Geometrica Fund

Investor Newsletter – July 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 Geometrica Fund closed the month of July up +9.51%*.

Whilst the overall portfolio performed quite well, putting us ahead of major indices despite our significant cash weighting, the real performance kicker this month came from a data enabled ambush we mounted on one stock. Quite simply, data demonstrated to us an asymmetric risk opportunity and we seized upon it. More on this anon.

Holdings in iron ore and gold stocks continued to generate positive performance. FX was not a major factor this month as we ran predominantly fully hedged back into AUD, thus negating the impact of the Australian dollar's continued appreciation against the US dollar, notwithstanding the bulk of our equity positions are exposed to offshore markets. Shorts were also neutral in their contribution despite the strong market backdrop. The key area of detraction was a cluster of positions that require a recovery from Covid-19 in order to truly perform.

Net exposure was 66.5% at month end. Cash, excluding cash generated from short sales, equated to 25% of net assets at month end.

The market

We don't market our wares much, our theory being that performance begets inflows…and even if it doesn't then it at least results in the compounding of capital. When we do market, invariably the question as to "*what will the market do?*" arises.

A vast majority of the time (but not always) we have no special insight and so we eschew comment, noting that very few humans have shown a sustained capacity to predict the direction of an entire market.

At the level of the entire equity market there are so many variables to consider that it becomes *extremely* difficult to forecast direction reliably. To quote a sage former colleague: "*why ponder the imponderable?*"

We suspect the driver of the question "*what will the market do?*" is a false equivalence of market and stock performance. That is, the assumption that if the overall market does not rise, then you cannot make money on stocks.

We beg to differ.

When you look back over the most horrible stretches of market performance, no matter how bad the conditions were perceived to be at the time (outside of full-scale war, but inclusive of sustained

* *Founders Class units – Lead Series. Small variations will occur between unit classes and series based on differences in timing and terms. Source: Mainstream Fund Services, the Fund's external administrator and calculation agent.*

bouts of inflation, deflation and general market calamity), invariably there are some stocks that went up…a lot.

Hence the near axiomatic adage "*a market is not an economy*". And thus our business model, which is stock picking, not index investing.

Even if you reject all of this in spite of the evidence, we have the ability to run to cash and short sell stocks, and we've done both before to positive effect.

You might also want to ponder potential corollaries to this. If *everyone* is *fully invested* in equities, equities cannot go up. Which logically means…

Finally, an environment where an increasingly large number of companies refuse to provide earnings guidance and thus overall uncertainty is heightened translates - in letters 10 feet high to a stockpicker - "**OPPORTUNITY**".

Which also means if we don't perform it is not the fault of the market, its ours.

Asymmetric investing – the art of the ambush

We field a lot of questions on risk management. In the context of downside risk mitigation, typically as an ex post question as to how we control for risk after we've deployed capital.

If the statement "*the best hedge is to sell*" holds true as we think it does, then a more illuminating question on the topic of risk management might be "*why commit capital in the first place*?" or "*how do you determine how much capital to commit?*"

We allocate capital based largely on the concept of risk asymmetry. That is: upside versus downside risk, a question which encompasses both relative and absolute dimensions.

We know from experience that around 65-70% of the time we make money when we invest, meaning the other 35-30% of the time we *lose* money when we invest.

The sad fact is that because the world is constantly changing, it is quite difficult to improve our strike rate because even if we were "right" at the precise instant we made an investment, the course of events can change in unexpected ways to make us wrong (and we do occasionally commit errors of logic too!).

But once you accept this inherent uncertainty and fallibility, the logical path of inquiry becomes how can you improve performance outcomes despite this? Embracing uncertainty, how can you make more money?

We think the answer is in sizing, based not on the heuristic of "conviction", but on a mathematical assessment of asymmetry and our ability to monitor key outcome drivers in real time, via data which is not widely disseminated. Because if you can monitor in real time a key risk or business driver, then all other things being equal, it becomes what you might call a "*sure thing*". That is, the favourable risk asymmetry becomes quite extreme.

We use the term "sure thing" in the context of the Malcolm Gladwell essay of eponymous title "*The Sure Thing*" published in 2010. A few choice quotes from that:

- "*Successful entrepreneurs are seen as bold gamblers; in reality they're highly risk averse*"
- "*[a successful entrepreneur]…is anything but a risk taker. He is a predator, and predators seek to incur the least possible risk while hunting*"

In June we became aware, via a data set we collect which correlates nicely to a particular company's revenue, that business was *booming*. Ergo, once the market became aware of this, we reasoned the stock should go up, and quite a lot given it screened as cheap relative to its peers.

