

Dragonfly Fund

High conviction micro-cap strategy

Issued: May 2026

Navigating the Straits

"It is not down on any map; true places never are."

- Herman Melville, *Moby-Dick*

Performance to Apr. 30, 2026	1 month	FY2026TD	CY2025	FY2025	FY2024	FY2023	FY2022	FY2021	Inception
	3.53%	-8.52%	14.58%	-3.67%	6.71%	-34.04%	-23.53%	74.34%	-7.91%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

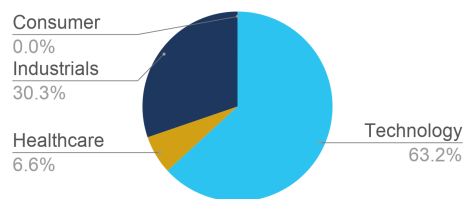
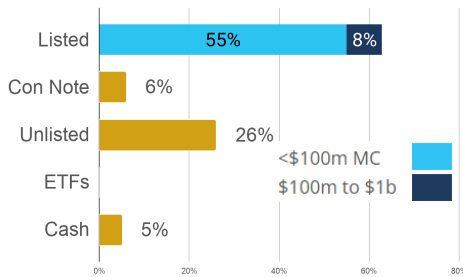
Apr. 30, 2026

NAV	\$0.4894
Bloomberg	EQUINDF AU Equity
APIR code	EQB7664AU
ISIN	AU60EQB76649

Key Contributors

	Last month	FY26 to-date
Positive	IODM (IOD) Spectur (SP3)	MadPaws (MPA) Wrkr (WRK)
Negative	Archtis (AR9) De.mem (DEM)	Archtis (AR9) DXN (DXN)

Portfolio Key Metrics



Top 5 positions	53%
No. positions*	19

May not add up to 100% due to rounding
* excludes positions <0.05%; counts multiple security types in one company as one position
Note: In-the-money convertible notes treated as equity

Inside:

- Monthly Review
- Archtis (AR9)
- Charts
- What's on Our Minds

SUMMARY

→ **THE MONTH** | Things picked up somewhat in April as the Fund's 3.5% gain came alongside a +2.65% move for the S&P/ASX Emerging Companies and +2.46% advance for the S&P/ASX Small Industrials. The worst performed stocks of March were the best performed in April. Markets adjusted to the new layer of geopolitical volatility in the Middle East and tightness in oil markets. Positive sentiment towards the megacap "AI" theme outweighed such issues for broader equity markets.

→ **SMALL TALK** | Over the past month we have profiled Ampol (ALD), De.Mem (DEM) and First Wave Cloud Technology (FCT) for our investors in our weekly [Small Talk](#) updates. If you are an investor and do not have access, please let us know.

→ **OUTLOOK** | The *What's on Our Minds* section in these reports set the scene in terms of how we think about the markets in which we are currently operating. We see "AI" as an opportunity for businesses with other competitive advantages, rather than a threat - and an opportunity we are also leveraging for enhanced capability internally. We see an increasing divergence in overall valuation between smaller companies and larger companies on the ASX, taking into account a material gap in growth expectations that favours smaller companies. The medium-term impact of hostilities in the Middle East on energy markets, costs of doing business and inflation are something to watch. But our discipline remains on the bottom-up approach to a company's ability to create and demonstrate value.

Top Nine Positions (alphabetical order, as of April 30, 2026; ASX-listed unless otherwise stated)

Company	Code	Industry / Theme	Inefficiencies	Price / Value Focus	Quality Characteristics
Adveritas	AV1	Digital Advertising, Applied AI	Below Radar, Illiquidity	Future earnings	Competitive advantage, Operating leverage
Compumedics	CMP	Sleep & Brain diagnostic tech	Global peer valuation disconnect	Current earnings base	Competitive advantage, Unique growth drivers
De-mem	DEM	Water treatment	Illiquidity, Below Radar, M&A synergies	Current earnings base	Positive cash flow, Operating leverage
Energy Technologies	EGY	Electrical, Infrastructure, Defence & Construction	Turnaround / Recap	Strategic value	Operating leverage
Intelligent Monitoring	IMB	Security Services, Security Tech	M&A Synergies	Current earnings base	Positive cash flow, Competitive advantage
IODM	IOD	Receivables software, education focus	Below Radar, Misunderstood	Future earnings, Strategic value	Unique growth drivers
Scout Security	SCT	Security Tech, Applied AI	Turnaround / Recap, M&A synergies, Unlisted	Future earnings	Operating leverage
Spectur	SP3	Security Tech, Applied AI	Below Radar, Illiquidity	Future earnings	Operating leverage
Hubspok / Upsure/Cova.ai		Insurance Tech, Applied AI	Illiquidity, Spin-out, Unlisted	Future earnings	Operating leverage

