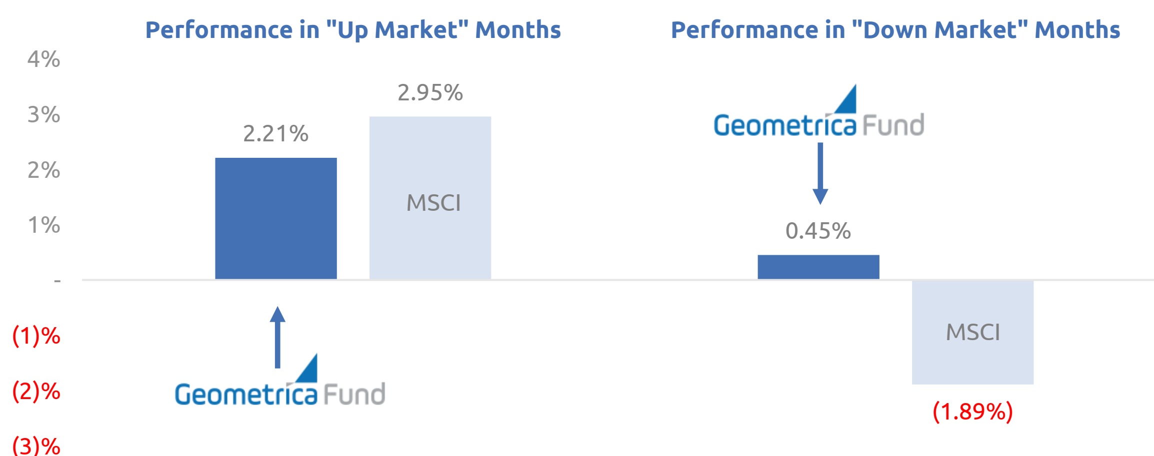
We seek asymmetric investment opportunities informed by the coalescence of rigorous fundamental analysis and alternative data discovery.

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 Oct 2021	Inception pa	CYTD	FYTD	12 months	6 months	1 month
Founder[1]	+20.10%	+18.17%	+3.75%	+26.36%	+1.50%	-0.64%

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 -0.64%[1] for the month of October 2021. Inception to date performance stands at +20.10%[1] per annum, and calendar year to date at +18.17%[1].

Positive contributors to performance during the month included a recently initiated position in North America, AutoDesk (ADSK.US, mkt cap US$72.4bn) and IDP Education (IEL.AU, mkt cap A$10.8bn).

Detractors included Daiichi Sankyo (4568.JT, mkt cap US$50.2bn), Caesars Entertainment (CZR.US, mkt cap US$22.7bn) and Uber Technologies (UBER.US, mkt cap US$87.5bn).

[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

No one single stock dominated performance during the month, perhaps to be expected during a dearth of stock specific news or earnings updates.

Daiichi Sankyo (4568.JT, mkt cap US$50.2bn) was our largest single stock detractor in a month where many of our positions retraced slightly.

In context, for the prior two months this stock has been a significant positive return contributor, rising +21.1% in August and +14.0% in September before falling in October.

Historically, Daiichi was a staid and venerable Japanese pharma company that some years ago made a choice to focus on oncology and specifically antibody drug conjugates (**ADCs**), which in medical literature years prior had been referred to as a potential "holy grail" for oncology.

Daiichi's key drug is Enhertu, a blockbuster ADC that is expanding indications rapidly within breast cancers and in March 2019 attracted the attention of **AstraZeneca** (AZN.LN, mkt cap £183.0bn) who agreed to pay Daiichi US$3.8bn upfront and up to US$6.9 billion in total in exchange for joint sharing of development costs and revenues ex-Japan.

Daiichi attracted our attention as its share price slid almost 50% over from January 2021 to early August 2021.

The cause of the share price slide appears to have been a missed sales forecast for Enhertu announced in early 2021 which resulted in the market losing confidence in Enhertu and Daiichi's entire ADC platform. Perhaps this was because dosage and patient estimates for Enhertu are fairly precise and so the miss was disconcerting, or perhaps there were fears that a known potential side effect of Enhertu, interstitial lung disease (**ILS**), was possibly becoming more prevalent as historical data seasoned.

It was not until 31 July 2021 that management lucidly explained the reason for the Enhertu sales miss. And confirmed that ILS was not becoming a serious issue as patient data seasoned.

