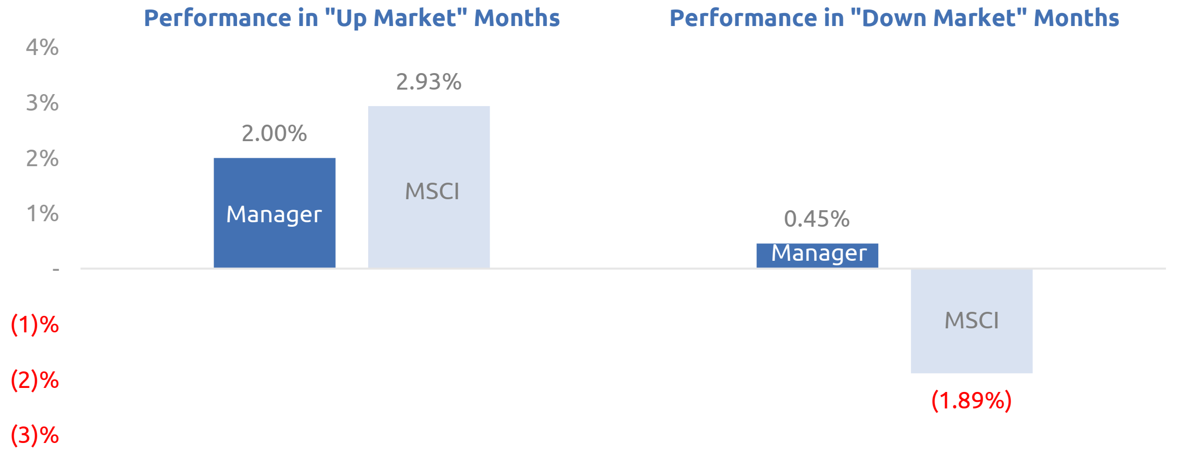
We seek asymmetric investment opportunities informed by the coalescence of rigorous fundamental analysis and alternative data discovery.

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 Dec 2021	Inception pa	CYTD	FYTD	12 months	6 months	1 month
Founder[1]	+15.94%	+12.22%	-1.49%	+12.22%	+1.49%	-0.44%

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 -0.44%[1] for the month of December 2021. Inception to date performance stands at +15.94%[1] per annum, and calendar year to date at +12.22%[1].

Positive contributors to performance during the month included Lynas Rare Earths (LYC.AU, mkt cap A$9.7bn), AutoDesk (ADSK.US, mkt cap US$55.5bn) and a short position in Carvana (CVNA.US, mkt cap US$25.8bn).

Detractors included positions in HelloFresh (HFG.GY, mkt cap €10.2bn), ASICS (7936.JT, mkt cap US$3.5bn) and Daiichi Sankyo (4568.JT, mkt cap US$44.6bn).

[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 POSITIONING

Acting to protect capital

During December, we substantially reduced our equity exposures, in particular to the "growthier" segments of the market, to the lowest levels since early 2020.

You may recall, back in February 2020 we also carried very low equity exposures just before Covid-19 broke on markets.

Then, and now, we responded to observable data.

Large drawdowns are disproportionately negative for one's ability to compound capital. Via active management we seek to avoid the worst of market sell offs.