Conviction

Equitable Investors takes a medium-to-long term view when assessing value relative to price. Our framework focuses on:

1. Establishing a revenue and margin objective and the capital and time required to get there.
2. Assessing the specific risk and appropriate cost of capital to derive target valuations.
3. Assessing and constructively engaging with key people in the business.

This framework then allows us to rank current and potential investments by potential valuation upside relative to risk. We continually review the make-up of the Fund's portfolio and make changes dictated by the interplay between assessed value, risk and market price. But as we often accept the "double-edged sword" of low liquidity, it can be the case that portfolio weightings drift from our optimal target.

Inefficiencies & attaining an "Edge"

Developed, liquid markets may be relatively efficient, in general, but there are always inefficiencies to be found. For example:

- information may not have been widely disseminated and analysed even if it is public;
- a market may be awash with so much information that the marginal investor does not know which information is significant and which is just noise;
- the balance between supply and demand may have been skewed by the activities of a significant investor with a different objective to other investors; and
- investors often display "herding" behaviour, shifting prices excessively or missing opportunities that aren't "popular".

Inefficiencies are most likely found among lesser known stock listings, including those with smaller market capitalisations, little or no broker research coverage, lower "free floats" or a history of disappointments that have chastened investors.

Price Matters

Equitable Investors considers investments in the context of current earnings, potential or future earnings and assets. We recognise the difference between a great business and a great business at an attractive price. We continually ask why we believe a security is good value or mispriced and whether we have any analytical edge to justify our view.

Quality Matters

Equitable Investors typically focuses on businesses that currently or, in its investment thesis, will in future generate free cash flow, possess conservative financial gearing, hold competitive advantages and appear to have credibility in terms of the quality of their reported accounts and the capabilities of board and management. We prefer businesses that will not be driven predominantly by cyclical and instead possess their own specific growth or value drivers.

People

Equitable Investors considers people to be key assets of most companies and therefore seeks to know the people in and around the company and maintain ongoing dialogue with management and board. We take a strong interest in their incentives and a pragmatic view towards appropriate corporate governance structures. We believe in maintaining frank and open dialogue with the entities in which investments have been made.

MONTHLY PORTFOLIO REVIEW

April represented a breather after the turmoil small stocks experienced following the latest Middle Eastern hostilities.

