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 Jul 2021	Inception pa	CYTD	FYTD	12 months	6 months	1 month
Founder[1]	+19.80%	+12.35%	-1.37%	+20.99%	+7.56%	-1.37%

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 -1.37%* for July 2021. Inception to date performance stands at +19.80% per annum, with calendar year to date at +12.35%.

Our calendar 1Q 2021 played out positively but a corollary to that was that we exited a few stocks sooner than expected.

Calendar 2Q 2021 has been of altogether a different flavour and we have surrendered a few points of hard-won performance in recent months.

A few of our holdings have been impacted by the global surge in Delta strain Covid-19 cases. In one or two cases we reduced sizing to limit near term downside, but this is tempered by our view that developed countries capacity to cope with this latest wave of cases is very different from the first and that as vaccination rates ratchet up, mobility and

[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.*

economic activity will again recover quickly. More bluntly, we'd rather not sell a stock that can double over 2-3 years in order to avoid a modest and fleeting mark to market impact.

During this time we have been working at a feverish pace on a number of new names and several have been added to the portfolio. We touch on a few of them below.

Key positive contributors during the month included IDP Education, Autodesk, Entain Plc and Advanced Micro Devices, Inc. The negative contributors outweighed the positives this month and included Sezzle, Uber and a collection of positions in Covid exposed stocks.

A quick note on NAV and distributions

The Fund paid a sizeable distribution in July, with some variation by unit class.

By way of example, holders of *Founders Class units – Lead Series* received a distribution of $0.1959/unit, or a yield of approximately 13.9% on the June NAV of $1.4080/unit.

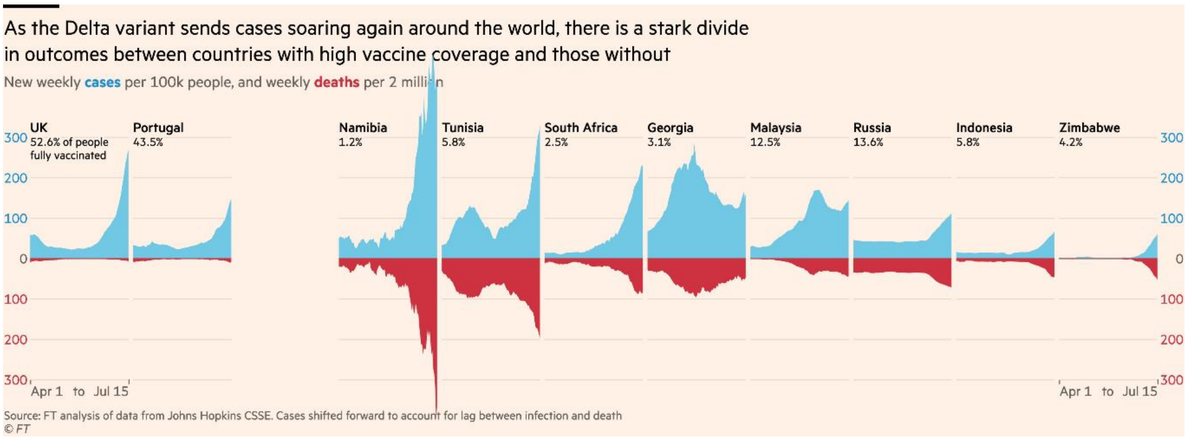
The June NAV adjusted on a pro forma basis for the distribution would be ~$1.21 ($1.4080 - $0.1959). Thus, the NAV step down of around 20c/unit is due to the distribution. The overwhelming majority of unitholders able to reinvest this distribution via election choose to do so, noting not all platforms support such a choice.

Delta

The current Delta episode is we think a vastly different set up to what we had back in February 2020, shortly before the S&P500 shed a third of its value in a little over four weeks.

Whilst Delta is dynamic, making it difficult to make any predictions with certainty, our observations are:

- Break through cases appear to be relatively rare in incidence and mild or asymptomatic in severity.
- mRNA vaccines appear to retain their potency against Delta, even if their efficacy relative to other strains is lower. One early study showed Pfizer was 95% effective against the Alpha strain versus 88% for the Delta strain.
- In countries with high vaccination levels, rapid increases in Delta cases are not mirrored by increases in deaths as was the case in 2020 prior to vaccine availability.



