

Geometrica Fund

Investor Newsletter – September 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.

Investment performance (net)

As at 30 September 2020	1 month	6 months	12 months	Inception p.a.
Founder Lead Series*	-1.4%	+27.3%	+18.1%	+17.7%

Overview

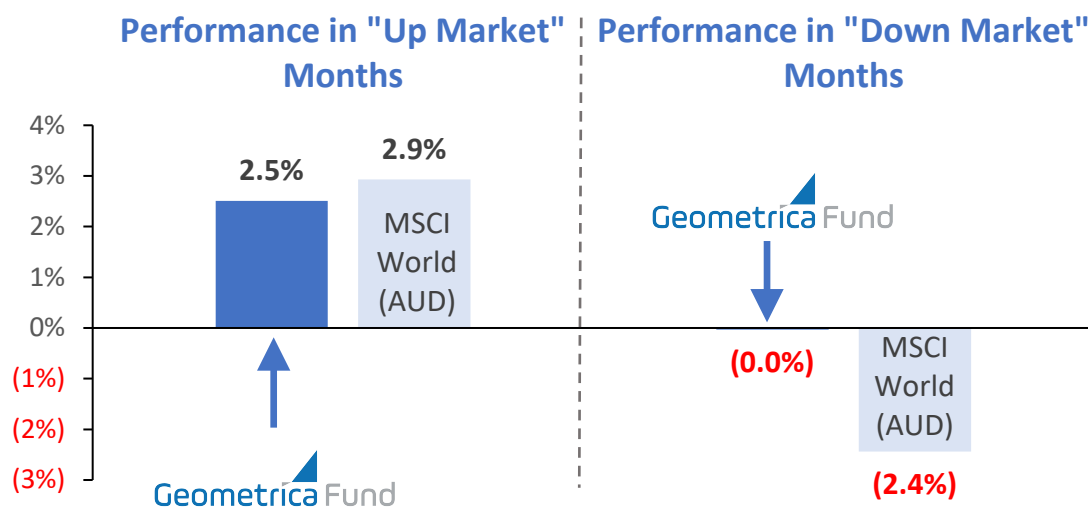
Net of costs the Geometrica Fund closed the month of September down -1.36%*.

In September most global indices headed south, with the S&P/ASX200 Total Return index falling -3.7% and the S&P500 Total Return Index falling -3.8%.

Many of our positions suffered along with major indices however a few of our larger positions (888, HelloFresh and Venus Medtech) bucked the market trend, posting strong positive performances.

A key part of our approach to generating high compound returns is to only deploy capital when we see significant upside asymmetry. If we get this right, we should lose less in difficult markets, possibly also make less in strong markets but the combination of the two should lead to strong performance over time.

The chart below shows our team's performance, measured across this and a prior fund over almost 5 years, in months when global markets are down (below right) and when they're up (below left).

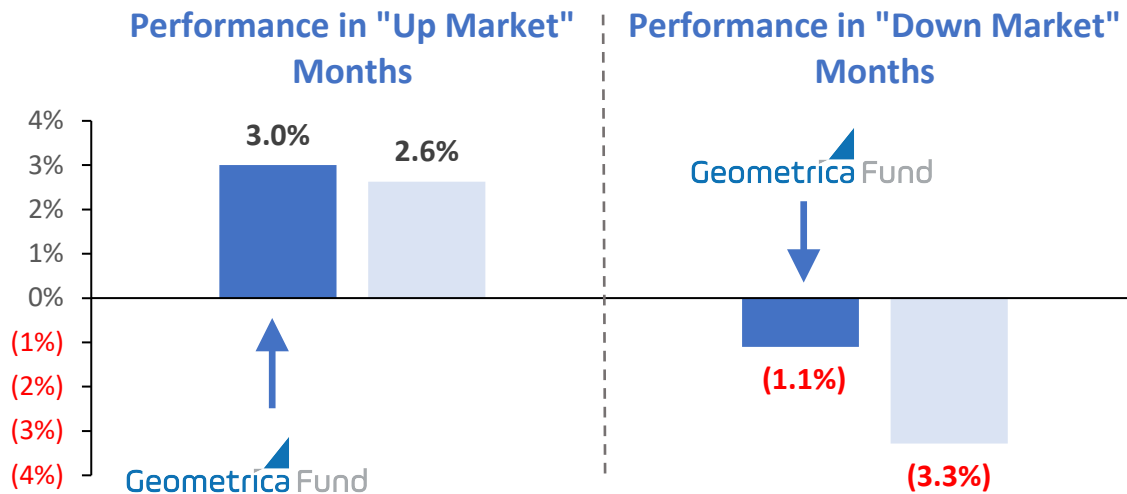


* Founders Class units – Lead Series. Small variations will occur between unit classes and series based on differences in timing and terms. Source: Mainstream Fund Services, the Fund's external administrator and calculation agent.