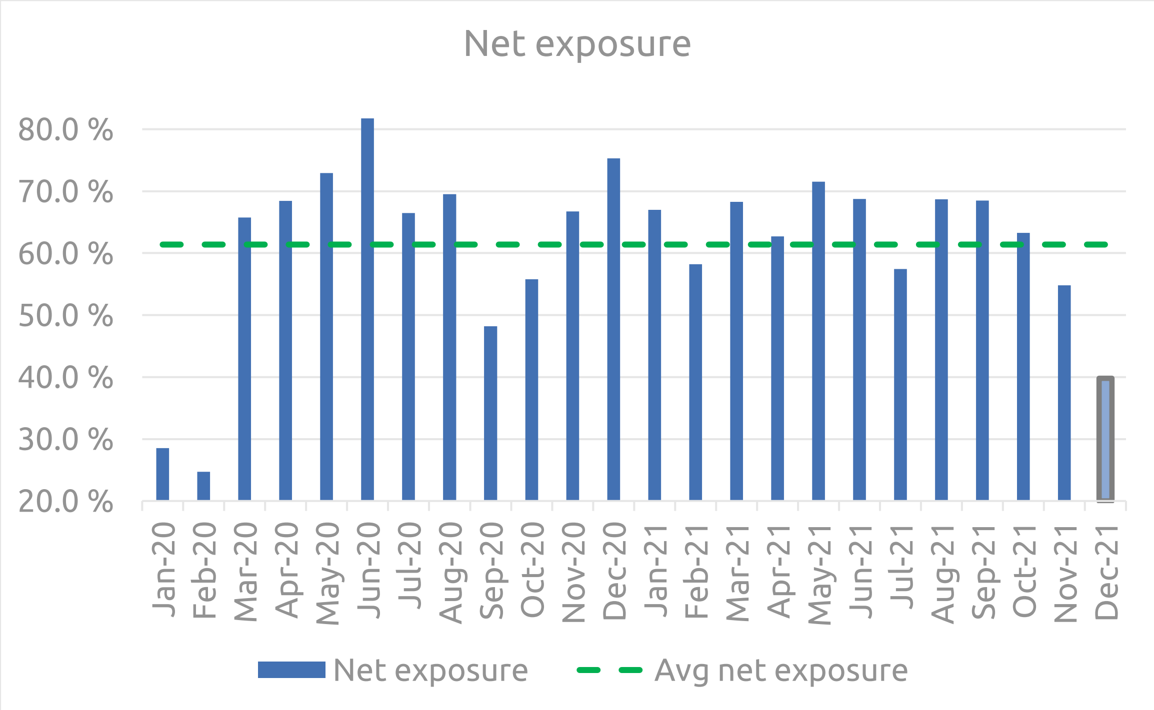
Our risk management process feeds into this: avoidance of illiquid situations, avoidance of excessive concentration and most importantly, avoidance of excessive leverage. This may detract from return potential in a white-hot bull market, but it means we should also tread a less volatile path upwards over time.

Proactive positioning of our portfolio should serve us well. We are avoiding the worst of this current January sell off.

Every sell-off throws up opportunities. Some have already emerged.

And we have a cash war chest. You can think of cash as a lazy asset one should rush to deploy, but we don't think this way (look at our historical exposures). To paraphrase, cash is like a call option, with no expiry date, requiring no conversion premium, and exercisable over any asset of our choosing at any time.

We want to be very greedy in giving up that call option. Big legs down in asset markets tend to throw up amazing opportunities for those holding cash.



What is happening in equity markets?

In 2020, in response to Covid-19, the US Federal Reserve cut interest rates and provided unprecedented liquidity to financial markets.

Stimulus and monetary policy massively benefitted the online economy and traded goods sectors over the physical economy and services sectors.

The Fed's actions worked. There was no economic depression, much less any lasting recession.

But the market took a lot of concept stocks that were Covid-19 beneficiaries to stratospheric valuations.

We think that the worst of Covid is behind us, and the process of normalisation is ahead.

This is negative for the stocks that benefitted from Covid. But its extremely positive for the ones that have suffered.

Almost every single company we speak to highlights wage cost pressures and other input cost pressures (there are a few exceptions with pricing power which will see margin expansion in the not-too-distant future, and we own one). The US economy appears strong and is gaining momentum.

The US Federal Reserve is screaming from the rooftops that they will act to contain inflation and that they will drain liquidity from the system and raise interest rates.

Higher interest rates are a distinct negative for any long duration stock trading on a large earnings multiple; but are not necessarily negative at least in the foreseeable future for broad swathes of the market that have been overlooked or neglected over the last two years.

Don't fight the Fed

Rather than thinking of the US Federal Reserve as a regulator, we prefer to think of them as the largest and most powerful market participant.

The Fed has the ability to heavily influence interest rates, which are probably the most powerful exogenous valuation variable for stocks.

You ignore the aphorism "don't fight the Fed" at your own peril.

What are we doing?

This was written a few years back:

> *Our mission is the discovery of materially mis-priced securities. We are stock pickers. We believe equity markets are inherently inefficient and afford the studious investor the opportunity to generate above market returns. Market based valuation is akin to a popularity contest. The vast majority of investors want to own what is popular and will pay handsomely for that privilege. The result is cheap stocks tend to be misunderstood, neglected or unpopular - but not everything that is misunderstood, neglected or unpopular turns out to be cheap. The creative aspect of what we do revolves around this differentiation; we spend a lot of time trying to see in a stock what the market might be missing. Our contrarian, fundamental value philosophy is at the core of everything we do and data analytics is at our heart.*

The key thing is that our *investment process* has not changed. We are just applying it to sectors of the market that aren't over owned and overly expensive and thus vulnerable to higher rates. Tech stocks are probably off the menu for a while given this unwind will take a bit of time; but at some stage the game always restarts.