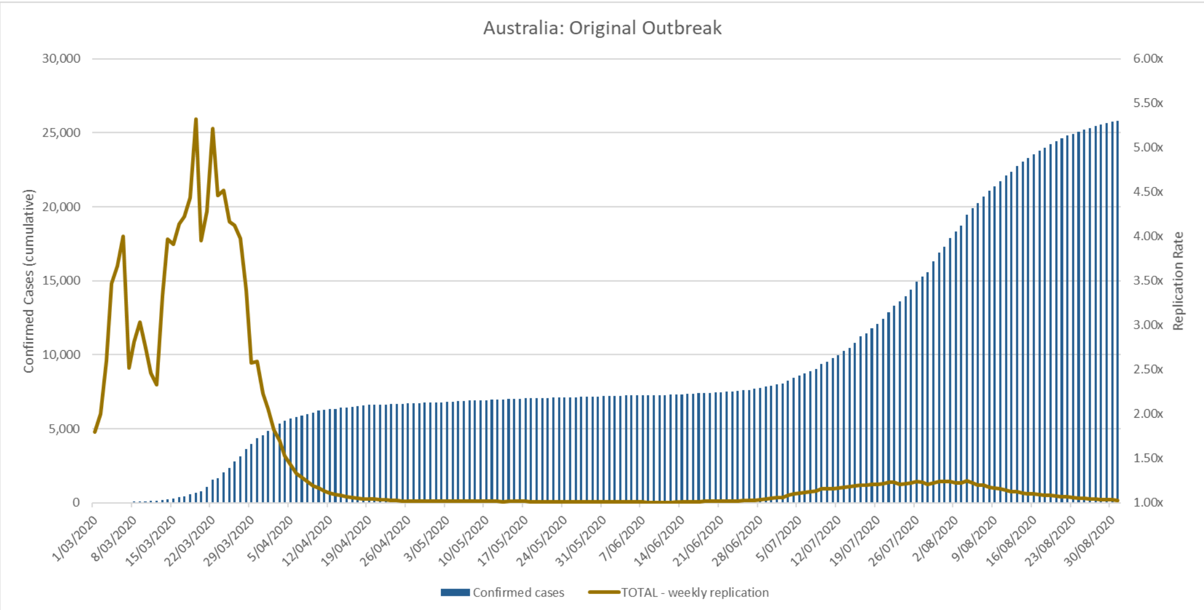
Source: FT https://t.co/OOf4YQmkqO?amp=1

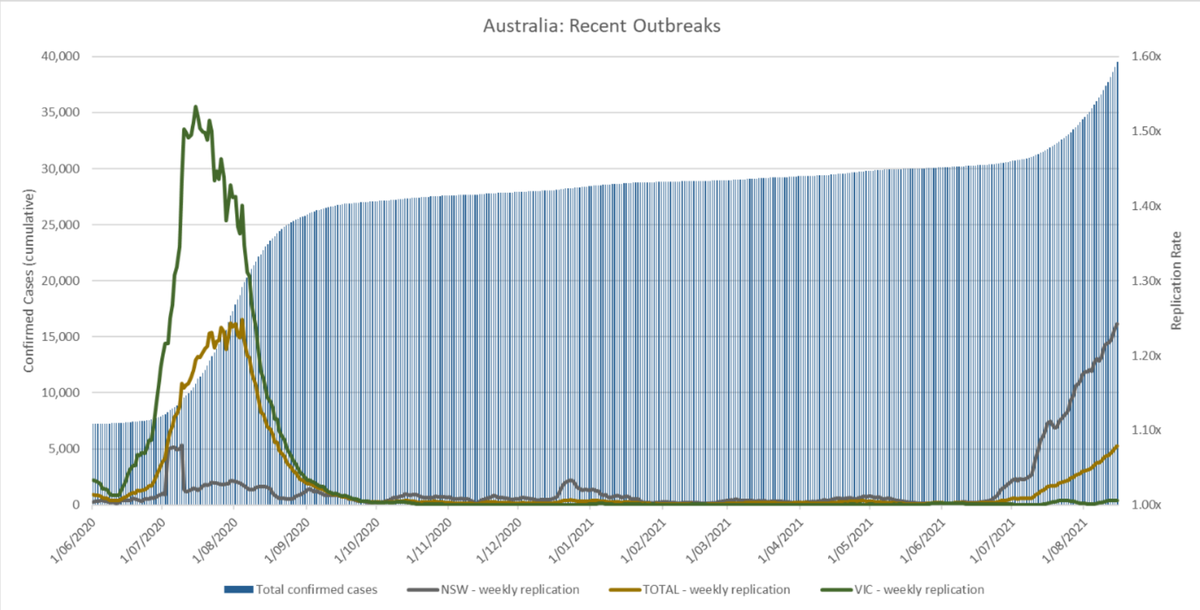
The two bookends to the story are increasing case numbers and vaccination levels.