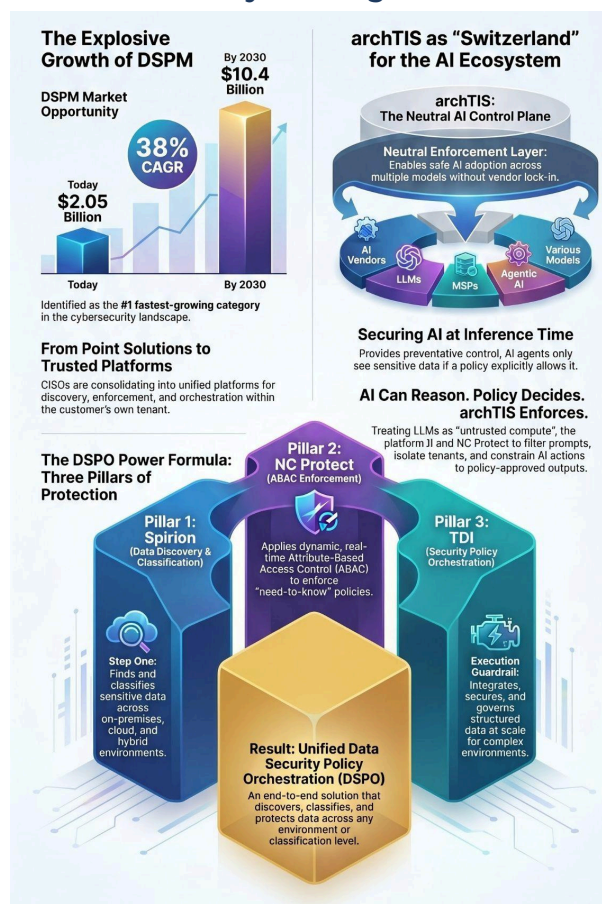
- Tertiary education-focused receivables management software developer **IODM (IOD)** announced a new deal with partner Convera, increasing IOD's share of revenue to 30% from an original 25% when the partners secured their initial five UK universities. IOD then announced its US partner Transfermate will move to offering the IOD solution via a platform rather than individual implementation, opening up 283 universities initially out of Transfermate's footprint of ~1,000. IOD reported \$786k cash receipts for the March quarter and net operating cash outflow of \$622k.
- News on its relationship with the US Department of Defence is what investors have been looking for from defence-focused cybersecurity company **Archtis (AR9)** but they didn't get that until May. In April the company's news was its quarterly cashflow - it reported \$15.1m Annualised Recurring Revenue (ARR) and quarterly operating cash burn of \$3.66m, including \$1m in one-off expenses from recent M&A. We profile AR9 below.
- Smart home & security tech company **Scout Security (SCT)** has delisted from the ASX. There will be further updates on its plans and strategy from here, potentially including further consolidation following its synergistic acquisition of Roo Inc at the end of CY2025.

Defence-focused cybersecurity company **Archtis (AR9)** specialises in data-centric security solutions for the secure collaboration of highly sensitive and classified information. Unlike traditional security, AR9 utilises Attribute-Based Access Control (ABAC) to enforce "Zero Trust" policies at the data level. This ensures only authorised users can access specific files based on real-time contexts. Their core products—Kojensi and NC Protect—are relied upon by top-tier clients, including the Australian Department of Defence, multinational defense primes, and highly regulated enterprises.

Through the transformational acquisition of US-based Spirion in late 2025, AR9 combined data discovery and classification with its proprietary ABAC enforcement engine. The company now runs a high-margin (~74%) SaaS model driven by its \$15.1m ARR rather than by one-off consulting revenue it often relied upon in earlier years.

A May 2026 update is highly material in our view with AR9 reporting its NC Protect achieved a flawless 100% success rate (60 of 60 test cases) in the U.S. Department of Defense's (DoD) live DoD365 production trials. This definitive technical validation lowers execution risk and sets the stage for a near-term enterprise mandate, which management anticipates could be an upfront 3-year deal adding \$6m-\$8m in ARR. Alongside a recent ~\$1.2M US/European military alliance win and an expanded \$8m debt facility from a major bank (CBA), these milestones all improve AR9's risk profile and highlight its growth potential.

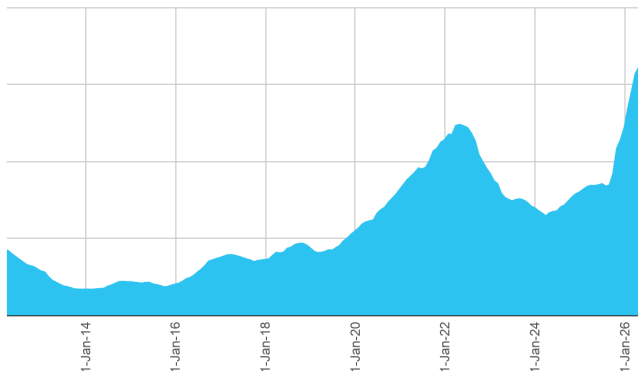
Archtis as the neutral control plane for data security and AI governance