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The same analysis below, based on Geometrica only, inclusive of a pandemic.



Source 1: Mainstream, ASX Announcements, Geometrica and Bloomberg. Performance is after all fees, from Jan 2015 – Sep 2020 (excluding the period of Sep 2018 – Aug 2019; Manager left CVF in Aug 2018 and began Geometrica in Sept 2019). MSCI = MSCI World Index (AUD).

Source 2: Mainstream, Geometrica and Bloomberg. Performance is shown after all fees. Performance is from 1 Sep 2019 – 30 Sep 2020. MSCI = MSCI World Index (AUD)

Venus Medtech (ticker 2500.HK, mkt cap. US\$5.2bn)

Venus Medtech (**Venus**) is a biomedical device company and a pioneer in Transcatheter Aortic Valve Replacement (**TAVR**) in China where it has ~80% market share.

TAVR has been a *massive* growth area in the west, where it is still growing at astounding rates. TAVR is a disruptive medical device that has both saved lives and driven significant value creation for early investors in the stocks leveraged to it. Which is why we are so attracted to Venus.

So, what is TAVR?

Over 5% of people over the age of 65 years have moderate to severe Aortic Stenosis, which is when the Aortic Valve in the heart narrows and ceases to operate normally, typically due to calcification, which results in reduced blood flow into the Aorta, the main artery in the human body.

Acute Aortic Stenosis has quite a low survival rate without treatment. Historically the standard of care was surgical replacement of the aortic valve, however around one third of patients requiring treatment were inoperable due to other medical conditions. A diagnosis for these patients was akin to a death sentence.

Enter Alain Cribier, a pioneering French surgeon. In the early 2000s Cribier's company pioneered a procedure where he packaged a compressed replacement valve into a catheter, inserted it into a patient's femoral artery in the upper thigh and then fed that into the patient's still beating heart, where the replacement valve would be opened within the diseased valve and immediately commence regulating blood flow.

Conceptually, because the replacement valve was ingeniously opened within the old valve, and fed into position internally, it meant no open-heart surgery, no stopping of a patient's heart and thus vastly diminished surgery specific risks. Lower cost and a shorter hospital stay were also significant financial benefits.

If that sounds slightly complicated, you're right. When Cribier presented the TAVR concept to various medical device companies in the early 2000's, it was almost universally panned, with one medical company executive calling it "*the most stupid project ever*".

Cribier persisted. In large part because it appears he was devoted to the ideal of working to meet a desperate clinical need. The first procedure on a human was performed in 2002 with excellent results; the patient died sometime after due to unrelated causes but TAVR had been shown valid as a concept in a human.

Then in 2003, a small biotech company called Edward's Life Sciences bought the company that developed TAVR from Alain Cribier and his partners for US\$125 million.

Over the next 15 years after acquiring the TAVR technology, Edward's Life Science's market cap increased by more than *17 times*.

"In the last fourteen years, TAVR has been performed in around 300,000 patients in 65 countries and adoption is increasing by 40% year on year" - Alain Cribier (2016).

Edward's Life Sciences is now a \$52bn company, up from around \$2bn when it acquired Cribier's company, and its earnings growth has been almost entirely driven by TAVR.

This is the background to why we are attracted to Venus. Venus Medtech is arguably the Edward's Life Sciences of China, with its own IP, own devices and dominant market share. But because the Chinese market is at the start of its growth cycle, this is arguably like buying Edward's early in its growth trajectory...before the huge earnings growth...before TAVR was recognised as being the future dominant technology in Aortic valve replacement...before the other heart valves were included in the potential market size.

And Venus has a dominant 80% market share in China. And China is just at the very start of its TAVR adoption.

"We are far from the end of the TAVR's odyssey and the potential of this disruptive technology remains explosive" - Alain Cribier (2017).

We have used the last few months to establish a core position in Venus. This is credibly a compounder with significant upside potential and is already making a material contribution to our returns.

888 Holdings (ticker 888.LN, mkt cap. US\$1.3bn)

Our largest positive contributor in the month was 888, a global online gaming and sports entertainment company founded in 1997.

The stock came onto our radar after we reviewed a high frequency data set in April which indicated the company was experiencing *booming* market conditions, in stark contrast to consensus expectations.

Leveraging on work we had done some years before on this sector, we could see that many of 888's peers owned physical retail stores or had significant revenues tied to major sporting fixtures. So when Covid-19 came along, most of the sector sold off as physical stores shut down and sporting events were cancelled. Hence the low consensus expectations.

The logo for Geometrica Fund features the word "Geometrica" in a blue sans-serif font, with a blue triangle above the letter 'i'. The word "Fund" is in a grey sans-serif font to the right of "Geometrica".