Most importantly, the stocks that always work best for us are those idiosyncratic situations where a price fall occurs for a non-market wide related reason and the equity market misses something important about the stock's forward prospects.

PORTFOLIO

Take **Activision Blizzard** (ATVI.US, mkt cap US$63.4bn). Starting in late November 2021 we built a ~3% position, after a self-inflicted scandal sent Activision's share price into a tailspin. Activision is a game developer, built over several decades by its CEO.

Activision was highly acquisitive, purchasing numerous game developers. But rather than force them to integrate culturally, Activision allowed acquired businesses to retain their own culture and even their own premises. This meant that the acquired creative talent remained, but it also allowed some fairly rank behavioural practices to fester undetected.

When the Wall Street Journal broke the story, Activision's share price slid from above $100/share to a low of $57.28/share in early December.

The scandal resulted in the deferral of two key and eagerly awaited titles out of Activision's Blizzard studio. When revealed in early November the stock fell 14% on the day and then kept trading off.

But digging into the detail, this was a temporary deferral, not a permanent cut of earnings. All that had happened was a chunk of earnings forecast to be realised in 2022 had been shunted out to 2023. In the words of Warren Buffett: "*the stock market is a value transfer mechanism from the impatient to the patient*."

We were also attracted to Activision's massive net cash position, its historical record of making great acquisitions and the emerging trend of in game advertising which has the promise to be materially accretive.

In early January 2022, Activision received a takeover offer from Microsoft, at $95/share. The stock is currently trading at $81.35 given the transaction is not expected to close until 2023; we remain holders given the ~17% upside to terms and approaching launch of multiple key titles across the later part of 2022 and into 2023.

HelloFresh (HFG.GY, mkt cap €10.0bn) was a detractor during the month. HelloFresh beat expectations on sales but missed on earnings, largely because HelloFresh didn't put its prices up unlike its competitors.

This was a deliberate action designed to take further market share. HelloFresh is generally the #1 player and growing share in every major market in which it competes.

In a sense, it is highly logical as greater delivery density in an area drives lower unit costs and ultimately higher margins and returns.

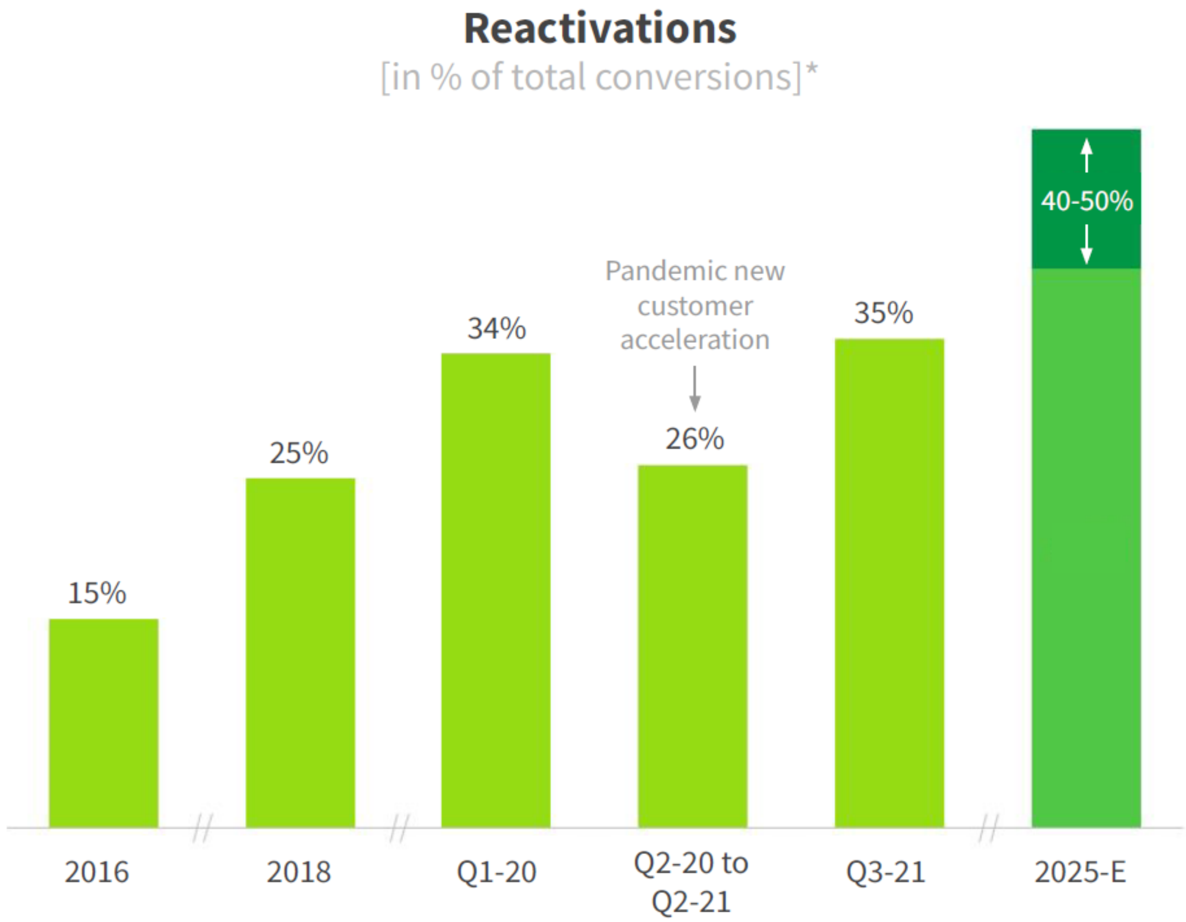
But right now, the equity market is penalising HelloFresh as a tech based covid beneficiary.

