Geometrica Fund

Investor Newsletter – January 2020

We seek asymmetric investment opportunities informed by the coalescence of rigorous fundamental analysis and alternative data discovery.

The Geometrica Fund aims to deliver outstanding returns to unitholders via highly targeted investments in the global mid-cap equity universe.

Overview

Net of costs, the Fund closed the month of January -1.3%, with NTA at $0.9918 per unit (Founders Class – Lead Series).

Gross exposure at month end at 37%.

A few things contributed to our negative print in January.

First, over half the negative print was attributable to a stock we acquired mid-month, which promptly sold off (presumably on coronavirus fears) to close January down almost 15% from our cost. As we write, the stock has fully erased its losses and continues to march higher.

Second, the arrival of Coronavirus mid-January knocked the stuffing out of Corporate Travel Management Limited (**CTD**).

We had bought into CTD when it had an $18 handle back in September 2019 as the market fretted about a well-publicised short selling expose. CTD was sitting above $22/share mid-January but closed January below $18. We exited the vast majority of the position to salvage a positive but much diminished return.

At the time of writing this letter, gross exposure has increased to 51% and the *estimated* February month to date performance net of costs had expunged January's loss.

Portfolio notes

Micron Technology Inc.
(Ticker: MU.US, US$65.0 bn mkt cap)

We bought an initial stake in Micron in December 2019 and have subsequently added to it in line with ongoing diligence and monitoring. At this juncture the upside is both attractive and positively asymmetric.

Micron is one of three dynamic random access memory (**DRAM**) makers globally. This is an oligopoly if ever there was one. But it was not always so…

DRAM is a crucial input in almost all hardware where it serves as cache memory. Along with hardware, it has also been a deeply cyclical market.

Historically, in boom times DRAM prices would rise as demand outstripped supply. Manufacturers would spend all their earnings on ever increasing production capacity, until supply eventually outran demand. When this happened DRAM prices would tank, earnings would evaporate and the weakest players would default on debts assumed in more ebullient times and exit the industry.

This Darwinian approach to industry consolidation has left three surviving DRAM makers today; Micron, Hynix and Samsung.

Today, the key drivers of DRAM demand are mobile and server end markets. Adoption across mobile devices is driven by the requirement for more computing power for the same or lower energy consumption and heat output. For server demand, think cloud or hosted computing and gaming which require huge data centres to operate. These servers benefit from increased processing power as computing tasks become more intensive and, similar to mobiles, also benefit from greater efficiency in power consumption and heat output.

The top 3 DRAM makers are currently engaged in launching the next generation of DRAM, DDR5, which generates twice the processing power of the prior generation, DDR4, yet at almost half the rate of power consumption and therefore heat generation.

Because of this, we expect DDR5's speed of market penetration to be on par with or better than DDR4 which was less of an upgrade to its prior generation and reached a 75% market penetration over 4 years.

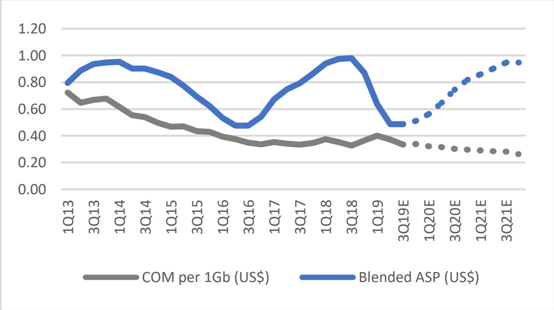
Given the time it takes to shift into new generations of DRAM, cycles are "two-pronged" since late adopters of DDR5 will likely be upgrading from DDR3 to DDR4 or simply refreshing their existing DDR4 infrastructure since new CPUs and motherboards are needed to support new generations of DRAM.

In turn we expect both DDR4 and DDR5 prices to rise, which is just now starting to play out.

Pleasingly, the major players are signalling restraint in capital investment, with Micron calling out a reduction to forward capex plans on recent earnings calls.

If we look at prior cycle analogues of valuation, we arrive at a price target for Micron that is double where it presently trades.

What the next DRAM cycle might look like



Source: Geometrica.
COM = cost of manufacture. ASP = average selling price.

Avita Medical Limited

(Ticker: AVH.AU / RCEL.US, A$1.8 bn mkt cap)

Back in December we started looking at ASX med-tech stocks from a highly sceptical standpoint, hunting for potential shorts.

The catalyst for our search was the observation that a number of stocks we'd never heard of were pushing past A$1bn in market cap. Everyone it seemed was not just looking "*for the next CSL*" but wanting to pay for it in advance. We have seen a lot of train wrecks in the healthcare sector, especially around US based medical trials.

When we started to look at Avita, it did not conform to our negative disposition in a few ways.

First, the key product had already passed through clinical trials and had received US FDA approval to be marketed in the US.

Second, Avita has agreed applicable reimbursement and procedure dependent reimbursement codes for CMS (Centers for Medicare and Medicaid). In the US, how a health care provider gets paid is crucially important to their willingness to use a device.

Third, the addressable market which was not reliant upon additional clinical trials was strongly suggestive of further upside.

Fourth, the immediate adjacencies, whilst requiring more clinical trial data use precisely the same device and approach and have been used, typically on compassionate grounds, for those indications already with success.