Ultimately, it appears the vaccination rate is going to matter more. Once the vaccination rate is sufficiently high, a spike in infections (essentially of the unvaccinated) is unlikely to translate to a mirrored spike in deaths, due we think to vulnerable segments of the population having a greater incentive and propensity to vaccinate.

We count the time to attain a sufficient level of vaccination coverage in Australia that would allow greater mobility in a few short months, even if Delta becomes endemic.

Our crude modelling of this outbreak versus the initial 2020 episode in Australia shows the implied replication rate is lower this time around, due to the effectiveness of testing, social distancing and other measures. Originally in 2020 the observed replication rate was higher than the virus' underlying R0 (estimated mean of 3.28x and median of 2.79x) due to a flurry of cases being detected once testing and contact tracing started in earnest. Today, the replication rate is around 2x - we very much hope this holds but again there is a scenario where Delta becomes endemic.





Source: Geometrica analysis

In short, current weakness in some of our stocks due to the transitory impact of Delta is an opportunity for us to add, not cause for capitulation.

PORTFOLIO

Domain Holdings Limited (DHG.AU, mkt cap A$2.9bn) is a good example of a stock vulnerable to an elongated Delta driven lock down which hurt us in July, given its core business of online real estate classifieds is in part driven by the capacity of agents to conduct property inspections and auctions.

Domain was down -5.8% in July when the local bourse was up +1.1%. Then in the early days of August, Domain fell another -6%. Oh joy.

At the time of writing Domain had just reported its first half earnings. On the day of the release the stock initially dipped down -4% in early trading but has since gone on to rise over two days, fully expunging July losses.

Initially, when digesting Domain's earnings release, the market took a short-term perspective and marked the stock down. But when Domain explicitly stated during its earnings call that it had a "*commitment to ongoing margin expansion*" it was telegraphing its pricing power and margin leverage, which we think remains under appreciated.

A study of the history of **REA Group Ltd** (REA.AU, mkt cap A$20.0bn) and its margin history is illustrative; the current environment might serve as a loose analogue to REA's margin trajectory from 2007 onwards. Domain's margins are significantly lower than REA's more mature margin profile yet they're similar to what REA's were back in 2007 and with ongoing revenue growth they'll inflect given high fixed cost leverage. Which means for a constant rate of revenue growth, Domain's earnings should grow faster than REA's despite Domain trading at a significant discount to REA.

We've owned Domain since it was a tad over $2/share. The journey has further to run at a highly attractive rate of return, and so we're looking through the current spike in Delta cases and watching the rapid progress of vaccination rates closely in anticipation of a time in the not-too-distant future when lock downs ease.

At the end of July **Sezzle** (SZL.AU, mkt cap A$1.3bn) provided a quarterly report. We held a small position in the stock and have made significant gains over the last few years from the BNPL sector. Sezzle reported higher credit costs despite increased repeat usage metrics. A fundamental feature of this sector has been the virtuous feedback loop between increasing repeat usage metrics and falling credit costs and so Sezzle's report represented what we thought was a narrative shift at best, but more likely what we would call a busted thesis. Rule #1: "*If you buy a stock for a reason that is no longer valid, sell it*". We sold.

