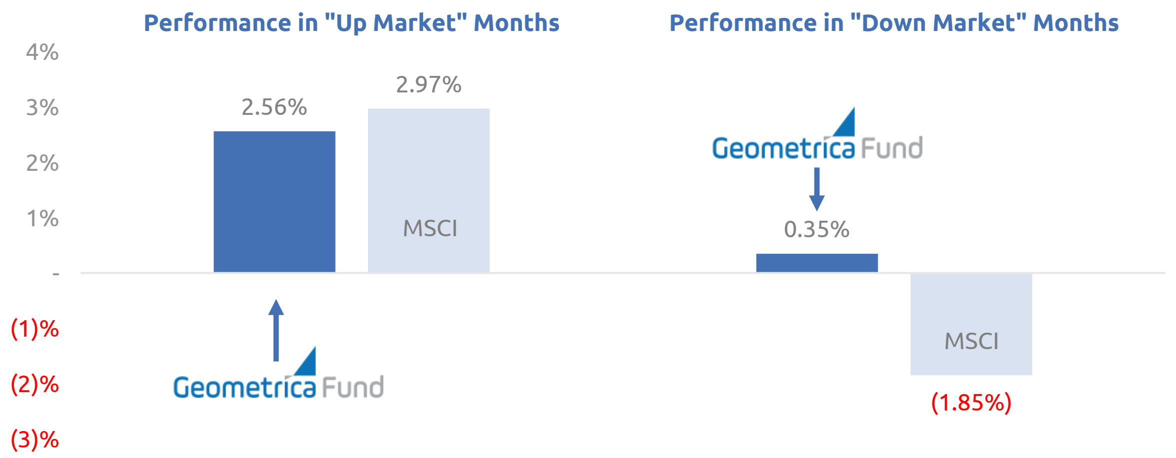
We seek asymmetric investment opportunities informed by the coalescence of rigorous fundamental analysis and alternative data discovery.

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

INVESTMENT PERFORMANCE (NET)

28 Feb 2021	Inception pa	CYTD	FYTD	12 months	6 months	1 month
Founder[1]	+25.47%	+11.69%	+31.72%	+42.20%	+16.19%	+6.93%

Performance Asymmetry: Uncorrelated Outperformance



Source: Mainstream, ASX Announcements, Geometrica and Bloomberg. Performance is after all fees, from Jan 2015 (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 all costs and fees, the Geometrica Fund returned +6.93%* for the month of February 2021.

Whilst our long positions contributed the majority of the gains, we also enjoyed a modest positive contribution from our short book.

Net exposure ended the month at 58%, down from 67% the month prior, driven largely by three factors:

1. We exited a long position where the outcome was both swifter and more positive than we had expected.
2. We exited another long position where new data conflicted with our thesis for owning the stock in question. Even with further diligence, we were unable to

[1] *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.*

reconcile the disparity. Faced with uncertainty of the binary kind, we sold the entire position. Better to have certainty in capital preservation than risk it on a coin toss outcome.

3. We increased several short positions, sizing up a few names that appear to be in a deeply self-reinforcing or reflexive loop which may be finally tipping into reversal.

The counterpoint to a low net exposure is we have lots of cash.

We have no mandate limit on cash holdings. Which is to say, we haven't written a rule into our mandate that forces us to invest even if we cannot find a worthwhile investment.

Always there are opportunities out there, we just have to find them.

PORTFOLIO

We wrote about **Entain Plc** (ENT.LN, mkt cap £$8.3bn) in last month's letter.

In January, after MGM Resorts International (MGM.US, mkt cap US$18.7bn) announced an unsolicited takeover offer for Entain, we sold our entire position in Entain.

Our logic at that juncture was the risk of holding had become unpredictably binary, meaning we were uncertain as to whether the stock would go up or down, at least in the short term.

The board of Entain had rejected the offer as too low. But a contested bid was assessed as unlikely due to Entain's JV with MGM. And MGM appeared reticent to wear significant dilution and had a highly leveraged balance sheet that constrained their ability to increase the bid meaningfully. So, the risk of MGM pulling its bid rather than increasing it was not immaterial.