Notably had HelloFresh increased its prices a paltry 2%; less than what competitors took in price, it would have met or exceeded earnings expectations.

The *potential* Achilles heel of this business is a high rate of behavioural churn. The fear since establishment with this stock and the entire sector has always been that customers would stop joining leading to a rapid run off in the sales pipeline.

To date this has never transpired. Customer lapse trends haven't materially changed in recent years.

We can think of other industries with observably high churn but low customer acquisition cost which result in high customer value through time. Notably, the trend in HelloFresh's reactivation rate is positive; that is former customers that then come back and sign up to the service once again.



Our goal in cutting back this position sizing was simply to avoid the large current reset in valuation that the entire market is experiencing, in particular any stock deemed to be a covid beneficiary. At a headline level the market move makes sense but there are always going to be exceptions and perhaps HelloFresh is such a company.

We note that HelloFresh's CFO recently bought €1m of HelloFresh shares on market and the company even more recently announced a €250m buyback program and has been active recently in executing this. These don't seem like the actions of a company or management team watching their sales funnel unravel. Time will tell.

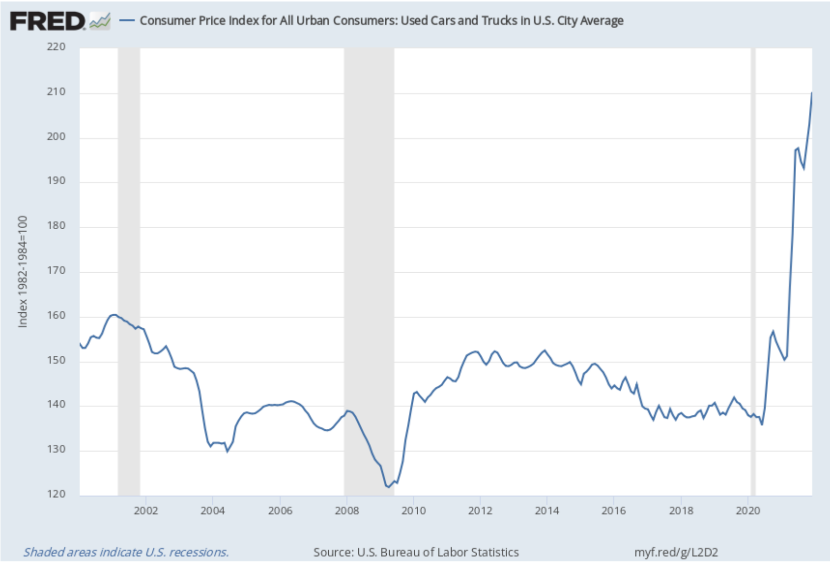
We continue to hold a sliver of a position and to monitor proxy data for HelloFresh, with a view to re-entering once we see the set up for a clear earnings-based surprise.