The next Entain?

One of our core positions, **Entain Plc** (ENT.LN, mkt cap £11.5bn) rose a further 4% in July, bringing year to date gains to ~60%. What we would call the "early discovery phase" of our holding here is largely done with the market increasingly aware that Entain's 50% owned affiliate BetMGM is cementing itself as a top 3 player in the burgeoning US online sports gaming industry. And yet Entain continues to rapidly grow its earnings base in predominantly regulated markets, offering in the process a highly attractive return profile ahead.

We found Entain in large part because we were deep in the weeds in US sports gaming data and discovered its 50% owned affiliate BetMGM was rapidly taking market share, largely due to certain characteristics which structurally advantaged it versus competitors.

Using the same analytical framework focused on industry structure across multiple markets and a renewed focus on the sector, we believe two things: First, there is room for four major players in the US online gaming industry; that is, not just the three we already see. And second, we think we may have identified the fourth. The market is not factoring in any success in online gaming for this stock, which provides a degree of free optionality but of itself this might not be sufficient for us to deploy meaningful capital. However, what makes the situation so much more attractive is that management have taken a lot of cost out of their base business and when we look at consensus earnings forecasts, we think they're undercooked.

We initiated a position in **Uber Technologies** (UBER.US, mkt cap US$79.6bn) recently.

Uber is at best a polarising stock. Various illuminati of the investing world have declared the company would never turn a profit or generate cash.

The kernel of truth at the heart of Uber's mobility business model is that if Uber is able to establish a self-reinforcing network (or more correctly a geographically diverse number of them), Uber will be able to stand in the middle of that proverbial chess board and clip a ticket.

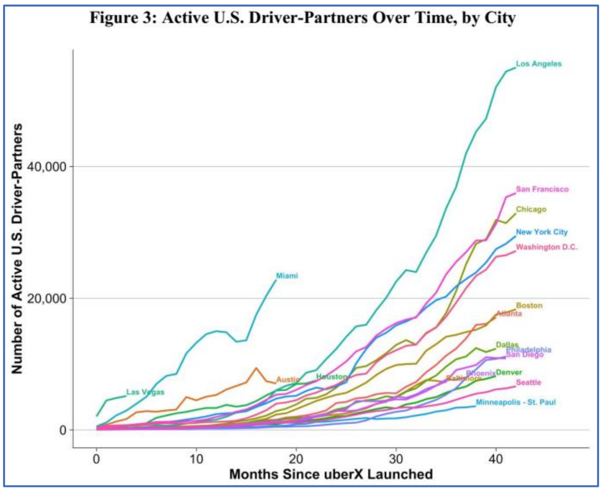
To build a network Uber has had to provide incentives to all parties to initially join the network. And these incentives have driven heavy losses as they go through the income statement (in contrast to a traditional company investing in tangible assets and capitalising that cost on its balance sheet).

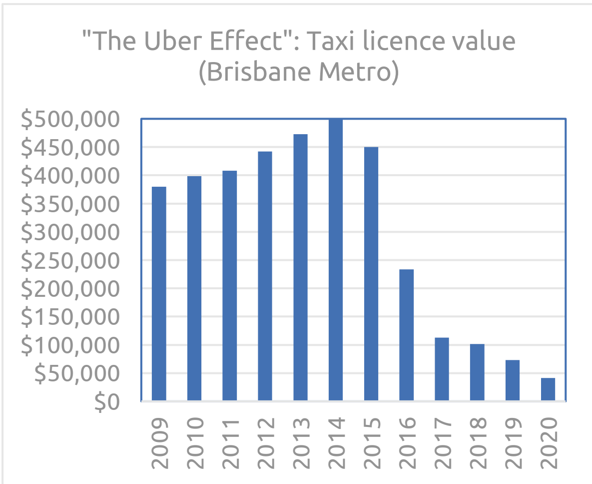
As each market matures, less incentives have to be provided to all parties, as drivers get an increasing number of rides and as customers come join and stay due to lower costs and better service. There is a self-reinforcing feedback loop at work here.