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And yet 888 had no physical retail stores and limited exposure to sporting events. It is an online business. So, 888 benefitted disproportionately, with its revenues surging, as the flow from retail stores and sporting events went online.

At our initial entry price, the company was also trading at a steep discount to its historical valuation levels. Cheap on multiples...based on overly discounted expectations of revenues and earnings...this was really setting up as a coiled spring ahead of earnings announcements.

In June, 888 communicated to the market that revenues had increased in the first half of fiscal 2020 by over 30% versus the prior year. Yet this drove only modest positive earnings revisions by most sell side brokers. Intrigued by this, we reviewed a few sell side analyst models and discovered that they under accounted for the positive operating leverage in the business.

Our work indicated that 888 would significantly beat earnings forecasts when they announced results in late September. But beyond that we were also expecting *accelerating* revenue growth and ongoing margin expansion into the second half of calendar 2020. After all, an earnings beat is probably requisite but also possibly insufficient to drive a stock price higher because what then matters is will the earnings continue to grow into the future...and continue to propel the share price higher.

When 888 reported in September the stock jumped 21% on the day. Notably due to a material earnings beat, but also perhaps more importantly because there was ample evidence to suggest that earnings will continue to grow into the future.

From here, there is still *material* upside to consensus forecast earnings on a stock that is trading on valuation multiples materially below historical levels.

Distribution

The Geometrica Fund's units are now available for investment via the Hub24 platform.

The Geometrica team,
16 October 2020.

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Fund overview (Alpha Units)

Fund	Geometrica Fund	Investor Eligibility	Wholesale only
Structure	Wholesale unit trust	Platforms	Ausmaq, Hub24
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	Administration & custody	Mainstream Fund Services
Buy / Sell Spread	Nil / 0.25%		

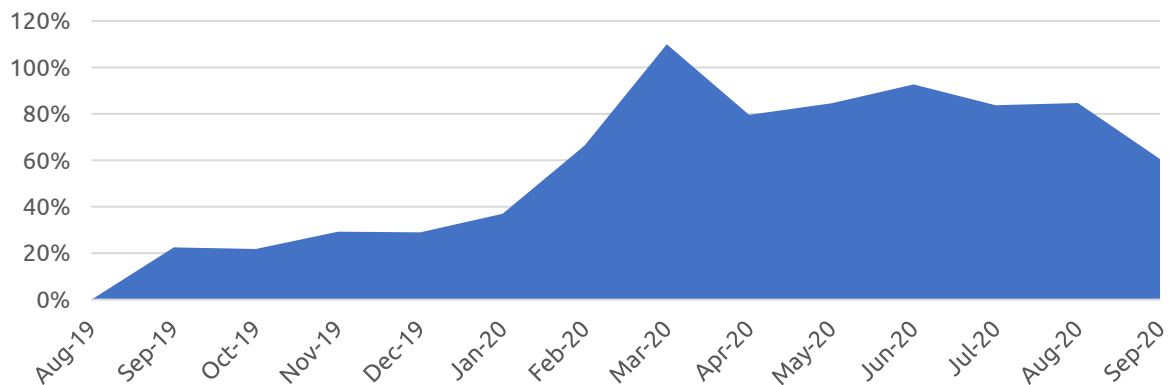
Investment performance (net)

	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	-	3.5%
Sep	1.1%	-1.4%
Oct	0.8%	
Nov	0.1%	
Dec	-1.6%	
Total	0.5%	18.7%