Carvana (CVNA.US, mkt cap US$22.1bn) was our best performing short position during December and our third best performing stock. When we first researched Carvana it became obvious that in a normal market environment the unit economics were unlikely to work. Or more correctly, Carvana's unit economics appeared dependent upon related party deals and ancillary financing margins which in a period of higher interest rates are potentially highly vulnerable.

Carvana is a used car sales platform. They buy used cars and offer them online. High profile vending machines have been used to market the offering.

Carvana is intriguing because the CEO's father owns a traditional used car sales business, is the president of a non-residential real estate business and a key shareholder in a vehicle loan and online payments services company all of which deal extensively with Carvana in a series of related party transactions.

Carvana benefitted disproportionately during Covid because the price of used cars went **up**, not down during this period, vastly inflating the business economics versus what is likely to be sustainable in the longer term (see chart below).



Cars are depreciating assets, used cars especially so. Covid has just resulted in a short-term shortage of new vehicles which pushed the price of used vehicles up and Carvana has benefitted from that. But the prospects for used car prices going **up** each year is extremely slim. Best of all, when they start to fall, this will hammer Carvana's margins. And this should occur as Omicron and Covid fade and the world starts normalising.

When we saw the CEO's father dump $3billion of Carvana stock after buying in with prescient timing in 2020, we decided to tag along and (after the appropriate research) short sold the stock.

Lynas Rare Earths (LYC AU, mkt cap A$8.9bn) was also a positive contributor during the month advancing 14.7%. We've followed this company since 2008 when in another fund we participated in the recapitalisation of what was then a new processing venture.

Lynas' key asset is the Mt Weld mine, endowed with high concentrations of neodymium, used in the manufacture of rare earth permanent magnets, which are significantly lighter and stronger than alternatives.

China dominates the supply of rare earths. Most significantly, in the last few months the industry structure in China has shaken out from ~37 licenced exporters of these materials back in 2010 to 2 massive state owned and vertically integrated conglomerates.

Industry structure matters. It may also telegraph intentions.

Chinese policy around rare earths over the last decade shifted from active encouragement of exports of rare earth raw materials such that China supplied the entire world at uneconomic rock bottom prices into a strategic desire to establish within China a full domestic rare earth, magnet and EV industry. Eisenhower might have called this an industrial military complex.

Tax and other policies favour China. Exports of transformed rare earths have a local value added tax rebated, whereas exports of untransformed rare earths must pay the tax. This pricing bifurcation and freight cost advantage between China and the rest of the world tilt the scales towards China becoming the dominant player in rare earth and magnet processing over time.

Chinese export supply volumes have tamped down considerably and appear to match demand albeit with a lag, which has resulted in an explosion upwards in prices for neodymium.

However, the price of neodymium is still way below the prices seen in 2010.

And the price of cerium and lanthanum, which were high in 2010, are at rock bottom levels.

Why is this relevant?

Well, in 2010, a Chinese export quota system saw the price of all rare earths increase dramatically as the actual valuable commodity was the quota allocation itself. The domestic Chinese price of, say, cerium, was significantly lower than the export price including quota value.

Now, with the arrival of EV demand, the natural laws of supply and demand are taking hold and the prices we see for neodymium are driven by demand, not an artificial supply constraint.

Cerium and lanthanum, which make up around 60% of a typical mines output, are virtually worthless now. So, neodymium has a greater load to bear in making the typical mine profitable which is especially the case with any proposed new mine which is not endowed with high head grades of neodymium (most fit this bill or have fluorine or uranium occurrences which makes processing extremely difficult).

The other thing about EV demand is that it is very difficult to discern the difference between a linear and an exponential event in the early days. The EV demand now unleashed appears exponential to us.

Into this burgeoning demand environment, Lynas will be gradually doubling its neodymium capacity over the next few years. Steady supply allows for ongoing price appreciation and rising prices and rising volumes are a powerful force for profit growth.

The company has a fortress balance sheet and is literally printing cash.

Since the end of December, the share price is down. But the price of neodymium oxide is up ~17%. Ultimately, share prices tend to follow cash earnings.

OPERATIONAL

Geometrica Capital Pty Ltd received its AFSL in late December 2021, a great milestone operationally.

What should you do in these markets?

We aren't licenced to provide individual financial advice. But we can share how we think about the present environment.

We like difficult market conditions because they bring opportunity.