Because the data in question was both highly relevant and not widely disseminated, we had an edge that would persist only briefly, until the company in question fessed up to its stronger than expected trading.

This made the risk, all else being equal, very low and the upside very large because it wasn't in the price.

So, we committed more capital to the position, increasing sizing in line with the asymmetry on offer whilst remaining well below our single stock exposure limits which govern when we are permitted to add to a position.

When the company in question reported, the stock increased in price by more than 2x. At which time, given we had no remaining edge, we sold the vast majority of the position and cashed in our gains, given it was no longer a situation of extreme positive asymmetry.

Ambush. Based on assessed asymmetry. And access to a differentiated and relevant data source.

Unfortunately, these "sure thing" situations, where you have veritable missile lock on an outcome, are rare.

Because they are rare it means our reported results can be lumpy. We might underperform especially in months when the market is on a tear.

But the focus on asymmetry and data our approach is built on should make a material difference to risk adjusted performance outcomes over any reasonable time period. That is at least definitely the intention.

Gary, James & Ben.

10th August 2020.

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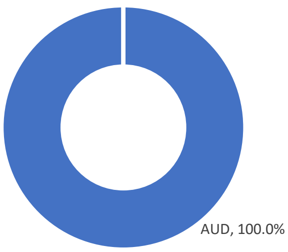
Fund overview (Alpha Units)

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	up to 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

Currency allocation



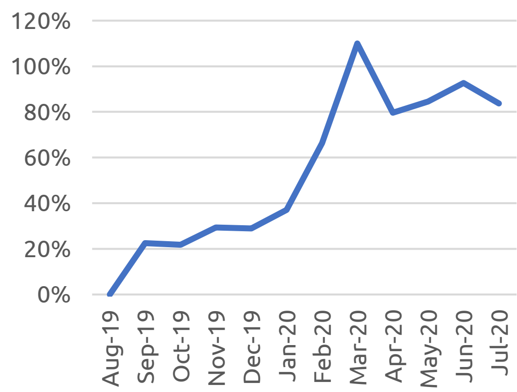
Investment performance (net)

	Founder Lead Series 2019	Founder Lead Series 2020
Jan	-	-1.3%
Feb	-	-0.3%
Mar	-	-5.2%
Apr	-	2.4%
May	-	7.9%
Jun	-	3.0%
Jul	-	9.5%
Aug	-	
Sep	1.1%	
Oct	0.8%	
Nov	0.1%	
Dec	-1.6%	
Total	0.5%	16.3%