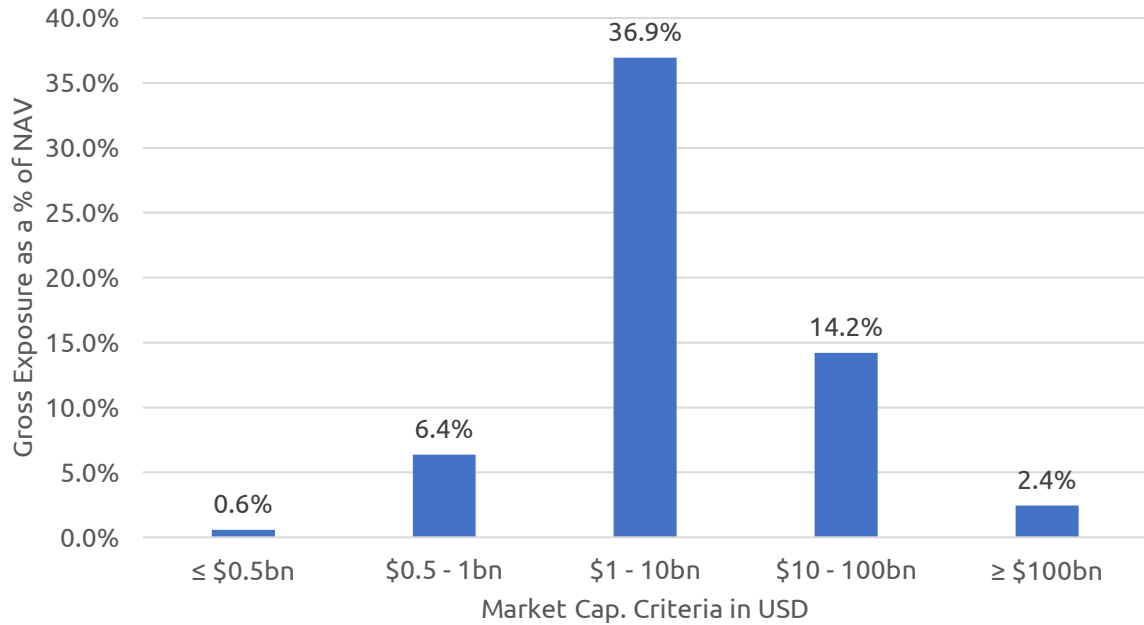
Asset allocation

Country	Long	Short	Gross	Net
Australia	12.0%	(4.1)%	16.1%	7.9%
Americas	18.9%	(2.0)%	21.0%	16.9%
Asia	8.1%	0.0%	8.1%	8.1%
Europe	15.3%	0.0%	15.3%	15.3%
Total	54.3%	(6.2)%	60.5%	48.2%

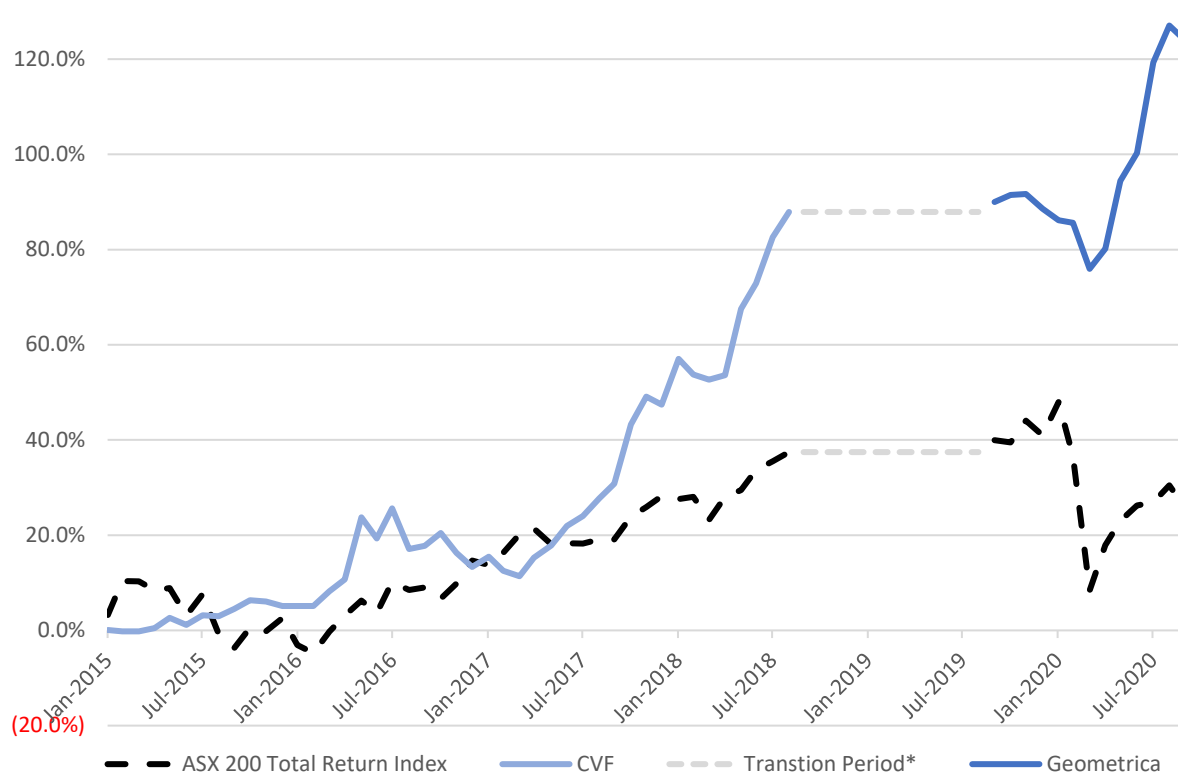
Gross exposure



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 – 30 September 2020. Performance is net of all fees

DISCLAIMER

This document has been prepared as general information only for wholesale investors in the Geometrica Fund and should not be distributed in any form to any retail or other investor that is not a wholesale investor as defined by the Corporations Act 2001.

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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.

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