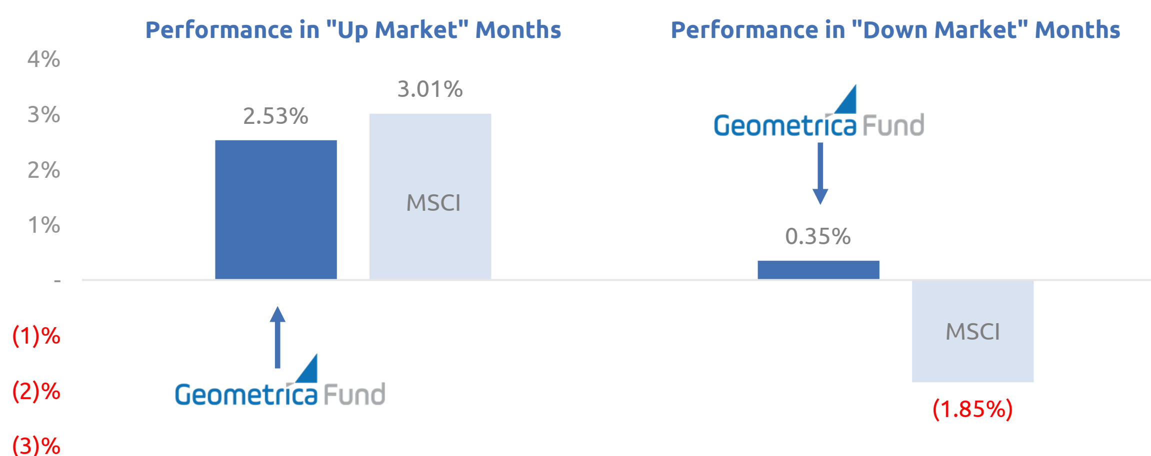
We seek asymmetric investment opportunities informed by the coalescence of rigorous fundamental analysis and alternative data discovery.

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

INVESTMENT PERFORMANCE (NET)

31 Mar 2021	Inception pa	CYTD	FYTD	12 months	6 months	1 month
Founder[1]	+24.95%	+13.07%	+33.35%	+51.80%	+19.25%	+1.23%

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 +1.23%* for March 2021. The Fund lagged most major indices this month. Net exposure was 68% at month end.

Key positive performance contributors during the month were Adient Plc, Tyro Payments Limited and Entain Plc. All three stocks are in our top ten profit generators since inception.

We note the implosion of the hedge fund Archegos. And Greensill. We don't like rehashing what you can read in the paper. Generally, its collectively more profitable if we stick to our knitting by picking stocks and avoid writing marketing fluff. But the simple math on Archegos is mesmerising. And the larger question of thematic linkage between Archegos and Greensill - massive leverage and nothing learned from the credit crisis of 2008/09 - is disturbing.

[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.*

PORTFOLIO

March's largest single positive contributor to investment performance was the Fund's position in **Adient Plc** (ADNT.US, mkt cap US$4.0bn). The stock rose 19.2% during March, following on from a 14.8% rise the month prior.

Why all the excitement in the share price? It is not as though Adient has a particularly exciting business. No space exploration, small molecule inhibitors for cancer treatment or self-driving cars. Not even a SPAC in sight.

Adient is passé. Adient makes car seats.

Adient is one of 3 global players in a highly consolidated industry with a few regional operators rounding out market shares. Car seat manufacturing is generally a low growth industry because auto fleets in developed economies aren't really growing.

The reason Adient's stock price is going up has nothing to do with how exciting its business is and everything to do with mispriced expectations.

In 2016 Adient was spun out of Johnson Controls International Plc (JCI.US, mkt cap US$44.2bn). The Johnson Controls seating division tended to serially underperform its most comparable competitor Lear Corporation in operating margins. The spin out pitch was that unshackled from a disengaged owner in Johnson Controls, the newly named Adient seating business would pursue growth opportunities and close the margin gap with Lear Corporation.