In selling the entire position, we chose certainty over a binary outcome we had zero insight into. And then we got a little lucky.

MGM pulled their bid for Entain. The stock price tumbled down. And so, we refreshed our work on Entain. For perspective, we'd started buying the stock in the £6/share range and it had run to ~£14/share before falling back to £12/share post MGM's bid being pulled.

One area we did more work on was BetMGM, the joint venture between Entain and MGM, operating in the US online gaming industry. This is a relatively young industry, but rapidly growing as new states pass laws enabling online gaming where once it was illegal.

It is also going to be a massive industry. Consensus upgrades have been occurring for the last few years and peg the revenue prize at around $25 billion. We think, based on some work we have done, that the ultimate answer will be much higher.

The data we dug into showed a pattern of rising user engagement for BetMGM and rising market share, in particular in states with more recent opening dates. BetMGM started slowly, but the numbers show it is growing strongly.

Strong growth is possible of course if you throw money at a problem with scant regard for generating a return, that is if your cost of customer acquisition is particularly high. At least one operator we follow is doing this. Whilst BetMGM sustains losses when it opens in a new state, the earnings do come, and the returns are highly attractive. BetMGM via two channels has particularly low costs of customer acquisition.

The US online gaming industry is something of a hot sector. The largest pureplay listed company sports a market capitalisation of US$24.7 billion and trades north of 20x sales.

This seemingly lofty multiple triangulates to an assessment of total future market size, the operator's likely market share, profit margin and valuation multiple. This isn't actually just bar coaster valuation math; there are both overseas analogues and some earlier US states that are highly instructive.

Entain is an anomaly. Listed in the UK, its most valuable asset is arguably its 50% interest in BetMGM. BetMGM's contribution to Entain isn't particularly visible; its reporting as an unconsolidated associate is less fulsome. And because of the mix of maturities in BetMGM's US state based operations, and its start-up losses in more recently legalised states, the operating income contribution BetMGM makes to Entain is greatly suppressed, in turn compressing Entain's earnings artificially.

To top it off, the market appears to value Entain on a good old-fashioned earnings multiple.

This will change. If you take the time to break out the US JV, benchmark it to comparable companies and value Entain's rump businesses in line with competitors, it becomes quickly apparent that there is material upside on offer, and it is getting larger with the passage of time.

Another stock that worked out well during the month was **Lynas Rare Earths Ltd** (LYC.AU, mkt cap A$5.4bn). I have some history with this stock, albeit as an analyst back in 2010 at a fund that anchored the company's recapitalisation.

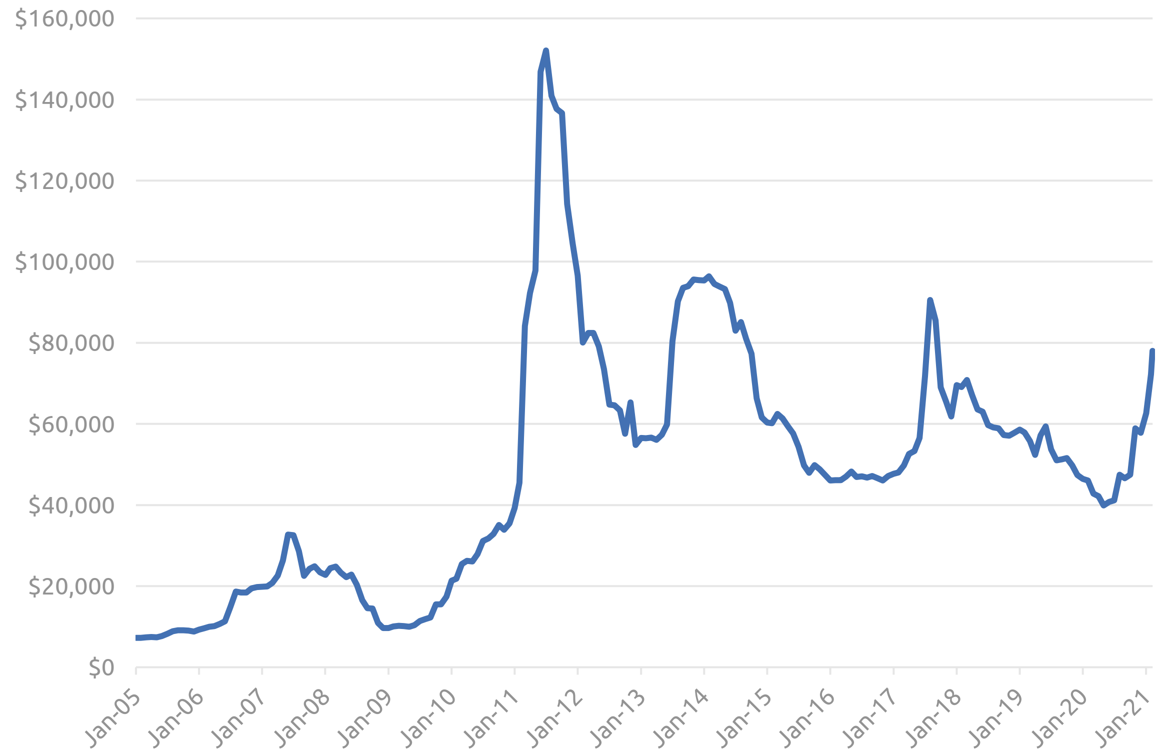
Even back in 2010, sourcing good data could lead to wildly positive asymmetric outcomes. Back then it was Lynas itself that released prices for rare earth elements, but on a weekly basis, which created something of an opportunity.