Uber's opportunity for large scale disruption was provided by the taxi industry where licence owners had an economic incentive to lobby for limited licence supply, which drove their taxi licence plate values up. The corollary was taxi fares had to be high and rising, to ration user demand given limited supply. This system worked great for the plate owners, less so for the riders.

Transport demand is highly price elastic. By enabling drivers using Uber's app to provide a better service at a lower price to riders, Uber was able to rapidly take share from taxi drivers, and in addition grow overall demand for mobility services.

At a city level, you can see that Uber is able to succeed by looking at active Uber driver numbers (the counterpoint to rider usage) and taxi plate prices. Soaring driver numbers by city and falling plate prices by city show Uber's model, at a city level, does work and is deeply disruptive.



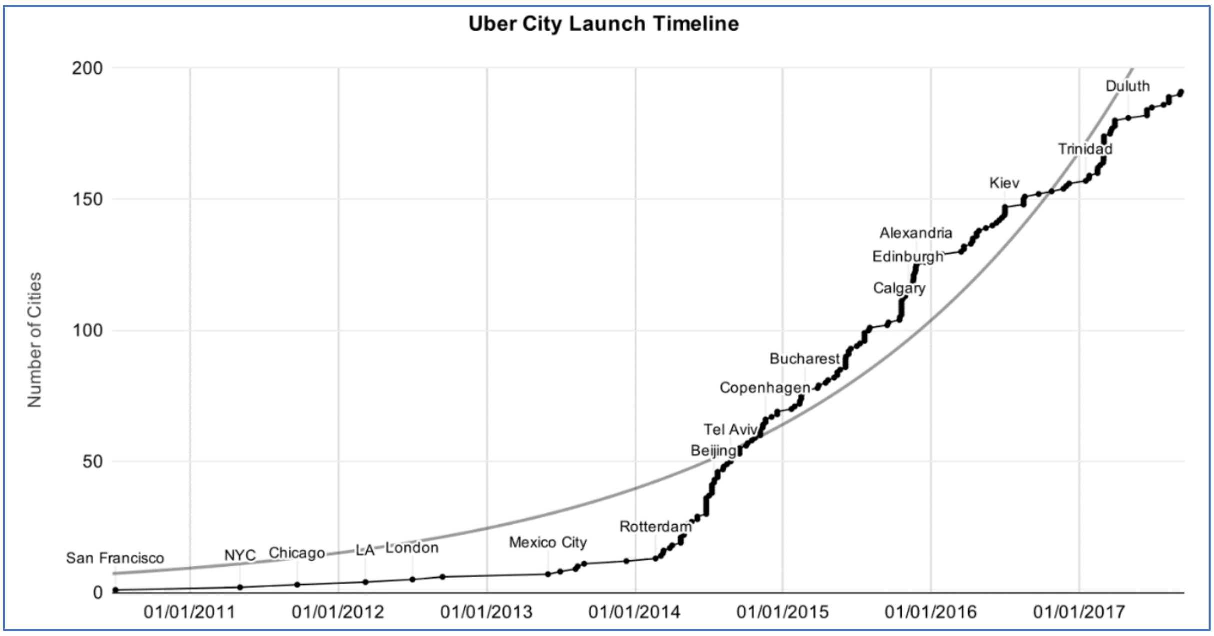


Source: An Analysis of the Labor Market for Uber's driver partners in the United States. Jonathan Hall & Alan Krueger. 2016.