The market took this equity story and ran with it; from its late 2016 listing Adient's stock price rose over 70% in a year as the market priced in the transformation before it actually occurred.

And then it all unravelled. Adient's growth strategy turned out to be almost as simple as the title of the justly famous movie "*Planes, Trains and Automobiles*". Adient pursued business in not just automobiles, they expanded into trains and planes! Adient had even started supplying its competitors with partially manufactured product at uncommonly good prices. Growth regardless of returns.

Adient's share price went from $49.35 on its initial listing in October 2016 up to $85.93 in October 2017, but as it became clear that the price of future growth was negative incremental returns, the share price spiralled down to close below $10 in March 2020.

There was the usual management purge. New management entered and simply embraced again the simple business model that had worked before. Management focus shifted from growth to returns. The stock price started to rise.

We bought stock in the mid $30s. We were not particularly early. But we don't think we are late either.

Adient is now a mid-innings turnaround story. New management have been in place for just over two years. Contracts in the industry tend to run for 3 to 5 years. Adient has stopped pursuing growth at any price. It appears as though loss-making contracts will be repriced or allowed to roll off. Management talk with a degree of precision around

execution steps that will drive operating margins, earnings and most importantly returns higher.

Adient recently announced a reorganisation of its China JV businesses which has effectively cut its debt in half.

From here we think ongoing delivery against the turnaround should drive the share price materially higher.

ARCHEGOS & GREENSILL

It is unsettling to see a large financial failure during a mature bull market. Failures caused by idiosyncratic factors can perhaps be ignored. But the common thread in the apparent failures of both Archegos and Greensill appears to be excessive financial leverage.

Failures in a mature bull market can occasionally be harbingers. Like when Centro Properties Group collapsed in 2007 just before it all went to custard in the business of borrowing short term in wholesale money markets to finance long duration assets.

Centro borrowed short term money in wholesale funding markets to buy property and in the process earned an interest rate spread[2]. Centro's positive rate spread turned negative as short end rates rose in the early phases of the US sub-prime crisis. When the yield from your assets is less than what it costs to fund them, you're making losses and are potentially insolvent. Within 12 months Centro's market cap fell from A$7bn+ to A$200m. And then similar collapses ensued. Centro was a canary in the coal mine.

Archegos is the tale of the multi-billion dollar leveraged fund that appears to have been wiped out in a matter of weeks. Archegos is astounding due to the scale of the leverage and the size of the bets that debt enabled.

With only two data points and one enabling assumption you can back into the implosion and its enabling hubris. We just need the capital and portfolio size to back into leverage and crudely model it.

One story reports $20 billion of capital supporting a portfolio of $100 billion, implying 4x leverage near the peak of assets, or 500% net exposure. Another that Archegos held $20 billion of ViacomCBS stock on swap at its peak.