Companies operating in the rare earth sector can be somewhat promotional in nature. Mark Twain was describing a different kind of mine (a gold mine) when he wrote "a mine is a hole in the ground with a liar standing next to it".

Some operators in the sector have a penchant for quoting the size of the contained oxide in their ore resources, which is to say *if* they mined the entire resource base, that is how much oxide material they'd have. The problem with this approach is a resource base with 1% contained rare earth ore versus one with 8% contained rare earth ore lead to wildly different economic outcomes. One may never make it out of feasibility studies and the other can be wildly profitable.

Lynas is particularly fortunate in this regard. Lynas' Mt. Weld deposit is a high-grade deposit. Mt. Weld is further gifted by having no significant uranium or fluorine mixed up in its ore base; something which tends to plague other deposits.

China Praseodymium Oxide 99% FOB USD/Mt



We were attracted to the stock due to its earnings leverage to rising rare earth prices. Unfortunately, our ability to have a differentiated view using data on price trajectory is not what it once was. This is the nature of the process; one door closes but if you work hard you find another that opens. So, the position sizing here was not particularly large. We have also reduced it of late.

We sold almost all of our position in **Sezzle Inc.** (SZL.AU, mkt cap A$1.9bn) during the month.

The thesis was that Sezzle was "cheap" relative to its largest competitor in the Buy Now Pay Later ("BNPL") sector, growing faster in percentage terms and with higher potential earnings margins. The company was also rapidly expanding in a few new geographies likely to capture the imagination of the market, and on the cusp of revenue upgrades. And this was all to play out around the time an over hyped sector comparable was due to undertake an IPO and, yes you guessed it, list on Nasdaq.

Before most of the above got a chance to play out, the stock started rocketing upwards. We sold.

There are a few challenges ahead for the BNPL sector. There's nothing terribly new in this; timing as always is important.

Sometimes when a nascent sector is trading on elevated sales multiples with near zero profit margins, the market is whispering to you that both rampant sales growth and margin expansion lie ahead.

And to be fair, outcomes for early life cycle companies can be heinously difficult to forecast because the future tends to be path dependent and complex.

And sometimes the market is just extrapolating an expansion in margins that will never occur.