They also make it much easier for us to differentiate ourselves given our focus on deep, idiosyncratic research-driven ideas.

In early 2020, when markets tanked and numerous funds were down -20% or more, we didn't suffer those big drops.

And in the aftermath of that we made very good returns.

This time, we are again not participating in the big price falls. We cannot guarantee that will remain, but given our low net exposure, it is quite likely.

Anyone hoping the Fed is coming to the rescue this time around may end up sorely disappointed. That's unlikely until they overdo things once again, but time will tell.

Once again. we are picking stocks with strong prospects and material upside in neglected, misunderstood or unpopular pockets of market opportunity. History tells us that should translate to strong returns over time.

Our fund remains open for investors. If you have interest, please reach out.

Market update call

Following on from this letter, we would like to invite you to a market update call with our investment team, in the week commencing 7th February 2022.

Please RSVP **here** and we will send you your unique dial in details.

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]

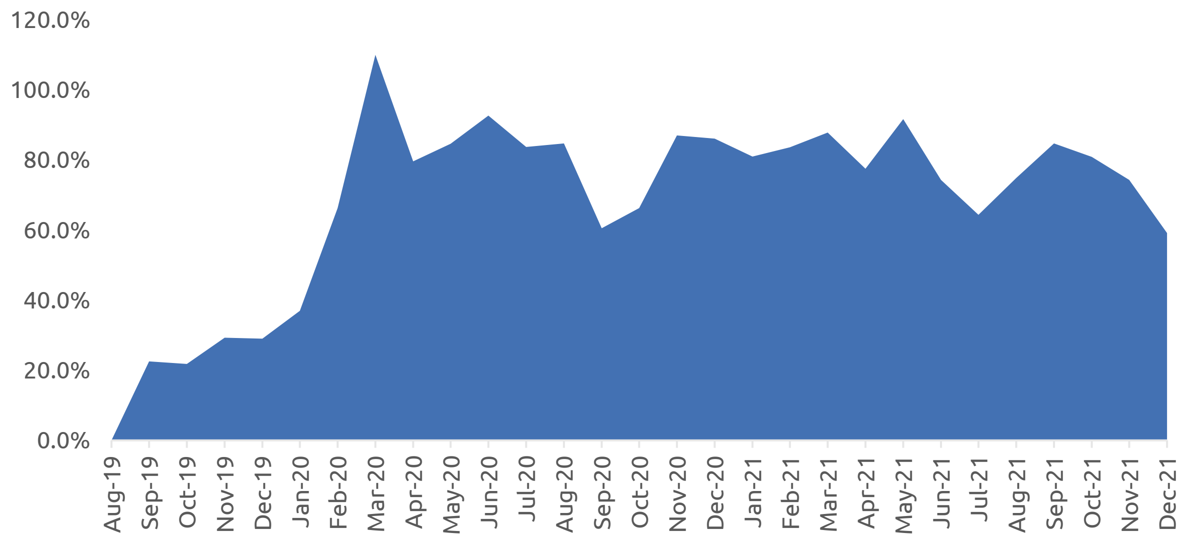
	2019	2020	2021
Jan	-	-1.3%	4.5%
Feb	-	-0.3%	6.9%
Mar	-	-5.2%	1.2%
Apr	-	2.4%	3.0%
May	-	7.9%	-1.5%
Jun	-	3.0%	-0.7%
Jul	-	9.5%	-1.4%
Aug	-	3.5%	2.6%
Sep	1.1%	-1.4%	3.1%
Oct	0.8%	-1.4%	-0.6%
Nov	0.1%	4.8%	-4.6%
Dec	-1.6%	2.0%	-0.4%
Total	0.5%	25.2%	12.2%