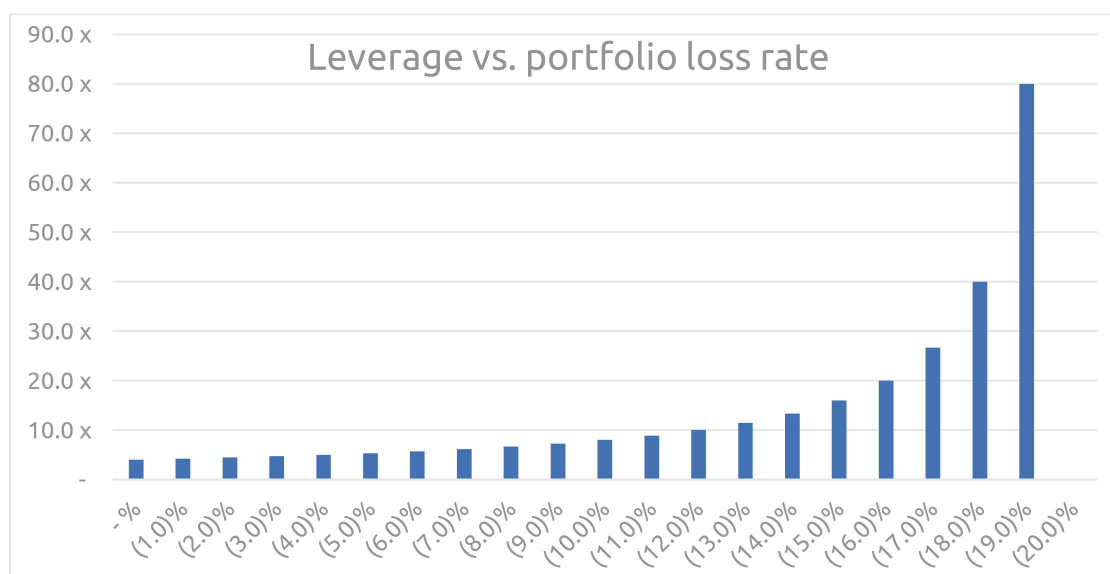
You can imagine say 5 prime brokers each holding cash collateralising underlying equities on swap at 80% LTV. Say $4bn of cash as customer capital supporting $20bn of equities for each and maybe even thinking their customer had additional unpledged assets and they had an ability to dynamically manage their exposure.

If Archegos had $20bn of capital and $20bn of ViacomCBS shares at their peak, then as the price of the ViacomCBS shares fell ~50%, portfolio leverage of 4x would become leverage of 8x assuming no other losses.

[2] Centro would term out the debt supporting acquired properties, but unfortunately was reliant upon short term debt to finance a large acquisition.

The issue is if five of Archegos' prime brokers all started trying to unload $20bn of ViacomCBS shares at the same time, they'd poleaxe the ViacomCBS stock price. And as their customer's portfolio leverage gaps up from 4x to 8x they then most likely start selling anything else they hold for the customer, creating a run on all the stocks in the portfolio.

Maybe there was a meeting of all the primes when they realised they had common collateral. If as we have heard, one of them proposed they all hold fast and not liquidate, the smart money would have nodded…and then hit the sell button fast, leaving the remaining primes, presumably CS and Nomura, holding the proverbial baby.



It is important to understand that Archegos didn't fail in isolation. The risk management for its prime brokers, some of the world's largest and most sophisticated financial market participants, also failed. Why else would they be announcing massive losses?

When you read the accounts of most financial failures written after the event, typically the real cause wasn't systems. The computers didn't implode. The models calculated as designed. Typically, people made bad decisions, giving models bad inputs or circumventing controls. Through lack of perspective or perhaps improper incentives.

We'd argue that risk management is as much about culture as it is about systems.

For a corporate failure to occur you first need a critical vulnerability. Which is why you want to structure out any critical vulnerability in your business model, even if it means accepting lower rates of return. Especially if you are manager and fiduciary to other peoples' money. All humans make errors. Excessive leverage is unforgiving.

Which is why our mandate doesn't allow for running reckless leverage. And why one of our risk management tenets, learned from a sage manager, is:

> "*Never attempt to use leverage to turn a mediocre return into an attractive one*".

