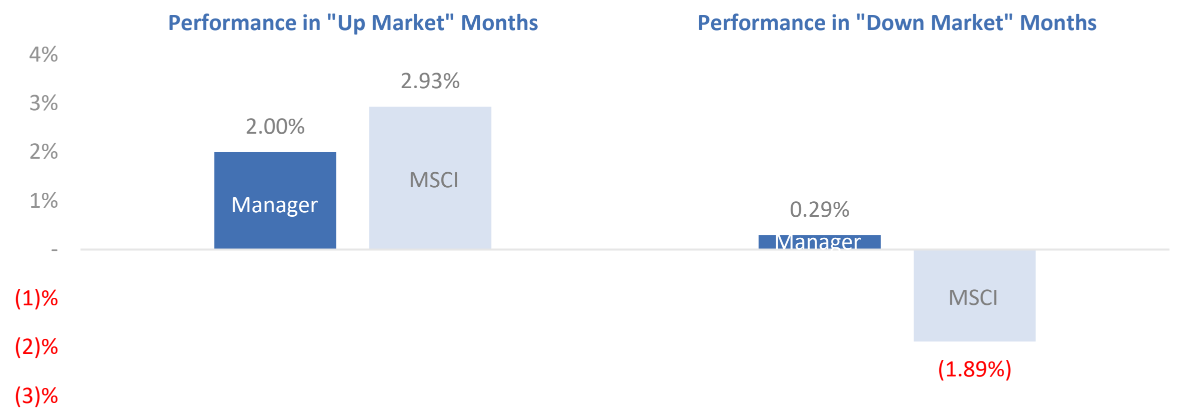
We seek asymmetric investment opportunities informed by the coalescence of rigorous fundamental analysis and alternative data discovery.

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 Jan 2022	Inception pa	CYTD	FYTD	1 year	2 yrs (pa)	6 months	1 month
Founder[1]	+13.38%	-4.07%	-5.49%	+3.06%	16.87%	-4.18%	-4.07%

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 -4.07%[1] for the month of January 2022.

Scant consolation, because you cannot eat relative performance, but most major indices were worse than that in January. Nasdaq composite -9.0%, S&P500 -5.3%, S&P/ASX200 Index -6.4%.

A combination of an inflationary surge, rising bond rates and a US Federal reserve playing policy catch up have been a toxic cocktail for markets, even before tanks were added to the mix.

Our decision in 4Q-2021 to aggressively cut our growthier exposures vulnerable to an inflationary spike is helping. We are faring much better thus far in February than we did in January.

[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.*

More importantly, we're able to cherry pick some of the bargains now being thrown up by relentless and indiscriminate selling.

Portfolio valuation

For much of 2020 and 2021, as is typical in a red-hot bull market, valuation seemed for markets to be a secondary consideration to growth. This was a "tell me", rather than a "show me" market.

A lot of the share price appreciation that played out in the sexier segments of the market across this period was being driven by valuation multiple expansion.

The old saying that "*a great company can be transformed into a bad investment by paying too much for it*" rings true, especially in the final days of a rate easing cycle.

In that vein, some interesting metrics on the portfolio we thought we'd share:

- The weighted average forward price to earnings multiple of our **long book** is around **13x**.

- The weighted average forward price to earnings multiple of our **short book** (where these stocks have earnings) is around **45x**.

We've definitely been hard at work over the last few months.

Calamity or opportunity?

We think the question in any big market correction isn't *whether* you should buy, but rather *when* and even more importantly, *what* you should buy.

While the shape of every market correction is different to the last, they all ultimately pass.

And typically, the single most costly investor error is to cut and run to cash…and then fail to re-join, in the process missing the inevitable recovery. Real cash returns remain steeply negative.

At an equity market level, timing of when to buy (or when to sell) a market is very difficult because it is fundamentally imprecise. This isn't where we have quantifiable edge.

Rather, we navigate the market timing question by in effect, ignoring it.

Instead, we look at stocks. And we raise the bar for what return we require before we're willing to deploy capital into a given stock.

By getting very greedy, in terms of the size of prospective return we require in order to risk your and our capital, we in effect answer the timing question.

We are adding things to the portfolio now. Adding to a few things we already own and adding a few new names as well. Reinvesting some of the profit from short selling into long positions that we think offer significant upside.

Now and in the days ahead is when we can make a lot of money. We may not get to count it for a while, but if we pick the right stocks, we will ultimately be rewarded.

