Geometrica Fund

Investor Newsletter – November 2020

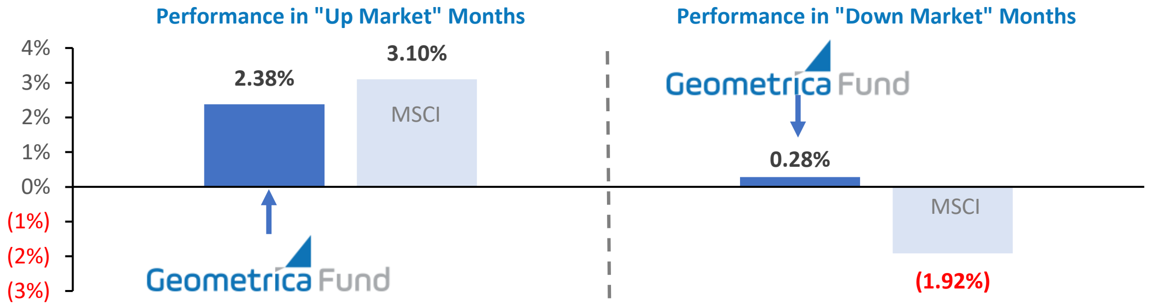
We seek asymmetric investment opportunities informed by the coalescence of rigorous fundamental analysis and alternative data discovery.

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 November 2020	Inception p.a.	CYTD	12 months	6 months	1 month
Founder Lead Series*	+18.28%	+22.77%	+20.83%	+19.06%	+4.82%

Performance Asymmetry



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

Overview

Net of costs, the Geometrica Fund closed the month of November +4.82%* higher, bringing the calendar year to date performance to +22.77%*.

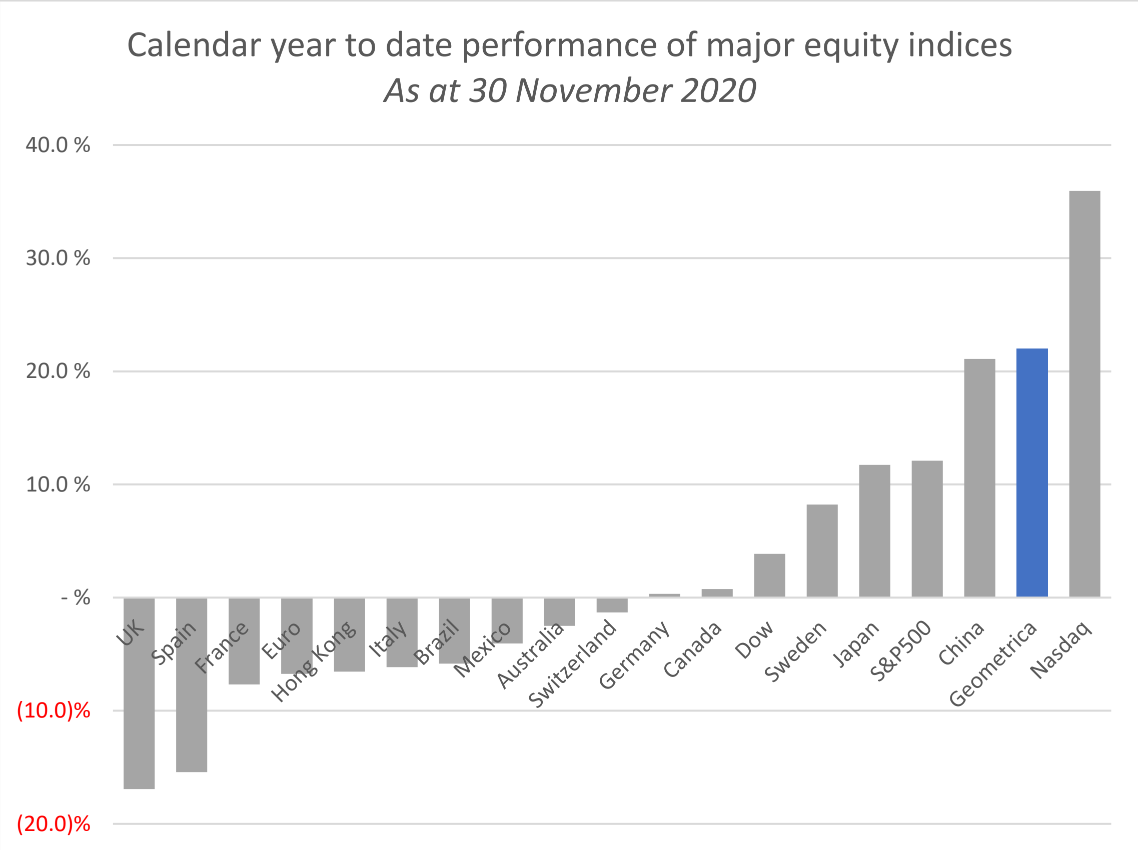
Key positive contributors were our positions in IDP Education (IEL.AU, Mkt cap A$6.3bn), AutoDesk (ADSK.US, mkt cap US$60.8bn) and Champion Iron (CIA.CN, mkt cap C$2.2bn).