ASSET ALLOCATION

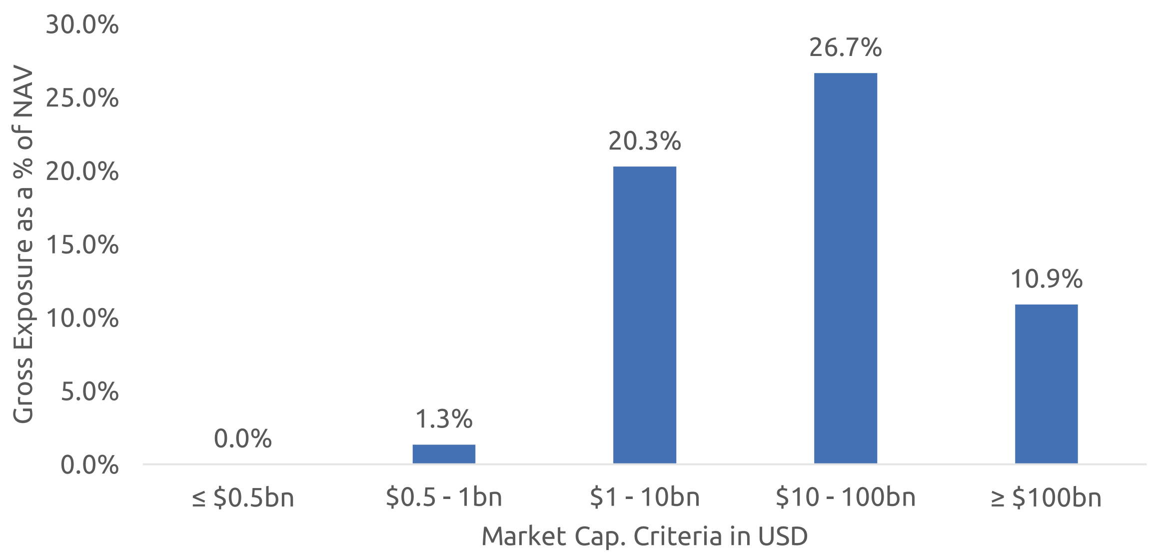
Country	Long	Short	Gross	Net
Australia	6.0%	(1.3)%	7.4%	4.7%
Americas	28.1%	(8.0)%	36.1%	20.1%
Asia	7.3%	(0.0)%	7.3%	7.3%
Europe	8.1%	(0.3)%	8.4%	7.7%
Total	49.5%	(9.7)%	59.2%	39.8%

[2] *Founder Class units – Lead Series*

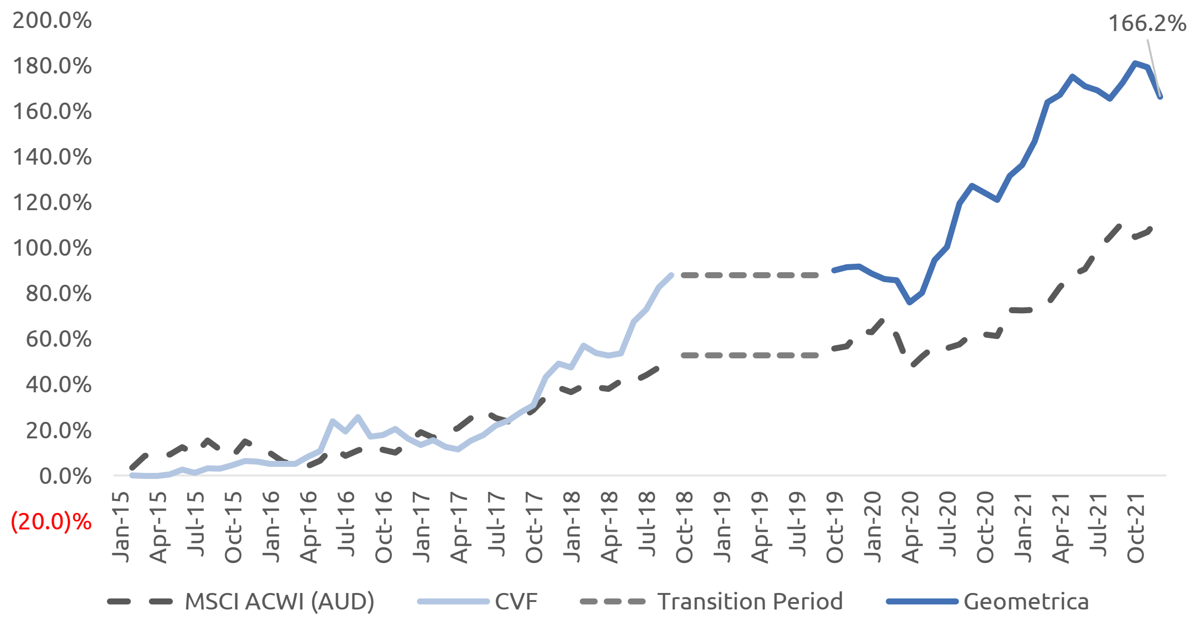
GROSS EXPOSURE



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.