This is a movie we have seen before.

As the man said, "*the stock market is a device for transferring money from the impatient to the patient*[2]". You can imagine Warren Buffett somewhere right now licking his lips in anticipation.

Thank you.

We should also say thank you to all of our investors. We are blessed with an extremely stable and patient investor base, which allows us to do our jobs and focus on finding stocks with large upside.

PORTFOLIO

In January, shorts contributed +0.7% but longs detracted -4.0% with currency filling out the balance.

Our position in **Activision Blizzard** (ticker ATVI.US, mkt cap US$63.3bn) benefitted from a cash takeover offer at US$95/share from Microsoft. We detailed this in the last newsletter.

This is the third takeover offer we've had for one of our stocks across the last 12 months, in a portfolio that typically only contains 20-30 stocks in the long book.

In each case we had a thesis for why the business would grow its cash earnings over time which wasn't reflected in the share price.

The prospect of catching a takeover bid is never crucial to our ownership case for a stock, but it's certainly a nice surprise when it happens.

Another significant positive contributor during January was a European based stock trading on what we calculate is a single digit valuation multiple with what we model to be rapidly rising earnings not reflected in consensus estimates. We're tight lipped on the name for now because whilst we currently have around 2.5% of capital invested in it, that allocation may well increase in the near future.

Visa (V.US, mkt cap US$479bn) was also a significant positive contributor. To be quite clear, Visa is not a stock we would ordinarily own. However, having looked at it in some detail many years ago we were aware that cross border transactions are wildly profitable for Visa. We also have a view that Covid is more or less a rear-view mirror issue, based on data related to Omicron. Visa should gain disproportionately as travel increases.

Detractors during the month included positions in **Allkem** (AKE.AU, mkt cap A$6.0bn), **Lynas** (LYC.AU, mkt cap A$8.2bn) and **ASICS** (7936.JT, mkt cap US$3.7bn).

Allkem is a lithium producer and Lynas a producer of rare earths.

[2] Source: Warren Buffett.

Throughout January, in the case of both lithium and rare earths (neodymium in particular) the correlations between stocks and underlying commodity prices broke down.

However, the correlation between underlying fundamentals and commodity prices did not break down.

The balancer of supply and demand is always price. Both the price of lithium and neodymium shot upwards during January.

Whenever we look at a stock we always ask ourselves "if we own this company, how do we get hurt?". The way you get hurt with any commodity or cyclical stock is if you buy it too late in a price cycle.

The classic error is to buy a cyclical or commodity stock on a mid-single digit P/E which is reflective of peak cycle margins, only to see margins roll over and the P/E shoot upwards as earnings collapse. We are acutely aware of this because we also hunt this type of situation for shorts.

Which is why you never buy these sorts of stocks on their headline valuation multiple alone. You need a view on the underlying product price trajectory.

Prices and margins roll over in these types of situations because typically, given sufficient time, excess returns induce more supply or higher prices result in demand destruction.

But in sectors where supply is very difficult to add and the product price change is small relative to end product ticket price, there can be opportunity on an extended time horizon where higher product prices don't result in significant substitution or demand destruction.

In the case of rare earths, the key end products are permanent magnets which rely on neodymium and confer significant use case advantages. This is a niche market, where input costs are typically small relative to end product value. And importantly where through the supply chain participants are still making money.

Rare earths have also seen significant positive industry structural change, notably in China.

In the case of Lynas, there are also some glaring market inefficiencies at work.

The only stock we can see that is a somewhat credible comparable ex China is **MP Materials** (ticker MP.US, mkt cap US$7.3bn).

MP Materials only asset of note is the Mountain Pass mine, which you'll drive by on the I-15 if you happen to make the pilgrimage from Los Angeles to Las Vegas by road.

MP has been bust twice before and we've been short it once before as part of that journey.

MP used to be called Molycorp and the Mountain Pass mine is of low economic value because per tonne of ore produced there is very little neodymium and lots of cerium and lanthanum which is of negligible value. MP Materials' Mountain Pass mine is vastly inferior to Lynas' mine at Mt Weld.

Yet MP Materials has a market cap and enterprise value that exceeds Lynas'. This is an anomaly. And we think, if we get our timing right, an exploitable one at that.