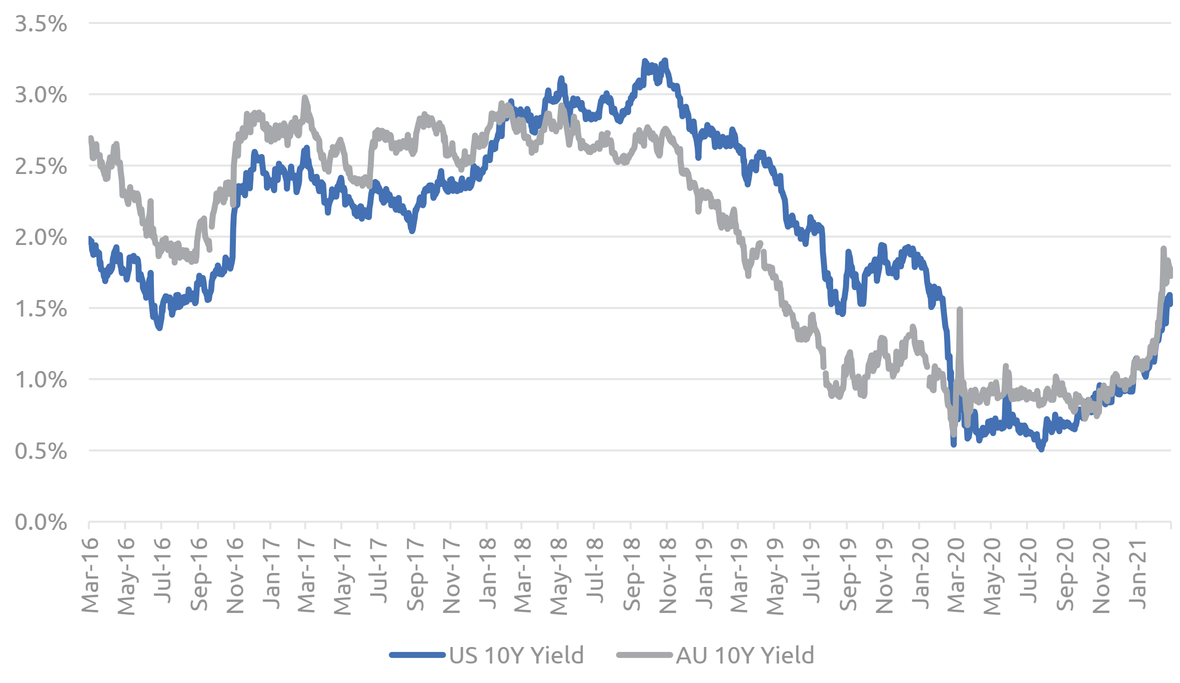
The growth potential of the BNPL sector is we think, not in doubt. It is after all a fundamentally disruptive product, with the counterpoint to BNPL transaction volume growth being shrinking outstanding revolving credit card balances. The consumer generally gets a better outcome with BNPL. And outstanding revolving credit card balances are still very large so can still feed the fires of growth for yet more BNPL operators for some time to come.

But that's arguably priced in when the largest player is trading at over 30x consensus 2021 price / sales.

What is uncertain is the future margin profile of these businesses, which is to say their returns are in question. What will they ultimately reward shareholders with, in terms of earnings? The market until recently hasn't cared much for this question.

Right now, long bond yields are rising because expectations of future nominal economic growth are rising.

US & Australia – 10 year govt bond yield



And in terms of official interest rates, no central banker dares risk prematurely snuffing out a nascent economic recovery by acting or even threatening to act too soon. The decidedly dovish tones of central bankers may imply long bond yields are likely to overshoot.

Interest rates are the lens through which financial markets see and discount the future to price it today.

Higher long rates hurt long duration asset valuation disproportionately due to the impact of convexity. Growth equities on record high multiples are squarely in that wheelhouse.

And at their core, BNPL operators extend credit. They generally don't have their own deposit base (and we sense this may become a key area of differentiation ultimately), so they borrow to do this, using wholesale funding lines. There are a few vulnerabilities in the business model it is worth considering in the context of possible future rate hikes and the potential for margin compression.

SHORT BOOK EXPANDS

For some time now we've not spent any energy hunting for short candidates, but the environment for the short seller is getting better and at some juncture will no doubt get a whole lot better.

Faced with an environment where specialist short sellers became roadkill as a mob of robin hood enabled investors flooded into any stock that could capture their imagination, we decided to wait for better times.

Why short valuation when the marginal buyer who sets the price doesn't consider valuation in their buying decision?