Finally, Avita can now definitively show improvement in efficacy relative to the current standard of care and material monetary savings, backed by clinical data.

Avita has been around for a long time. Their key product, the RECELL burns kit is relatively new but the underpinning technology is not.

Avita (then Clinical Cell Culture Limited) joined the ASX in 2002 when it was acquired by a listed investment company.

For many years the company was led by sales focused executives, which didn't actually lead anywhere. The company entered the European market years ago, arguably without sufficient data or clinical proof to really gain traction. New treatments expose doctors to legal liability. Their best defence is reams of data, built up in clinical trials, which definitively establish both efficacy and safety.

In 2017, Avita did something really smart. They appointed a CEO who had been on their board since 2013 and who had a strong clinical and technical background.

This led to Avita completing their US Phase III trial for RECELL use in US adult inpatient burn treatment in 2019. Which in turn opened the US market to the RECELL device.

The stock has run hard since then but we think it has a lot more left in the tank.

If we just priced the current indication in the US – inpatient adult 2nd and 3rd degree burns, the current share price implies ~60% capture. This is not outside the realm of possibility given the material benefits to both patient and hospital.

Alternatively if we price the core and immediate adjancencies only, the current stock price implies an ultimate US penetration rate of around 10%. We think this augurs for material price appreciation.

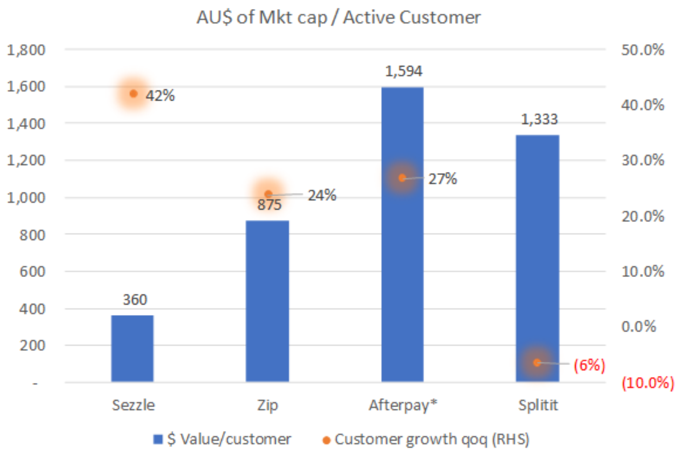
Additional trials are underway for adjacent indications. Generally, these are "low risk" in that usage is for a different patient cohort (eg paediatric scalds).

Some other truly bluesky indications are possible maybe even probable, but frankly several years away and not part of our base case.

Sezzle Inc.

(Ticker: SZL.AU, A$0.4 bn mkt cap)

Enough said.



Source: Company filings & Geometrica analysis

*Afterpay customer growth qoq is sourced from Geometrica analysis rather than company filings due to availability of data.

18 February 2020.

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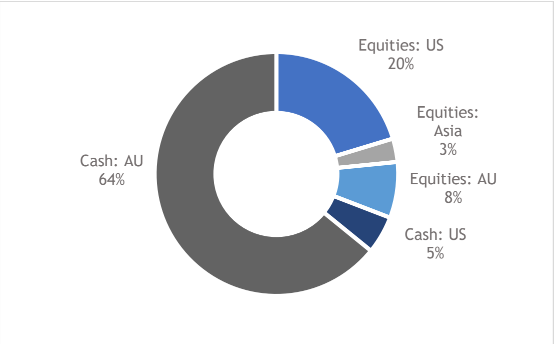
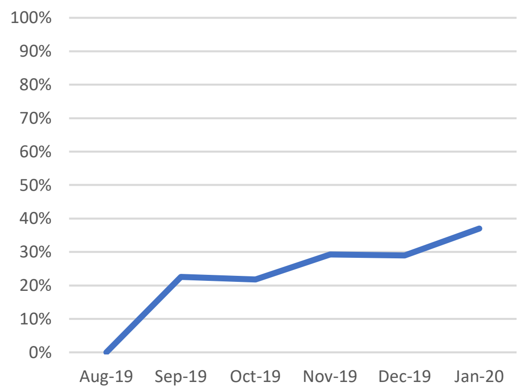
Fund overview (Alpha Units)

Fund	Geometrica Fund	Investor Eligibility	Wholesale only
Structure	Wholesale unit trust	Minimum Investment	A$250,000
Mandate	Global long short Mid-cap focus	Fees	1.5% management (+GST) 20% performance (+GST)
Gross exposure range	0 - 200%	Benchmark	RBA Cash Rate
Net exposure range	1 - 100%	High water mark	Yes
Single stock long limit	15% at cost	Liquidity	Monthly
Single stock short limit	5% at cost	Admin & custody	Mainstream Fund Services
Buy / Sell Spread	Nil / 0.25%	Platforms	Ausmaq

Asset allocation (net)



Gross exposure



Investment performance (net)

	Founder Lead Series - 2019	Founder Lead Series - 2020
Jan	-	-1.3%
Feb	-	
Mar	-	
Apr	-	
May	-	
Jun	-	
Jul	-	
Aug	-	
Sep	1.1%	
Oct	0.8%	
Nov	0.1%	
Dec	-1.6%	
Total	0.9%	

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Past performance is not predictive of future performance and no guarantee or representation as to expected future returns is or can be made.