In the case of lithium, there is significant future supply in the planning stage, which is ostensibly bearish for prices. Just as the case was for iron ore over a decade ago when it traded below $50 a tonne (iron ore didn't predominantly trade on spot basis back then).

The only problem (as was the case with iron ore 15 or so years ago) is that it takes years and years for planned lithium supply to come into production. And the supply is lagging the demand. And we can see this error term growing over time when we look at analyst forecasts.

Given the overlay of surging lithium demand and a large forecast gap between demand and supply, the only logical way for market balance to be attained is via a significant adjustment to price. Prices need to go so high that they literally destroy demand to bring balance. But it takes extremely large changes in lithium prices to have a meaningful impact on an EV OEM's gross margins.

We are seeing lithium hydroxide and carbonate prices go vertical in China.

Spodumene prices are also adjusting upwards rapidly albeit in a lagged fashion, with the share prices still to follow.

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]

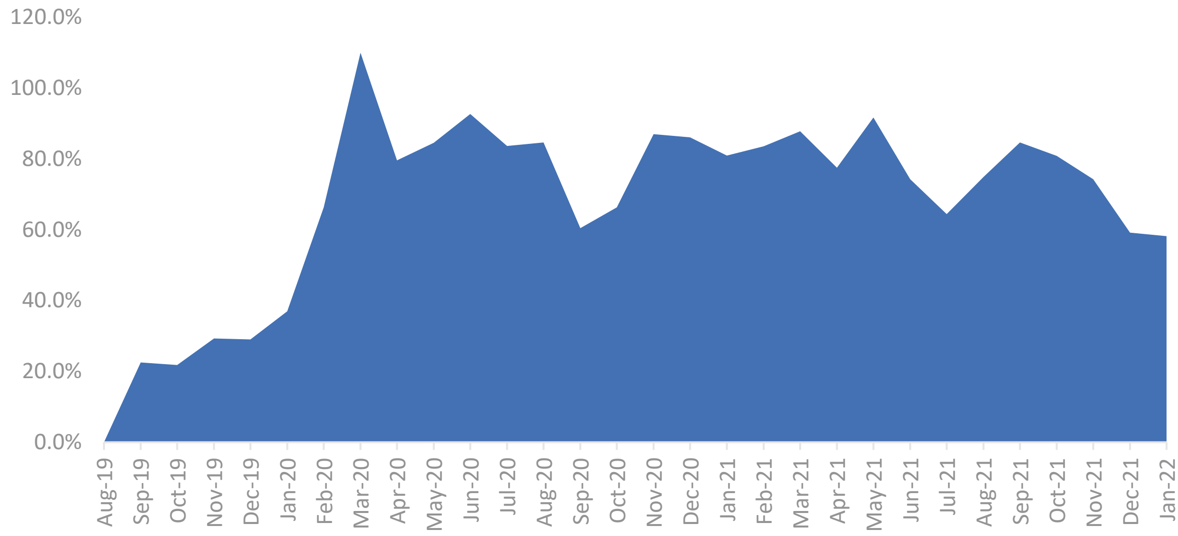
	2019	2020	2021	2022
Jan		-1.3%	+4.5%	-4.1%
Feb		-0.3%	+6.9%	
Mar		-5.2%	+1.2%	
Apr		+2.4%	+3.0%	
May		+7.9%	-1.5%	
Jun		+3.0%	-0.7%	
Jul		+9.5%	-1.4%	
Aug		+3.5%	+2.6%	
Sep	+1.1%	-1.4%	+3.1%	
Oct	+0.8%	-1.4%	-0.6%	
Nov	+0.1%	+4.8%	-4.6%	
Dec	-1.6%	+2.0%	-0.4%	
Total	**+0.5%**	**+25.2%**	**+12.2%**	**-4.1%**