Source: Equitable Investors, Company Data, Gemini

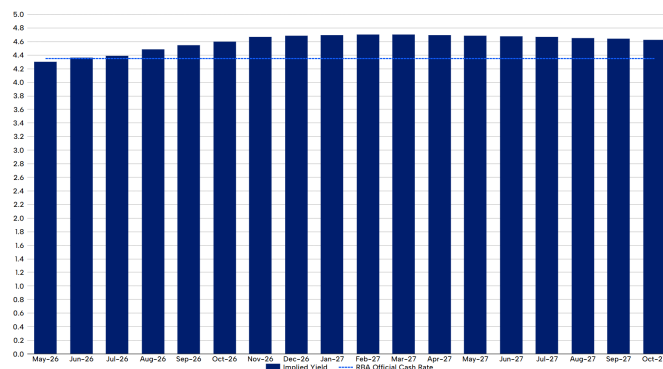
CHARTS

Value of trade in S&P/ASX Emerging Companies Index (trailing 12 months)



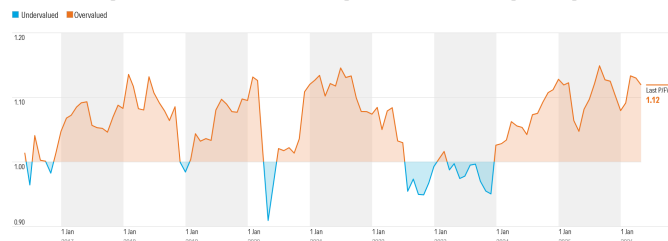
Source: Iress, Equitable Investors

ASX 30 Day Interbank Cash Rate Futures Implied Yield Curve



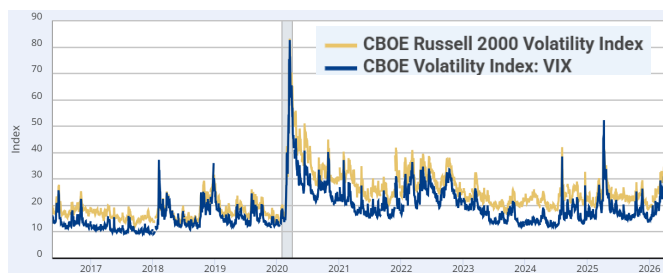
Source: ASX

Market price v bottom-up valuation (ASX)



Source: Morningstar

Implied volatility of large caps v small caps (US)



Source: FRED

Multiples: Last 12 Months & Next 12 Months

	LTM	NTM
Small Ords Aus EV/Sales	9.1x	6.1x
Small Ords Aus EV/EBITDA	13.8x	12.3x
Small Ords Aus P/E	25.7x	22.9x

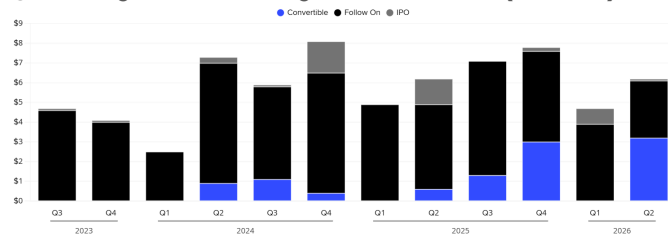
Source: Koyfin, Equitable Investors

Multiples: Last 12 Months & Next 12 Months

	LTM	NTM
FIT median Aus EV/Sales	1.5x	1.3x
FIT median Aus EV/EBITDA	8.9x	8.1x
FIT median Aus P/E	16.8x	13.8x

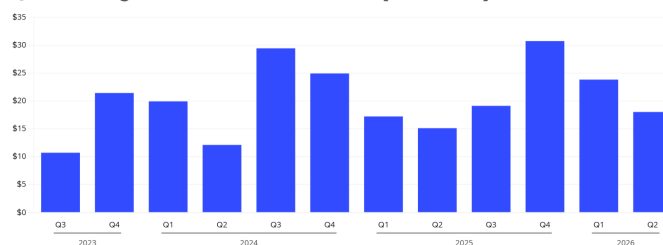
Source: Koyfin, Equitable Investors

Quarterly ECM activity - Australasia (in USD)



Source: LSEG, WSJ

Quarterly Australasia M&A (in USD)



Source: LSEG, WSJ

WHAT'S ON OUR MINDS

Geopolitics, Markets, Oil

Recent "risk-on" rallies are hyper-concentrated and exceptionally vulnerable to geopolitical shocks, such as the ongoing US/Iran conflict. Defense remains a critical market theme. The Caldara and Iacoviello Geopolitical Risk (GPR) Index surged to a peak in March and has pulled back during April and May. But the most recent 10-day average index level of ~187 remains elevated relative to the pre-Ukraine invasion levels of <100. Intraday trading focuses on headlines but oil markets still face challenges with a reported 10% drop in global supply accompanied by a drawdown in strategic reserves and evidence major producers have reduced their inventory levels. This implies a risk that oil prices will rise, impacting operating costs for many businesses as well as consumer inflation.