We have been stalking a deeply reflexive, or self-reinforcing cycle for some time now, in a pocket of the ETF world. We may have nailed the timing…but then again, we may be proven totally wrong as well…or too early to the trade, which is the same as being wrong.

All bubbles begin with a kernel of truth which is then over extrapolated in a self-reinforcing process where cause and effect become blurred to participants.

We've been running a miniscule short position in the ARK Innovation Fund (ARKK.US, mkt cap US$20.2bn) since before it got to $100/share. ARK's largest holding, across several funds, is Tesla.

ARK made a wonderful investment call in buying Tesla, in scale, very early on. They are to be applauded for this, and no doubt their early investors would agree.

But there has been a circularity at work here which we think has gone awry.

ARKK (specifically the ARK Innovation ETF) has gone from a market capitalisation of $2billion in early 2020 to a peak of around $28 billion a few weeks ago.

Their largest holding was and is Tesla, and they've pretty much kept it steady at around 10% of the portfolio of this particular ETF. In context, at $2bn, ARKK owned ~$200m Tesla. At ~$28billion, it was $2.8bn.

There may have been a circularity here that became self-reinforcing. The act of an investor buying shares in ARKK generally results in ARKK buying shares of Tesla, the share price of Tesla rises, the performance of ARKK rises. Vindication. Inflows. Wash, rinse, repeat.

Now ARK isn't Tesla's dominant or even largest shareholder by a long shot even when you add ARK's holdings across several of its ETFs, but we suspect the phenomenon is indicative of social media savvy investors engaged in a similarly self-reinforcing set of behaviours.

And to be fair to Tesla, it has captured the imagination of the markets, as any good bubble stock should. EVs (electric vehicles) really are going to eat the ICE (internal combustion engine). The math for the consumer is compelling on operating costs and on a levelised cost basis taking into account the higher initial capital cost but lower operating costs EVs have over their lives. The math in favour of EV's will keep getting better, because the technology is young and still scaling and thus pricing will be deflationary and so benefiting the consumer and the adoption curve. The comparison between ICE vehicles and horse drawn buggies before the dawn of the internal combustion engine is warranted.

And Tesla is the poster child of this most seismic of industrial shifts, where an entire industrial vertical being the transport sector is shunted to electrification. You can easily envisage that the auto fleet of the future is all EVs. But it will take a decade or so for the entire auto park to churn to EVs. And Tesla won't have the EV market all to themselves even if they were the first mover. Neither will Tesla have the autonomous vehicle ride hailing market to itself, which some valuations we've seen heroically assume.

Other first movers in exciting new industries have faltered before, after capturing the imagination of the market. There's a bit of a pattern here when you dig through the history of brave new industries. Industry structure matters a lot to outcomes most of the time.

Anyone remember the stock code for Netscape?

Netscape was the dominant internet browser of its day, at a time when the internet revolution portended huge structural change, with Netscape as one of the key beneficiaries. Netscape was dominant in an entirely new industry growing at warp speed, with a market share of around 90%.