ASSET ALLOCATION

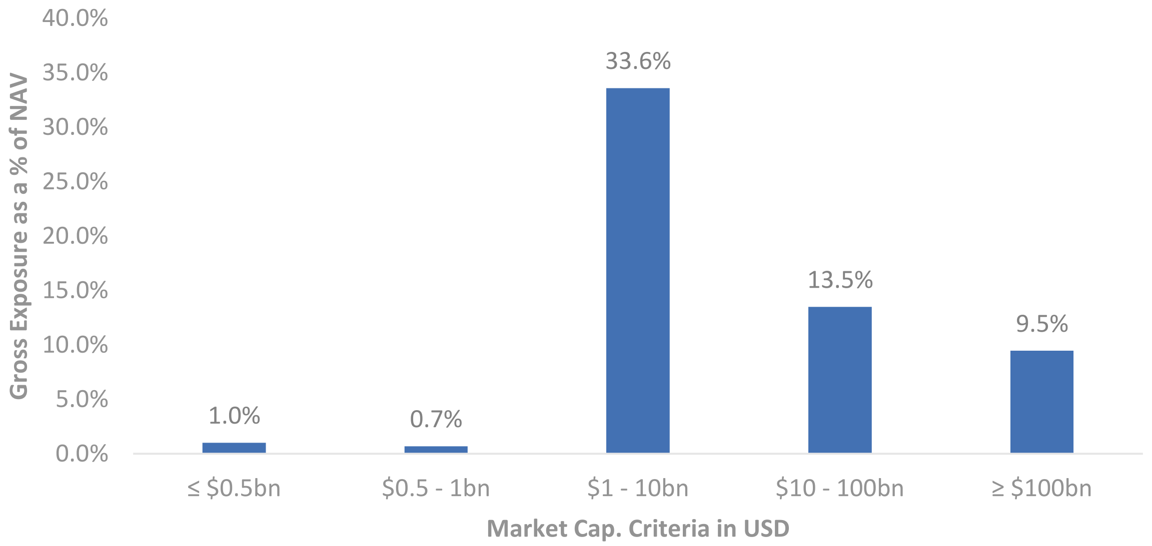
Country	Long	Short	Gross	Net
Australia	16.1%	(2.3)%	18.5%	13.8%
Americas	22.7%	(7.8)%	30.6%	14.9%
Asia	1.6%	(0.0)%	1.6%	1.6%
Europe	6.3%	(0.9)%	7.2%	5.4%
Total	**46.8%**	**(11.4)%**	**58.2%**	**35.4%**

[3] *Founder Class units – Lead Series*

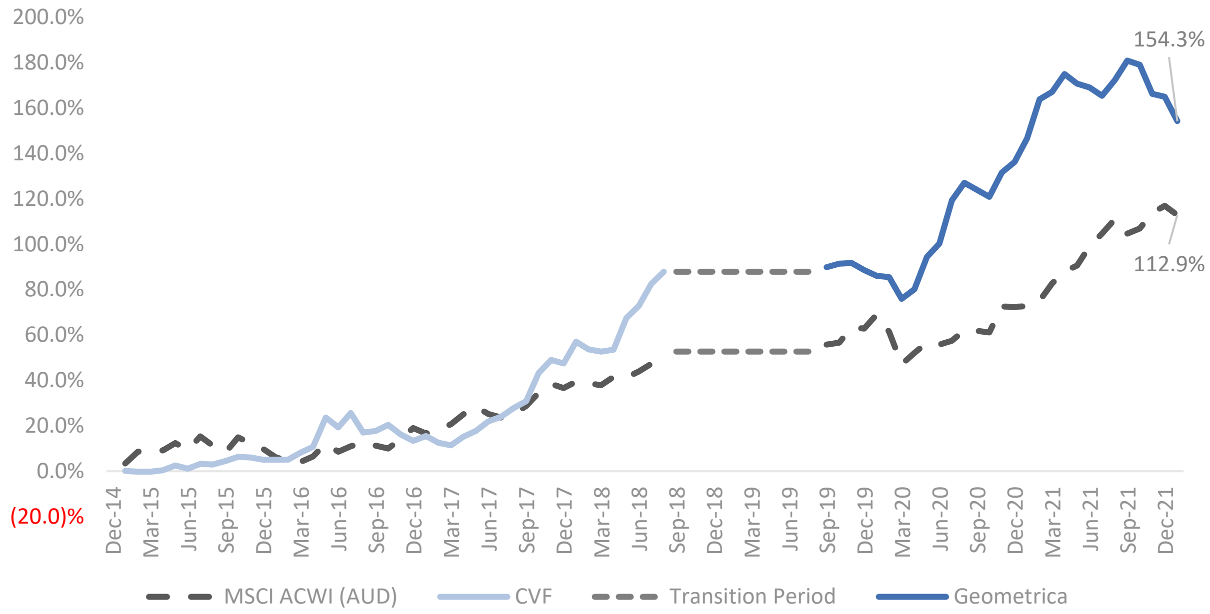
GROSS EXPOSURE



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.

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