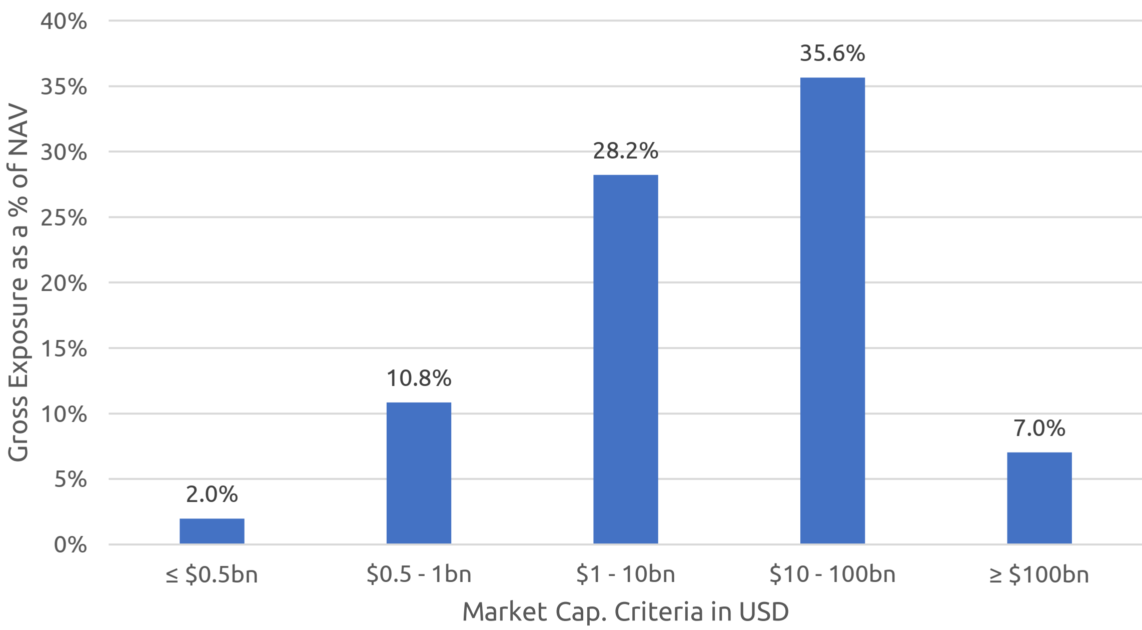
Asset allocation

Country	Long	Short	Gross	Net
Australia	13.1%	(6.1)%	19.2%	7.1%
Americas	36.9%	(2.5)%	39.5%	34.4%
Asia	13.9%	0.0%	13.9%	13.9%
Europe	11.1%	0.0%	11.1%	11.1%
Total	75.1%	(8.6)%	83.7%	66.5%

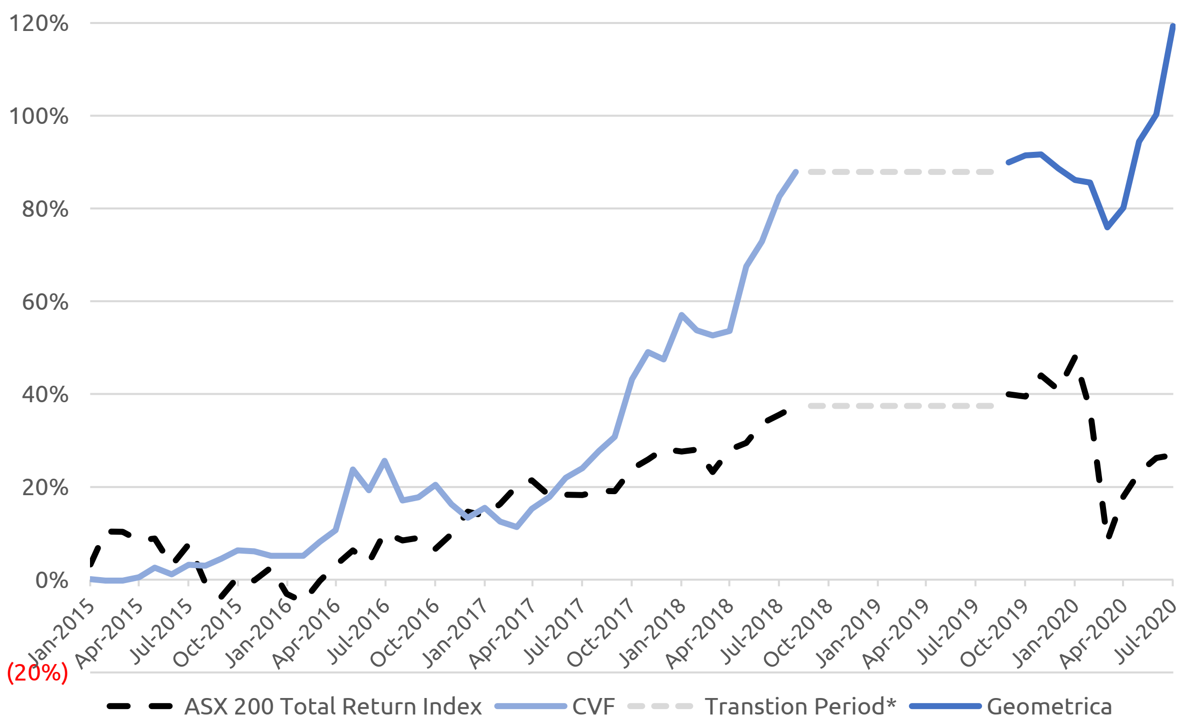
Gross exposure



Gross exposure by market capitalisation



Manager performance history



*** Manager left CVF in Sept 2018 and began Geometrica in Sept 2019**

NB: Performance period is from 5 Jan 2015 – 31 July 2020. Performance is net of all fees

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The Fund is not suitable for all investors. Investing in any security or fund involves significant risk. The price of any security or fund may decline as well as rise.

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