Enhertu is indicated as a third line treatment for a type of breast cancer. The drug is literally a life saver in a setting where prognosis is generally bleak which is a fantastic thing, both for patients and for Daiichi. In July 2021, management explained that patients arriving in that setting, we think due to delays related to Covid, were lighter in weight and sicker than had been forecast, which impacted both dosage (given weight-based dosage) and treatment duration (given reduced treatment tolerance with a lighter and sicker patient).

Logically, if the reason for the share price slide (fear on Enhertu's efficacy or side effects) was invalidated then the stock should regain its losses over some reasonable period of time. We bought Daiichi in early August in good size and have so far been handsomely rewarded.

Daiichi has a platform of ADCs, around 7 of them, with another platform in development in the background.

ADCs involve 3 parts: an engineered antibody that targets a particular type of cancer cell and *only* that cell, a cytogenic or chemo drug cluster and a linker arm attaching the two that releases the drug cluster into the offending cancer cell. ADCs are thus highly targeted, unlike traditional chemotherapy.

In September 2021, shortly after we bought in, Enhertu was shown to be over 70% more effective than the current standard of care in what is known as HER2 positive breast cancer second line treatment, trouncing Roche's Kadcyla which had sales of CHF 1.7 billion in 2020.

There are reasonable grounds to think that Daiichi is what we'd call a "compounder", a stock that can consistently grow its earnings at very high incremental rates of return, as indications for Enhertu expand and as other ADCs show extremely strong results.

Illustrating the point, AstraZeneca agreed to joint venture another of Daiichi's ADCs in July 2020, committing to pay up to US$6 billion more for the privilege. The potential funds from AstraZeneca across the two JV agreements total over 25% of Daiichi's market capitalisation.

In a sense, AstraZeneca has validated Daiichi's ADC platform which contrasted with the sell-off in Daiichi's shares on what we think was an isolated sales miss. We continue to hold Daiichi.

Both **Caesars Entertainment** (CZR.US, mkt cap US$22.7bn) and **Uber Technologies** (UBER.US, mkt cap US$87.5bn) were negative performance contributors during the month. In the case of Caesars, a recent licence award for sports betting in the state of New York was made with a significantly higher rate of taxation than was expected by the market, which has led to falls in the price of most stocks in the sector. For Caesars we'd contend this is not the driver of the recent share price pull back because in general the market doesn't appear to reflect any value for sports betting in Caesars' share price. The fear driving a lower Caesars share price is we think that profit margins have peaked. We continue to hold this stock.

In the case of Uber, we are adding to our position. If you dig into Uber's underlying earnings, you'll find the stock is cheap. After Uber recently reported its first ever quarterly profit and gave incremental insight into underlying margins by division that perspective should become easier to arrive at for the market. For Uber, the losses from new market launches particularly in food and grocery delivery continue to obscure the profits from mobility. We note Uber's CEO has been a size buyer of the stock, perhaps sharing our view that there is significant upside on offer in we think the not-too-distant future.

AutoDesk (ADSK.US, mkt cap US$72.4bn) is a stock we've written on previously. Pleasingly, the stock has now recovered almost all of its share price fall since late August, in the process rewarding our decision to buy more on what has thus far proven to be a transitory albeit material dip in share price.

Opendoor Technologies (OPEN.US, mkt cap US$13.8bn) rates an honourable mention as a positive contributor during October. Opendoor is part of the US "iBuying" sector, where operators act as market makers in US single family dwellings, bringing liquidity, speed and

certainty to customers. These customers have typically found a new home and want to sell their old one contemporaneously so that they have certainty of funding for their new home, avoid bridging finance and its attendant risks and make only one move.

That the iBuying business model addresses a hitherto unmet customer need is evident in very high customer net promoter scores for Opendoor.

Our opportunity arose after the US iBuying sector had more or less been cut in half in share price terms due to softening US house price trends through 2021.

As is our penchant, we looked at all the stocks in the sector and across business models within US real estate technology before settling upon Opendoor and one other name which we think offers particular cheap long dated optionality.

In that process we passed on **Zillow Group** (Z.US, mkt cap US$16.2bn) when we looked in September 2021 simply because their targeted contribution margins from their iBuying division known as Zillow Offers were a meagre -2% to +2%. This was an extremely thin cushion versus other players running in the +4 to +5% range of planned contribution margins, perhaps reflecting Zillow Offers' aggressive approach to winning market share.

Because of the cyclical nature of US house prices, the earnings of the iBuyers are to an extent also cyclical. The lower the planned contribution margin, the bigger the potential hit when house price trends swing against you as an iBuyer.