The largest single stock detractor was a position we re-established fairly recently in Sezzle (SZL.AU, mkt cap A$1.2bn) the US buy now, pay later operator listed on the ASX.

Net exposure was 66.8% at month end. Gross stood at 87.0%. We still have a healthy cash holding to deploy.

* *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.*

The Fund's performance calendar year to date stands in stark contrast to that delivered by most major equity indices, with the exception being the Nasdaq Composite Index, which in USD terms closed the month of November 11.8% higher with a calendar year to date performance at 36%.



Source: Bloomberg, Geometrica. Geometrica is net of all fees. Indices are major benchmarks for their respective countries as determined by the Bloomberg WEI (World Equity Index) page with all returns being in local currency.

Portfolio

IDP Education (IEL.AU, Mkt cap A$6.3bn) increased by 26.9% during the month, a tidy return for a US$5bn market cap stock. IDP was far from alone though in posting a rip snorting one-month return.

The nature of Covid-19 has meant until very recently that beneficiaries of an enforced work from home environment have performed strongly but victims have languished.

But with the promised arrival of a host of Covid-19 vaccines that portend an eventual return to "normal", the question has been when should one start investing in the bombed-out shares of the corporate victims of Covid-19 in anticipation of their eventual recovery?

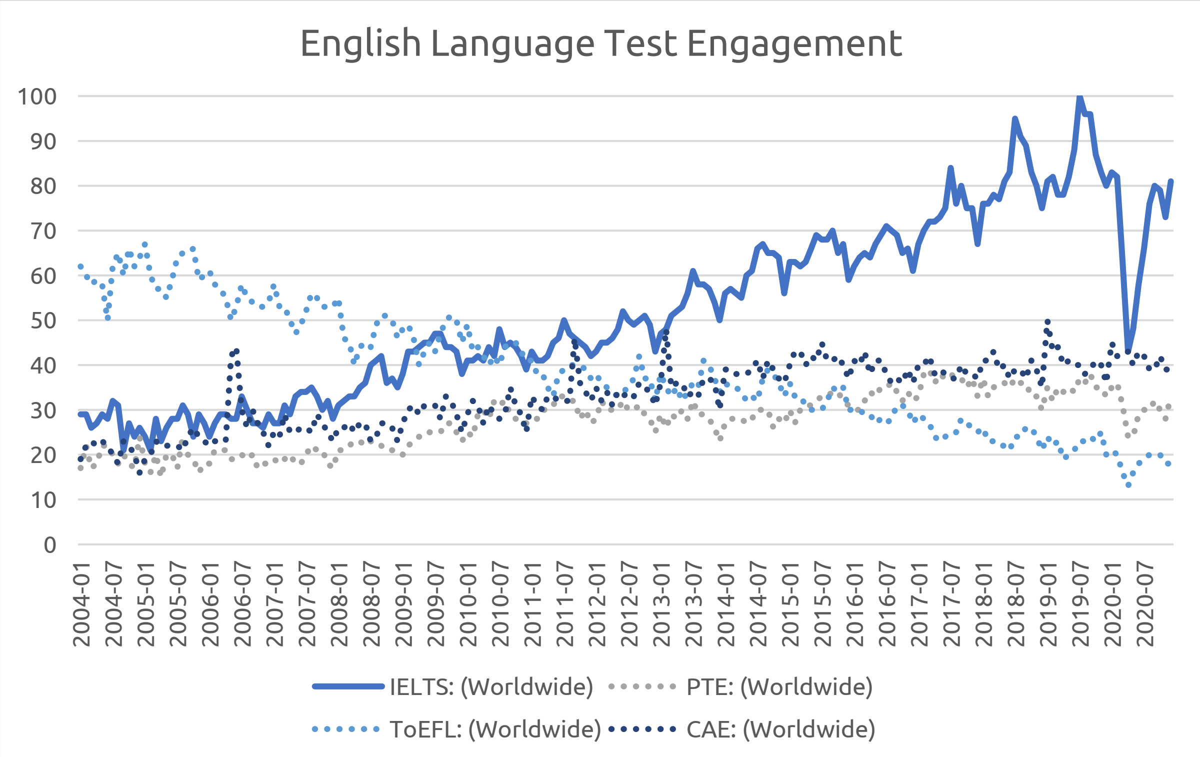
Because of significant balance sheet risk in a host of Covid-19 impacted stocks and the fact that there is no one size fits all answer, we've spent a lot of time trying to find companies which fulfil three conditions:

1. Bombed out share price, with significant notional capacity to recover.
2. Cheap on a recovery scenario. The cheaper the better.
3. Not burning cash.

The last condition we viewed as crucial, because a key risk was large and potentially dilutive capital raises. In this area we were probably overly cautious. We have seen a number of stocks run hard despite balance sheet risks and then when an equity raising came…they kept on running despite the dilution. Despite this we've found over the last six or so months a few gems.

IDP was right in this wheelhouse when we invested.

IDP is an education services business with two core segments. The first is a widely adopted and now near monopoly English language testing system that continues to grow its market share.



Source: Industry data, Geometrica

The second of IDP's divisions is a university or college student placement business, which is really a great way for us to invest in "India from the outside". One of the key positive attributes of the India equity story is its youthful population. IDP is directly leveraged to this. A majority of the growth driving IDP's student placement business flows from Indian students seeking to gain a competitive advantage in the workplace by differentiating themselves with an overseas university degree.

IDP offered an under-appreciated growth trajectory when we invested, and this remains the case.

Sezzle (SZL.AU, mkt cap A$1.2bn) believe it or not, is also a play on India from the outside. Our research shows Sezzle is rapidly growing its India BNPL business. Furthermore, this isn't widely appreciated by the market from what we can see.

We should stress that it was the bottom-up search for significant potential upside in growth versus price that led us to Sezzle, and IDP for that matter, not any qualitative bias as to where the best opportunities might be. We didn't sit down one fine day and think "let's find stocks with Indian exposure".

We search for mispriced securities that are likely to re-rate higher over a reasonable period of time due to quantifiable drivers. In that vein, Sezzle's Indian foray ticks three boxes for us. It is low risk due to small investment and very short tenor credit. It is not in Sezzle's valuation, meaning you get it for "free". And it has potentially massive upside.

A case in point, whilst not in the exact same line of business, is Walmart's (WMT.US, mkt cap US$422bn) investment in Indian e-commence operator Flipkart, which is valued at over US$20 billion and expected to IPO as early as 2021.

Sezzle pegged against its peers is a relative steal. Consensus has it trading on 9.3x FY2021 sales, but we suspect that number on the current share price will come in closer to 5x, implying Sezzle's 2021 revenues should come in if we're correct, at around 2x current consensus expectations.