19 April 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)[3]

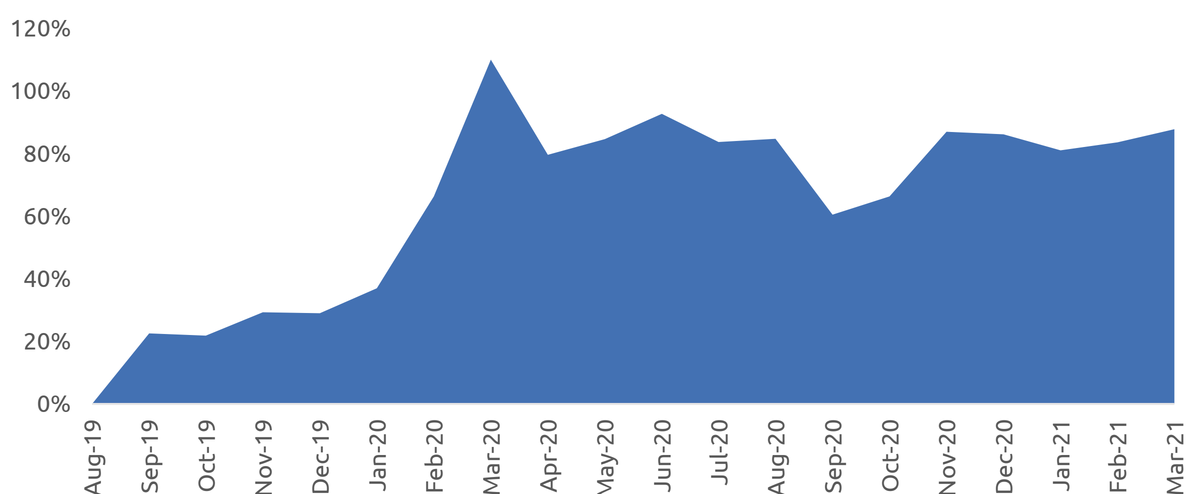
	2019	2020	2021
Jan	-	-1.3%	4.5%
Feb	-	-0.3%	6.9%
Mar	-	-5.2%	1.2%
Apr	-	2.4%	-
May	-	7.9%	-
Jun	-	3.0%	-
Jul	-	9.5%	-
Aug	-	3.5%	-
Sep	1.1%	-1.4%	-
Oct	0.8%	-1.4%	-
Nov	0.1%	4.8%	-
Dec	-1.6%	2.0%	-
Total	0.5%	25.2%	13.1%

[3] *Founder Class units – Lead Series*

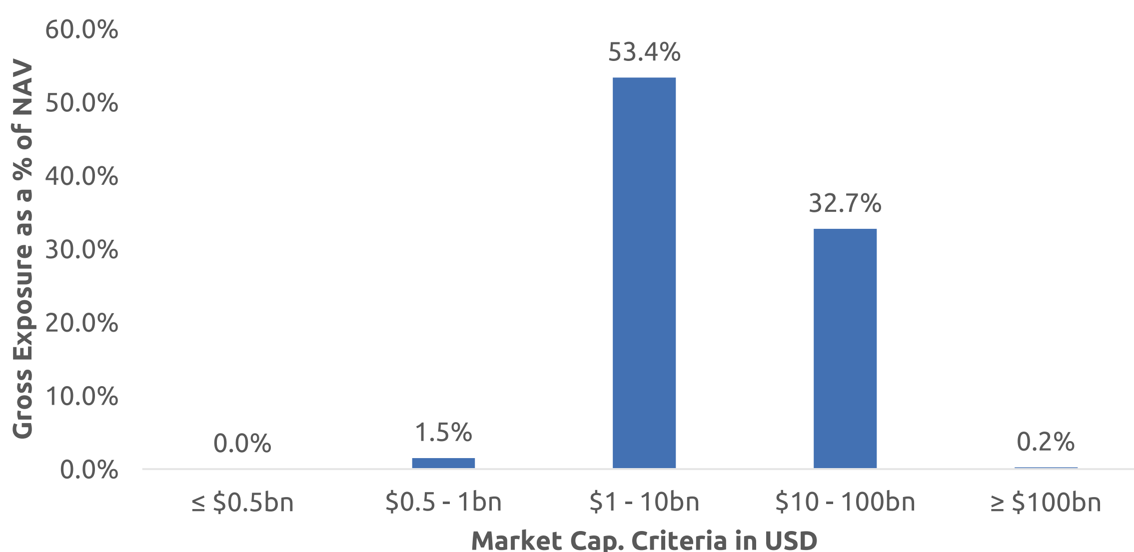
ASSET ALLOCATION

Country	Long	Short	Gross	Net
Australia	24.5%	(2.8)%	27.3%	21.7%
Americas	33.4%	(7.0)%	40.4%	26.5%
Asia	5.4%	0.0%	5.4%	5.4%
Europe	14.7%	0.0%	14.7%	14.7%
Total	78.1%	(9.8)%	87.8%	68.3%