This was something Zillow noted when on 3 November it announced a US$422m loss from Zillow Offers and the closure of the division. This clearly came as a shock to the market, leading Zillow's share price to fall -24.9% on the day.

The other really big issue for Zillow in iBuying was always going to be that Zillow's core business is lead generation for US real estate agents. US real estate agents typically charge a 6% commission (no typo!), paid by the vendor and usually shared between selling and buying agent.

The rub with Zillow Offers for Zillow's core real estate lead generation business was that when a customer sells their house to an iBuyer like Opendoor or Zillow Offers, the vendor is making the real estate agent redundant.

Instead of paying a real estate agent 6%, a vendor pays Opendoor around 5%. The vendor saves, and the real estate agent misses out on a sale. Thus, in pursuing iBuying, Zillow was in direct conflict with its real estate agent customers. Which is probably why Zillow chose to shutter its iBuying business rather than spin it off or sell it.

Now in the case of Opendoor, targeting around a +4% to +5% contribution margin, the through the cycle margins stack up. Opendoor's stock price rose after it reported 3Q 2021 earnings.

Given the stock offers significant potential upside, albeit with a high degree of likely earnings volatility, our data level work on Opendoor continues in earnest.

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]

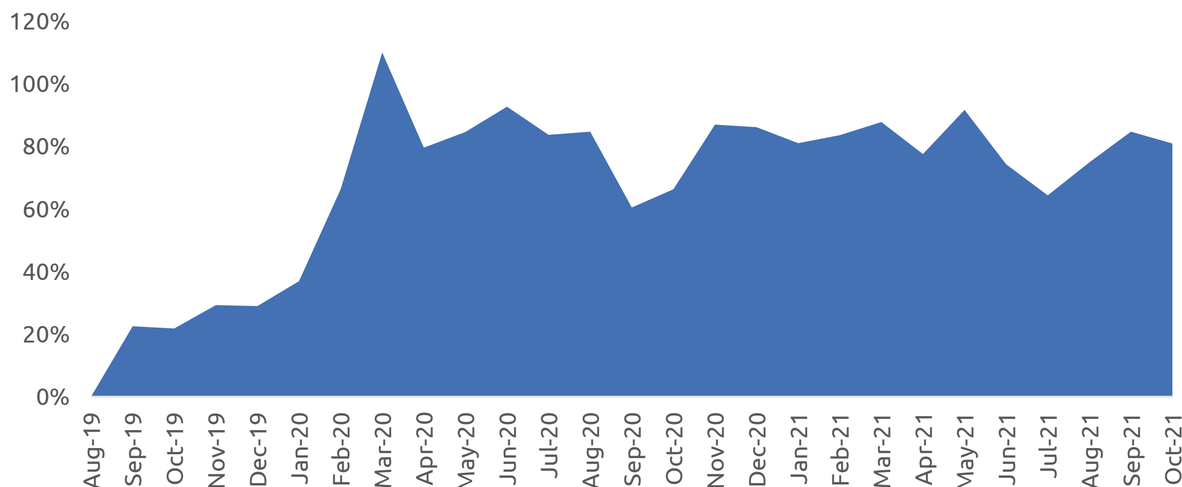
	2019	2020	2021
Jan	-	-1.3%	4.5%
Feb	-	-0.3%	6.9%
Mar	-	-5.2%	1.2%
Apr	-	2.4%	3.0%
May	-	7.9%	-1.5%
Jun	-	3.0%	-0.7%
Jul	-	9.5%	-1.4%
Aug	-	3.5%	2.6%
Sep	1.1%	-1.4%	3.1%
Oct	0.8%	-1.4%	-0.6%
Nov	0.1%	4.8%	-
Dec	-1.6%	2.0%	-
Total	0.5%	25.2%	18.2%