The last time the market had the epiphany that sales were going to be much higher than expectations was back in mid-2019 when the stock legged up from $2 a share to $10 in a few short months. It's possible we get another large run in 2021. Sezzle was a performance drag for November and at the time of writing that continues. But sooner or later, if the revenues keep growing and Sezzle's excellent margin characteristics drive a profit inflection, we should see some signs of life in the stock price.

Where to from here?

After any period of dislocation or rapid change, there is always opportunity. We continue to find opportunities more than deserving of capital deployment.

The Geometrica team,

15 December 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%		

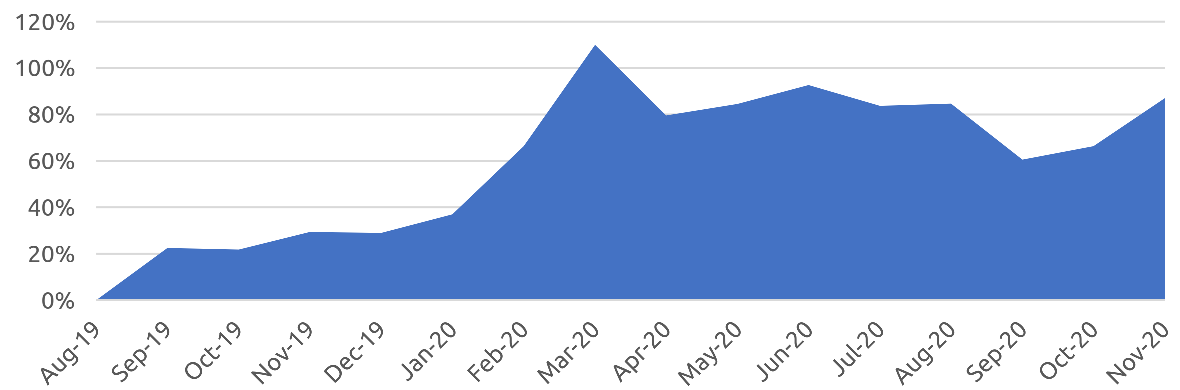
Investment performance (net)

	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%	-1.4%
Nov	0.1%	4.8%
Dec	-1.6%	
Total	0.5%	22.8%