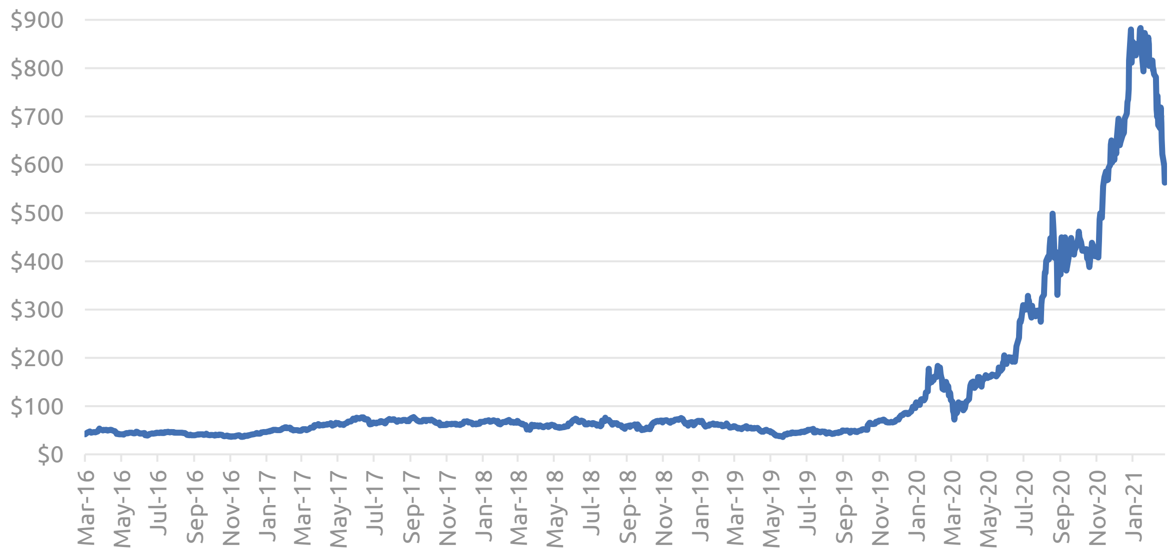
Netscape saw its market share fall from 90% to less than 1% in a bit over about a decade, and then it was kaput.

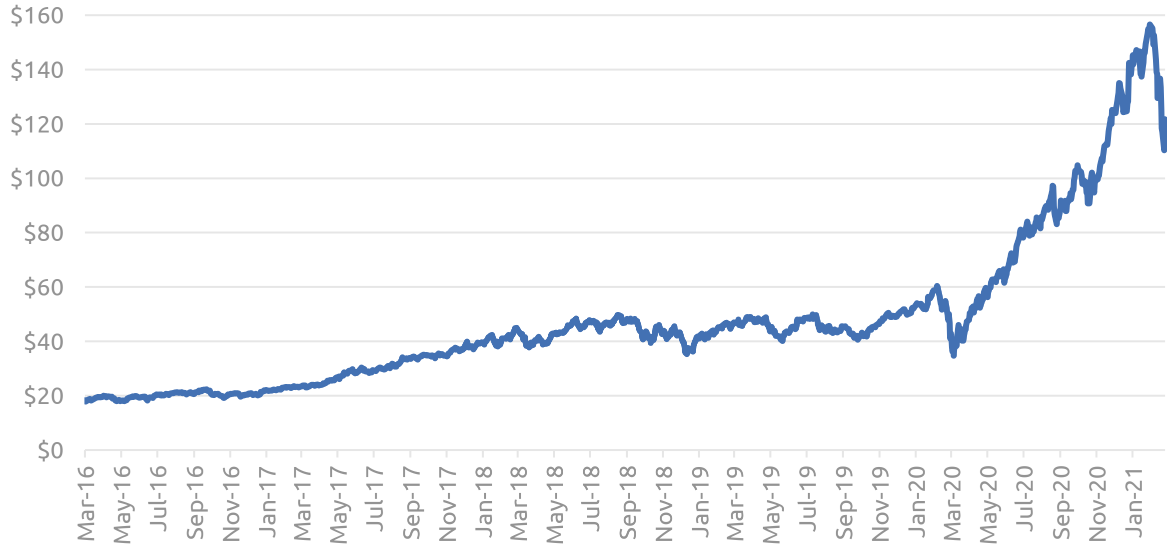
We increased the size of our shorts in ARKK and Tesla when the signs we were waiting for started to appear. Tesla we hold on short account at an average price of $830/share. ARKK at $141/share.

We can show you a valuation for Tesla and its definitely in ludicrous mode. But its partially irrelevant. Its relevant to the size of the downside on offer, because the best way to get an asset value to deflate is to first really over-inflate it. But valuation is irrelevant to the timing of a bubble short.

We may be proven too early in the days ahead on this, which is the same as being wrong. If this is the case what we won't do is take a dogmatic stand and bleed capital whilst protesting the irrationality of the mob. We'll just fold and go back to stalking the short again, watching for the signs.

Spot the difference – Tesla…and ARK Innovation ETF.