Interest rates & inflation

The impact of oil price volatility on inflation is something to watch closely - and the reaction of central banks to a supply-side shock (as opposed to a demand-side shock like the COVID-19 lockdowns). With the 10-year government bond yield hovering at just under 5%, the historical necessity to blindly buy equities is decisively over. The S&P/ASX 200 currently offers a ~2.8% dividend yield, meaning equities must now directly compete with fixed-income alternatives. Moving forward, unlocking portfolio growth in this higher-rate environment will require rigorous fundamental analysis to avoid businesses vulnerable to an elevated cost of capital. Our risk analysis tells us inflation shocks and the cost of capital are two key factors for ASX small caps generally - and specifically for the Dragonfly Fund portfolio.

Liquidity & Price Discovery

The current liquidity environment is dominated by short-term speculation. In recent US market surges, Zero Days to Expiration (0DTE) options contracts routinely accounted for over 50% of total S&P 500 volume (59% being the current reading). Back in Australia, the value of trade in the S&P/ASX Emerging Companies Index peaked in October 2025 but actually hit its second highest level ever in March 2026 - driven by record levels of activity in the resources sector - before a 42% month-on-month decline in April. As Research Affiliates notes, "passive inflows perpetuate price trends", creating a valuation feedback loop. A 2025 [study](#) confirms this disproportionately inflates mega-caps. A 2024 experimental [study](#) found that at current US passive levels (~38%), price discovery degrades significantly.

M&A

The aforementioned breakdown in price discovery continues to create prime arbitrage opportunities for corporate acquirers. Over the past year, small and mid-cap ex-resources takeovers on the ASX have commanded an average premium of 46%. The total value of M&A in Australia in CY2026-to-date is up 55% year-on-year (in USD), based on Dealogic data, largely due to the A\$14.2 billion bid for Bluescope Steel (BSL).

Private market valuations

While last month we highlighted falling Series C valuations, this month we need to focus on the broader credit market. Analysts are drawing stark parallels between the current boom in private debt and the junk bond era of the 1980s. While annual default rates are relatively low today, we must remind clients that default rates in the junk bond era eventually spiked to 10.4% in 1990, suggesting significant latent risk in private credit markets if conditions tighten.

"Artificial Intelligence" (AI)

AI is pushing beyond "failed enterprise pilots" into structural disruption but the ultimate results remain to be seen. The listed software sector is currently trading at a discount to the S&P 500 for only the second time since the Global Financial Crisis (currently the iShares Tech-Software ETF is priced on 20.2x consensus EPS v. 21.7x for the SPDR S&P 500). According to insights from Thoma Bravo, software companies relying on simple, low-stakes workflows are at immediate risk of AI disruption, whereas highly complex, regulated platforms remain insulated.

The Compute-Energy Collision

The rapid structural scaling of AI data centers is colliding directly with global energy supply constraints. "AI" requires massive, uninterruptible baseload power. Data centres are projected to consume 4% to 5% of global energy infrastructure within the year, leaning heavily on natural gas and grid stability. With critical natural gas supply chains compromised—evidenced by drone-damaged Qatari LNG infrastructure facing a 4-to-5-year repair timeline—computational growth will face hard physical constraints.

Key Contacts

Martin Pretty, CFA

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Dragonfly Fund portfolio manager

25+ years experience in financial markets. Previously Thorney Investment Group, Investorfirst (Hub24), Bell Potter, Australian Financial Review, InvestorWeb.

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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.

We have used this capability sparingly, but always welcome new opportunities. Further info is available [here](#).

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

Fund's 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.

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Apply Now

Applications to invest in Equitable Investors Dragonfly Fund can now be made online with Olivia123 - click [here](#).

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