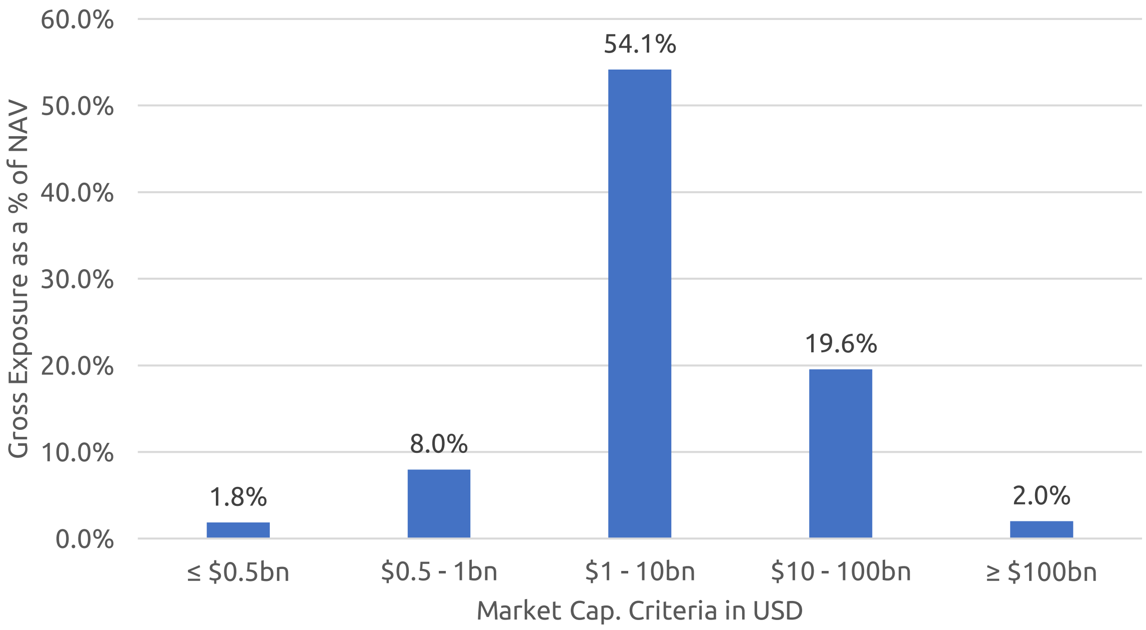
Asset allocation

Country	Long	Short	Gross	Net
Australia	38.7%	(4.7)%	43.5%	34.0%
Americas	20.2%	(4.5)%	24.7%	15.8%
Asia	3.5%	0.0%	3.5%	3.5%
Europe	14.4%	(0.9)%	15.3%	13.5%
Total	76.9%	(10.1)%	87.3%	66.8%

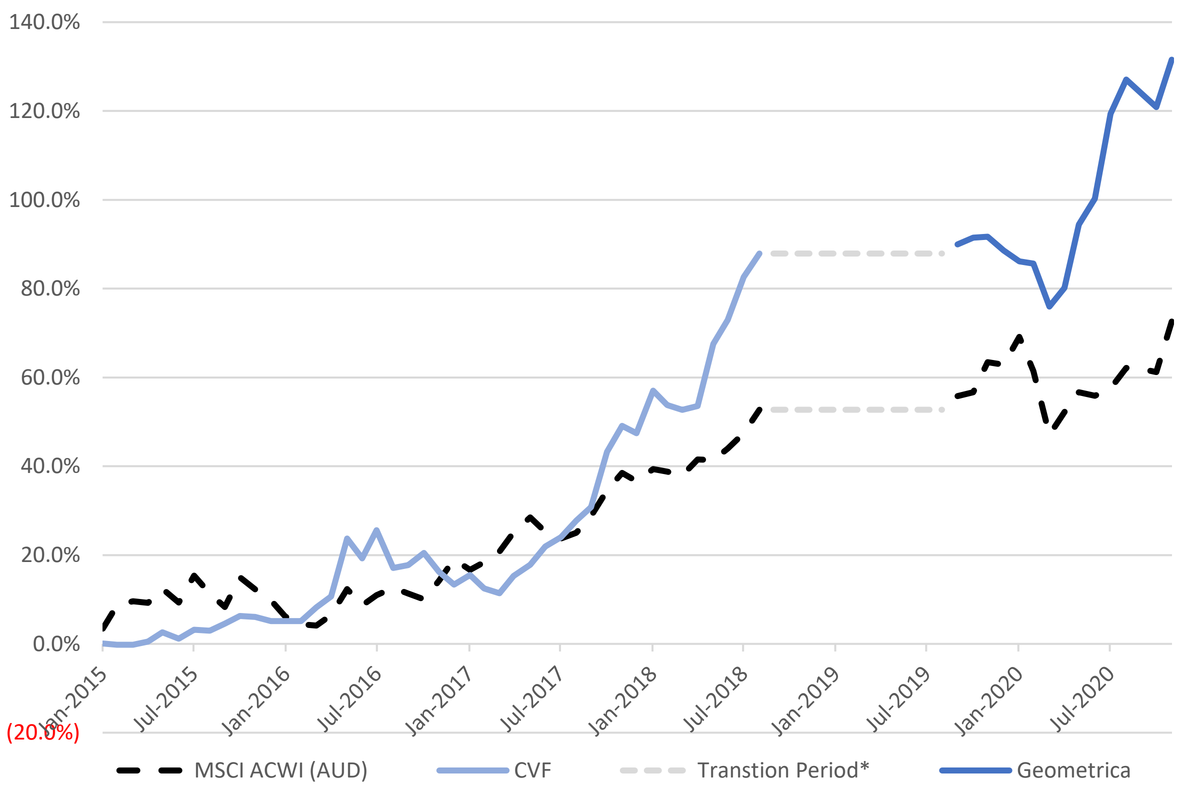
Gross exposure



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 November 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.

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