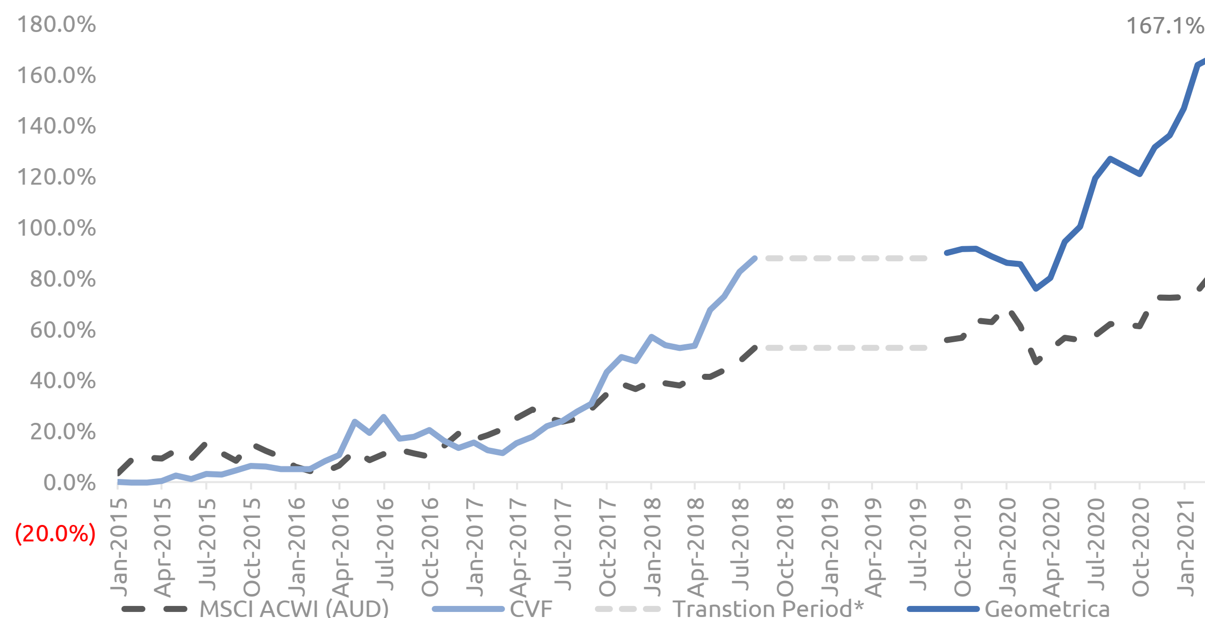
GROSS EXPOSURE



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

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.

Geometrica Management Pty Ltd (the Manager) (ABN 25 633 189 929) has prepared this document and is a Corporate Authorised Representative (CAR No. 001275640) of Lanterne Fund Services Pty Ltd (Lanterne) (ACN 098 472 587, AFSL No. 238198) and is authorised to provide advisory, dealing and incidental custody services in connection with the Fund to wholesale clients only.

The nature of investment necessarily involves the risk of loss. The Manager is of the view that the information provided herein is accurate and complete, however, no warranty of accuracy, completeness or reliability is given, and no responsibility for loss or damage whatsoever or howsoever arising as a result of any representation, act or omission whether express or implied, is accepted by the Manager, its directors, employees or related bodies corporate. The Manager does not provide accountancy or tax advice and you should seek independent advice on these matters. Any advice is general advice only and does not take into account your personal financial position, needs or objectives.

This document does not constitute an offer. Any offer of units in the Geometrica Fund can only be made pursuant to an Information Memorandum which details the relevant risks related to investing in the Fund and other important information you must read and acknowledge prior to making any investment in the Fund.

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.