The Geometrica Team

11 March 2021

FUND OVERVIEW (ALPHA UNITS)

Fund	Geometrica Fund
Structure	Wholesale unit trust
Mandate	Global long short Mid-cap focus
Gross exposure range	0 - 200%
Net exposure range	up to 100%
Single stock long limit	15% at cost
Single stock short limit	5% at cost
Buy / Sell Spread	Nil / 0.25%
Investor Eligibility	Wholesale only
Platforms	Ausmaq, Hub24
Fees	1.5% management (+GST) 20% performance (+GST)
Benchmark	RBA Cash Rate
High water mark	Yes
Liquidity	Monthly
Administration & custody	Mainstream Fund Services

INVESTMENT PERFORMANCE (NET)[2]

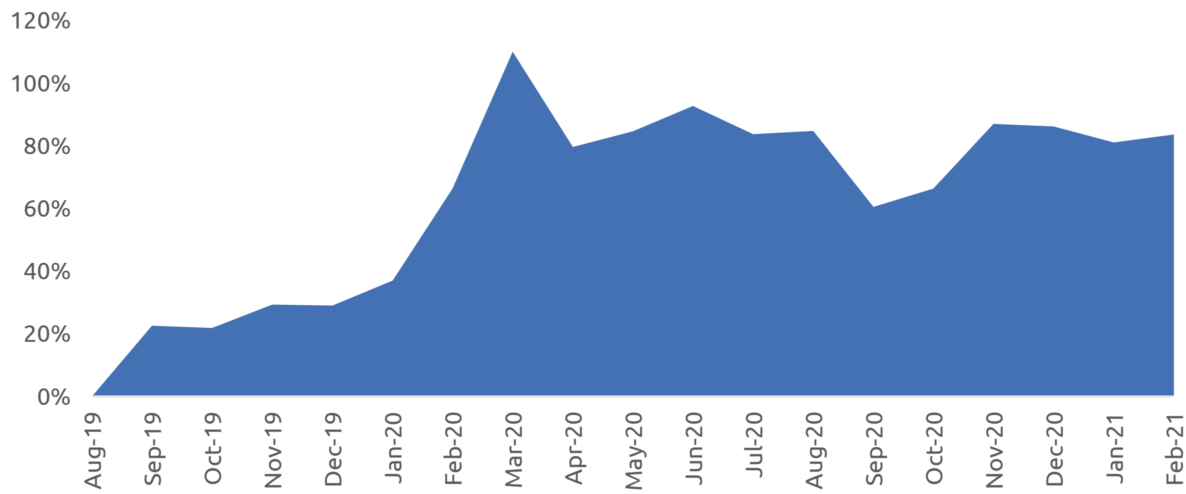
	2019	2020	2021
Jan	-	-1.3%	4.5%
Feb	-	-0.3%	6.9%
Mar	-	-5.2%	-
Apr	-	2.4%	-
May	-	7.9%	-
Jun	-	3.0%	-
Jul	-	9.5%	-
Aug	-	3.5%	-
Sep	1.1%	-1.4%	-
Oct	0.8%	-1.4%	-
Nov	0.1%	4.8%	-
Dec	-1.6%	2.0%	-
Total	0.5%	25.2%	11.7%