ASSET ALLOCATION

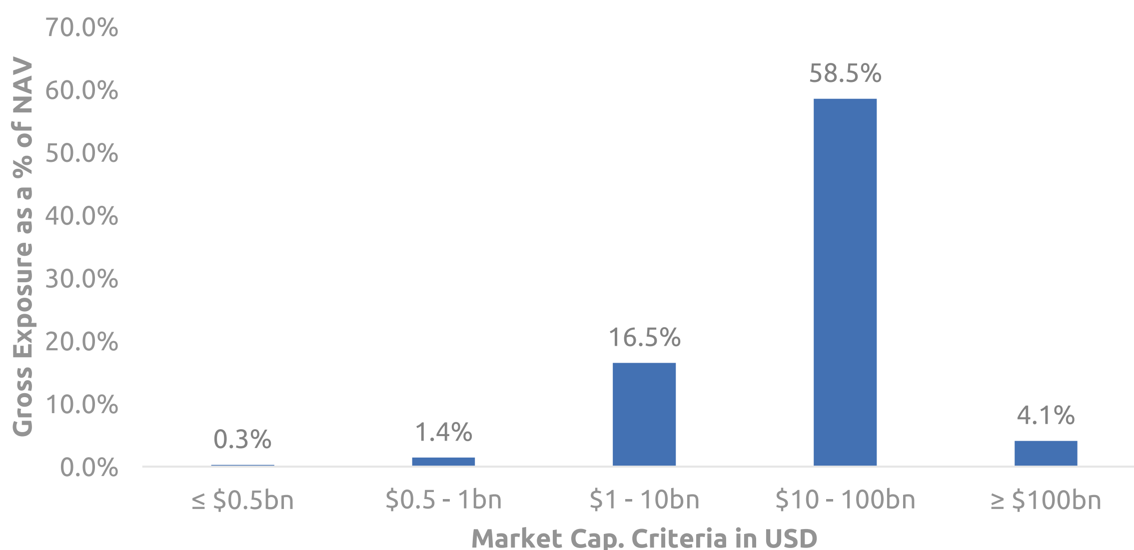
Country	Long	Short	Gross	Net
Australia	10.1%	(1.2)%	11.3%	8.9%
Americas	38.6%	(6.6)%	45.2%	32.0%
Asia	14.5%	(0.0)%	14.5%	14.5%
Europe	9.1%	(0.9)%	10.0%	8.2%
Total	72.2%	(8.7)%	80.9%	63.5%

[2] *Founder Class units – Lead Series*

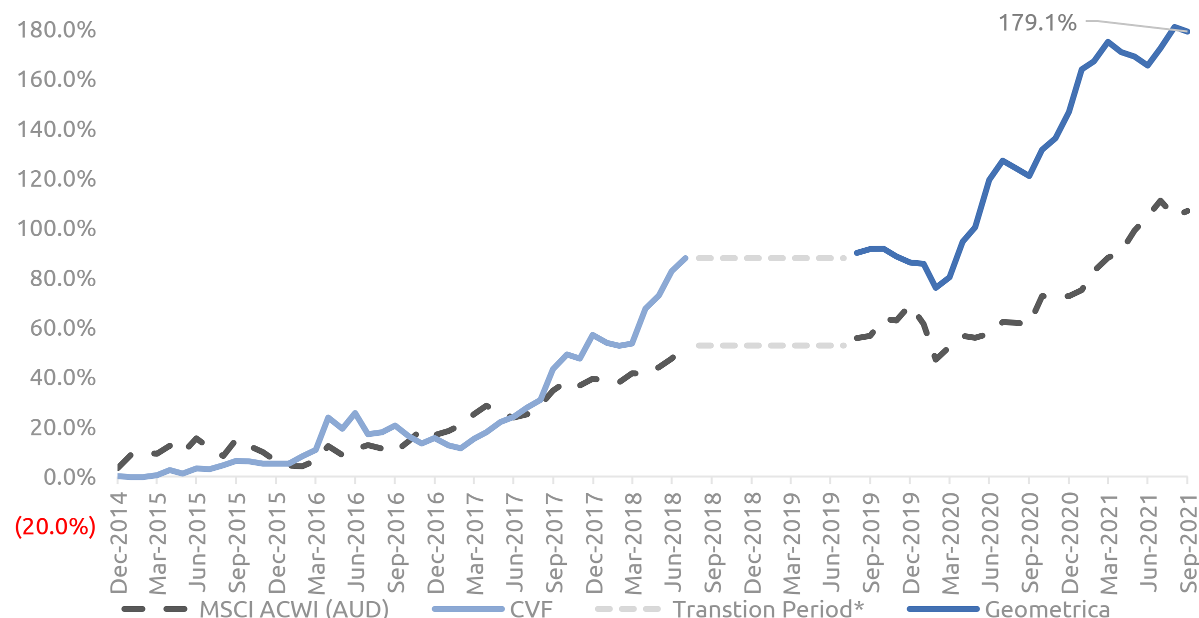
GROSS EXPOSURE



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.