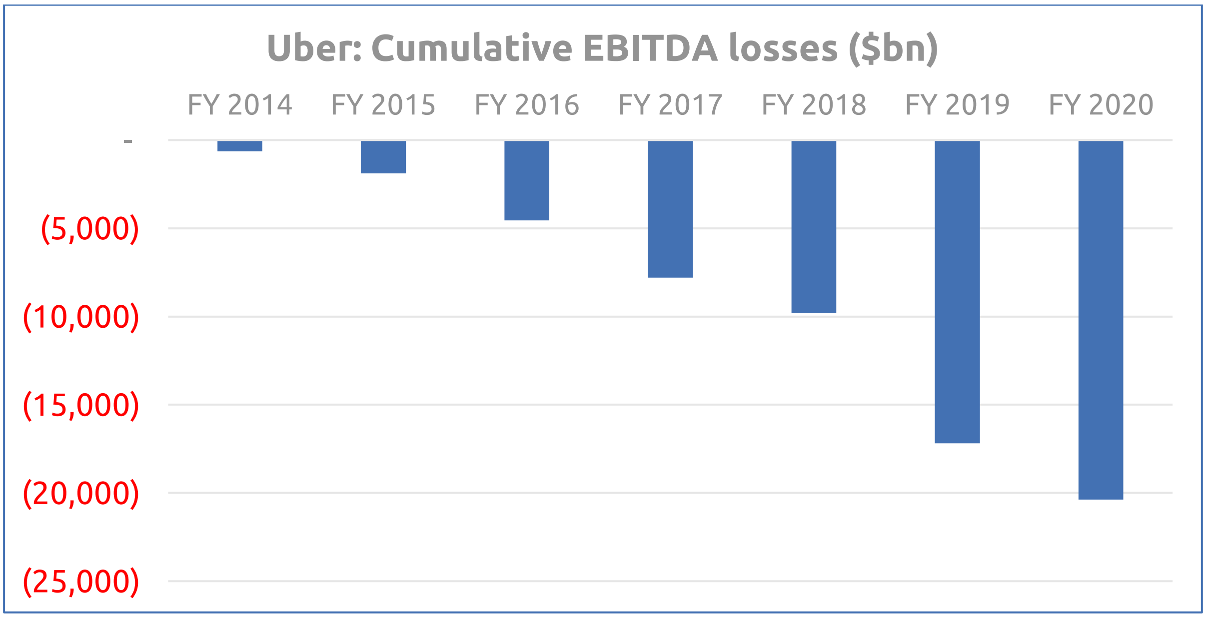
Source data: Queensland Government – Open Data Portal

If Uber had limited its ambitions to operate in just one city, it would have been profitable after an initial period of losses long ago. If it had limited itself to just one country this would have been equally true.

Uber's ambitions under its founding CEO knew no bounds. As a corollary, neither did its start-up losses. By rapidly expanding its global footprint, Uber had to rapidly expand its losses.



Source: Cash Burning Machine: Uber's Logic of Planetary Expansion. Luke Munn.



Source: Company filings.

This ad infinitum approach to expansion across geographies and commensurate losses has exhausted quite a few investors along the way. And perhaps rightly so; for our part we are generally wary of companies reliant upon capital markets for their continued existence.

But something changed not that long ago.

Softbank has been one of the most controversial (and successful) proponents of applying large wads of cash to disrupt various industries, via its investments in early-stage businesses. Softbank was an investor in Uber, and its competitor Lyft. And Softbank was an investor in Doordash, which competes with UberEats.

The whole WeWork fiasco appears to have catalysed a mantra of profitability across these companies all at around the same time. All of them have now committed to achieving profitability and cashflow generation.

In Uber's case, it has severed its more ambitious undertakings and exited markets it had no chance of winning in (China notably and fortuitously). Uber has also committed to achieving positive cashflow and EBITDA breakeven by year end 2021.

Our thesis centres on Uber's profitability sequentially improving significantly above market expectations.

We can see in many of Uber's more established markets that as the network is built, EBITDA margins increase to north of 45% for the ridesharing business and 30% for food delivery.

As Uber's underlying markets mature and it pares back some of its ambitions, we think management's articulated goals are very achievable.

We invested post the 1Q 2021 result and were a tad too early, with our error being underestimation of Uber's desire to stimulate driver supply via incentives. However, gross bookings are recovering strongly and we think as incentives ease (flagged in the 2Q earnings call) take rate and revenue will grow fast.

