellume told Bloomberg that it has identified the cause of the problem, put new control measures in place and is now making and sending new tests to the U.S. For some context, we understand the Roche rapid self-test currently available in Australia correctly identifies only 82.5% of positives for patients with symptoms. Ellume's studies showed it identified 96%. We will be monitoring Ellume's situation closely.

EQUITABLE INVESTORS

During the September quarter we were thrilled to welcome PSC Insurance (PSI) founder Paul Dwyer into the fold as a shareholder, director and investor.

This quarter we are excited to introduce **Mickey Mordech, CFA**, as a member of our investment team.



Before joining Equitable Investors, Mickey spent five years with Intelligent Investor, starting out as a relationship manager and junior equity analyst, before continuing on to become a fully fledged analyst and writer shortly thereafter.

During his time within the funds' investment team, Mickey covered a wide range of ASX-listed businesses and issued a number of successful "Buy" recommendations. Mickey also contributed to the Intelligent Investor (II) funds' portfolio composition, playing a role in II's Growth fund achieving a return of over 14% a year over the last three years of his tenure - the fund outperformed its benchmark the S&P/ASX 200 Accumulation Index over those three years and since inception.

In his younger life Mickey gained exposure to ETFs, currencies and commodities in various roles across financial services. Mickey has 10 years' experience as a private investor and is also a CFA® charterholder.

We are proud of the experience and capability of the Equitable Investors team:

- **Martin Pretty (Director, Investment Manager)** | an investment manager at Thorney Investments when Thorney Opportunities (TOP) was the best performed Listed Investment Company on the ASX; experienced listed company director; former sell-side Head of Research.
- **Mickey Mordech (Investment Analyst)** | investment analyst with a publicly demonstrated ability to identify fresh opportunities and a contributor to an outperforming growth fund.
- **Paul Dwyer (Director)** | Founder of PSC Insurance (PSI) with a track record of achieving strong organic growth and successfully executing multiple acquisitions.
- **Hugh Robertson (Director)** | One of the most experienced small cap brokers and capital markets advisers in Australia; a key figure in the IPOs of companies including Afterpay and Bellamy's.
- **Lana Jenkins (Director, Operations & Compliance)** | Formerly a lawyer with King Wood Mallesons; held a number of ASIC roles across enforcement, strategy and policy, consumer protection and small business compliance and deterrence.
- **Samuel Richards (Operations & Risk Advisor)** | Former Chief Operating Officer of Goldman Sachs Asset Management and Goldman Sachs Australia Funds Management; current Managing Director of impact investor Brightlight Group.

We will be making a further addition to the investment team early in CY2022.

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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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.