[2] *Founder Class units – Lead Series*

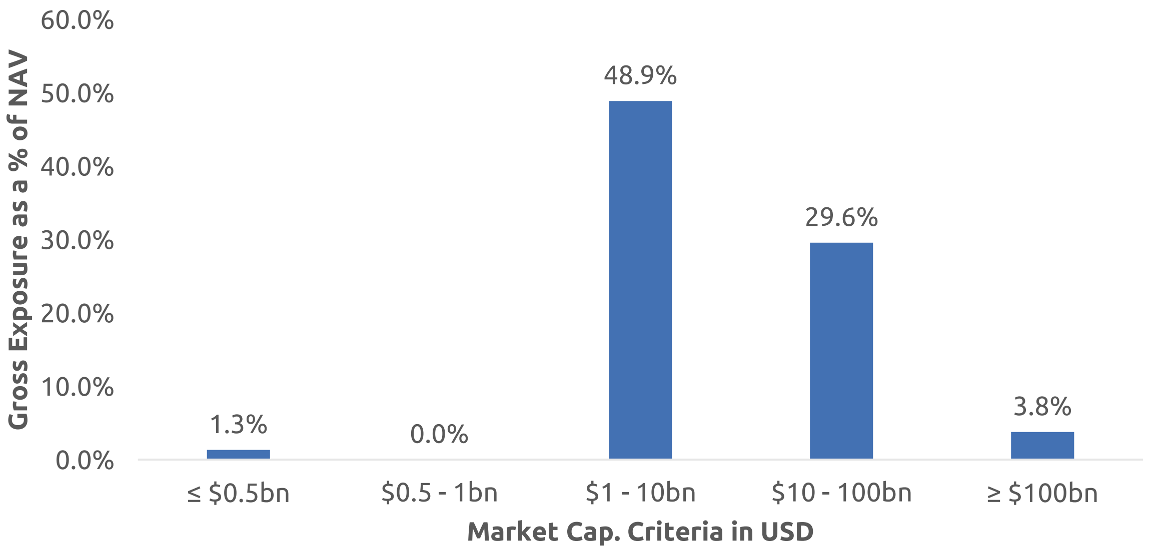
ASSET ALLOCATION

Country	Long	Short	Gross	Net
Australia	32.8%	(3.4)%	36.1%	29.4%
Americas	20.9%	(9.3)%	30.2%	11.5%
Asia	1.2%	0.0%	1.2%	1.2%
Europe	16.1%	0.0%	16.1%	16.1%
Total	70.9%	(12.7)%	83.6%	58.2%

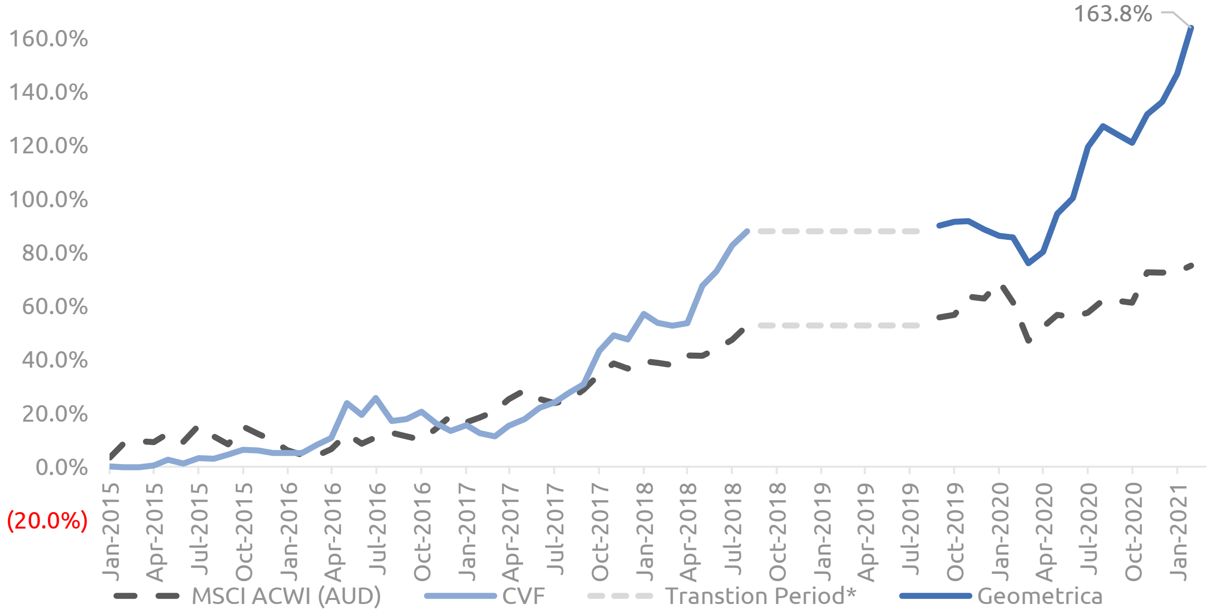
GROSS EXPOSURE



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. Performance is net of all fees.

DISCLAIMER

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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.