Uber will benefit from a recovery of mobility in its rides business and improving economics in its Eats business. In Eats, significant improvements in margins have been obscured by rapid growth, because aggregate margins are negative in that division. But these margins are improving by ~500bps a year and more markets are flipping into profitability. Fast growth should supercharge operating leverage as that division becomes profitable.

If the market consensus is that Uber never makes money, and it delivers earnings and cashflow, it should work a tonic for the shares, especially given Uber trades at a valuation discount to its peers.

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]

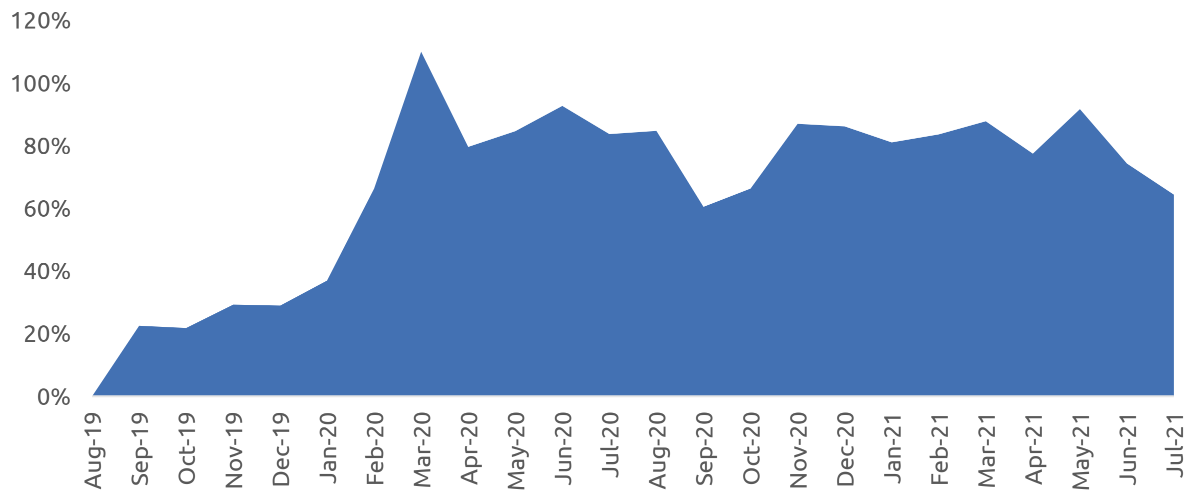
	2019	2020	2021
Jan	-	-1.3%	4.5%
Feb	-	-0.3%	6.9%
Mar	-	-5.2%	1.2%
Apr	-	2.4%	3.0%
May	-	7.9%	-1.5%
Jun	-	3.0%	-0.7%
Jul	-	9.5%	-1.4%
Aug	-	3.5%	-
Sep	1.1%	-1.4%	-
Oct	0.8%	-1.4%	-
Nov	0.1%	4.8%	-
Dec	-1.6%	2.0%	-
Total	0.5%	25.2%	12.4%

[2] *Founder Class units – Lead Series*

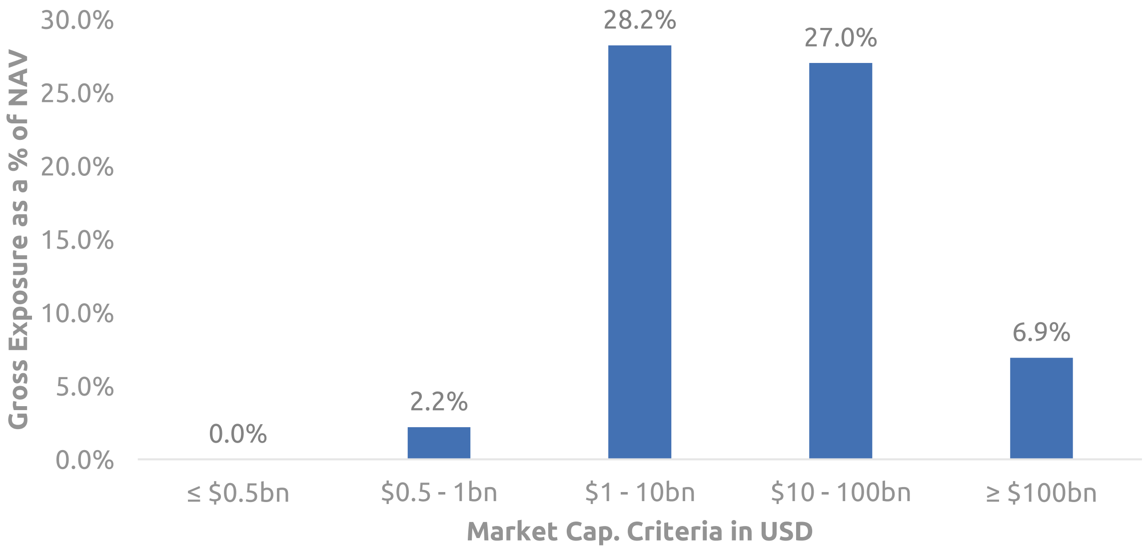
ASSET ALLOCATION

Country	Long	Short	Gross	Net
Australia	22.4%	(1.0)%	23.5%	21.4%
Americas	24.9%	(2.4)%	27.4%	22.5%
Asia	5.3%	0.0%	5.3%	5.3%
Europe	8.2%	0.0%	8.2%	8.2%
Total	60.9%	(3.5)%	64.4%	57.4%

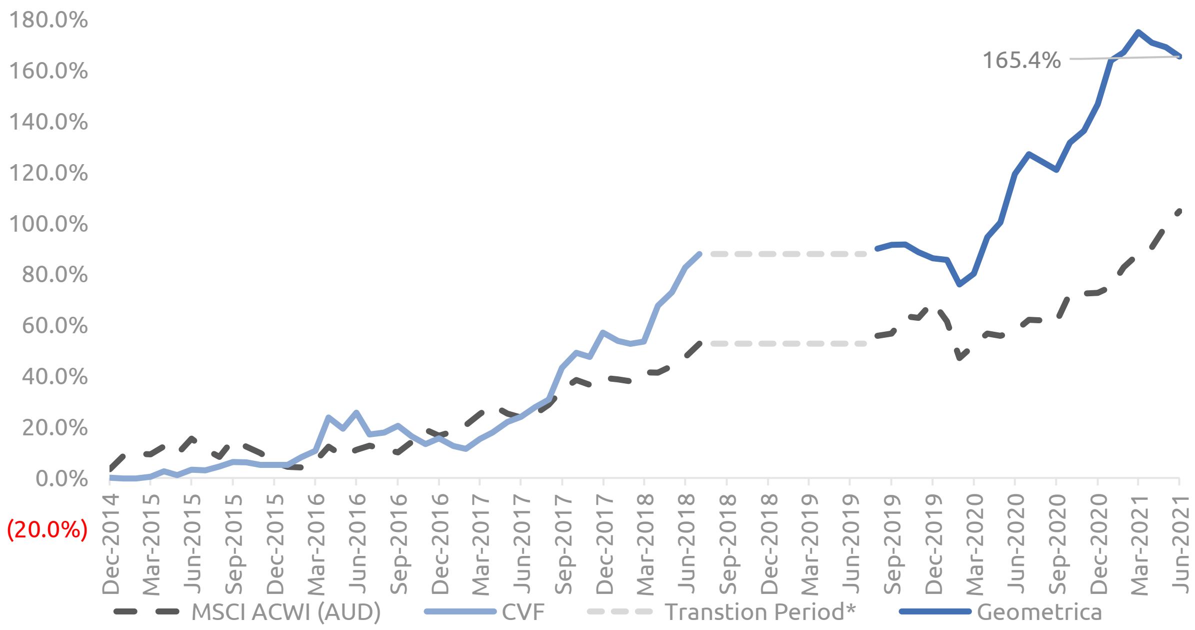
GROSS EXPOSURE



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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