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

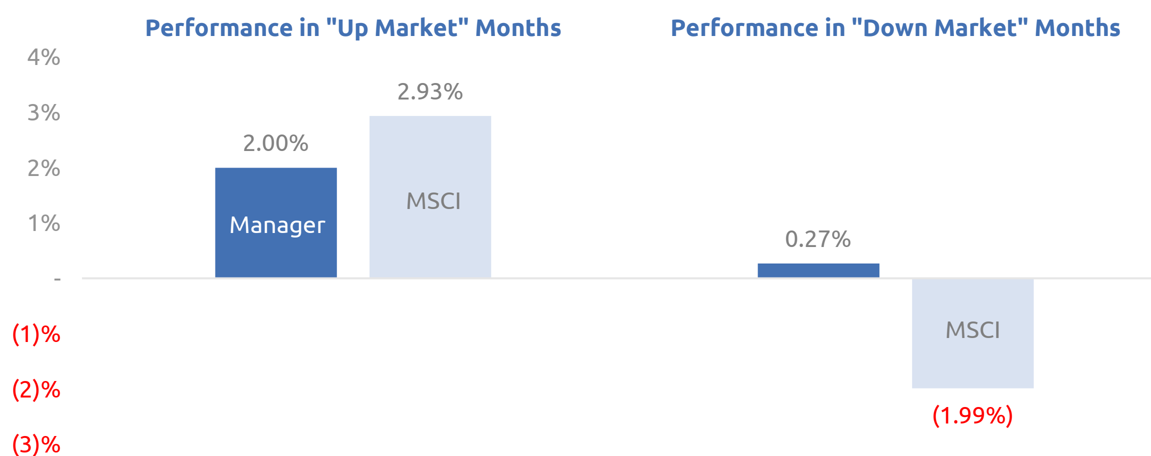
The Geometrica Fund aims to deliver outstanding returns to unitholders via highly targeted investments in the global mid-cap equity universe.

INVESTMENT PERFORMANCE (NET)[1]

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2019	--	--	--	--	--	--	--	--	+1.1	+0.8	+0.1	-1.6	+0.5
2020	-1.3	-0.3	-5.2	+2.4	+7.9	+3.0	+9.5	+3.5	-1.4	-1.4	+4.8	+2.0	+25.2
2021	+4.5	+6.9	+1.2	+3.0	-1.5	-0.7	-1.4	+2.6	+3.1	-0.6	-4.6	-0.4	+12.2
2022	-4.1	-1.7	+1.5										-4.2

31 Mar 2022	Inception pa	CYTD	FYTD	1 year	2 yrs (pa)	6 months	1 month
Founder[1]	+12.37%	-4.28%	-5.70%	-5.00%	+20.09%	-9.69%	+1.51%

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 +1.5%[1] for the month of March 2022. Whilst both our long and short book contributed to the result, the short book's performance dominated, generating over 80% of the month's returns.

[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.*

March, it should be remembered, was a wild ride. As oil shot above US$120/ barrel most major indices declined, before closing the month up. The MSCI All Countries World Index (AUD) closed down -1.5% and the S&P500 closed out the month +3.6%.

FRAMEWORK

As we've written about previously, inflation is here. The present equities environment can be characterised by reduced liquidity and increased volatility relative to the last few years.

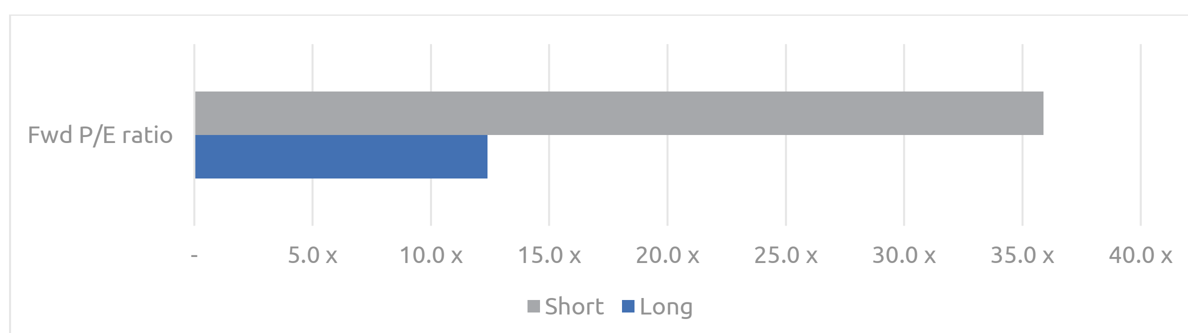
With this in mind, we continue to operate within the below framework.

Longs
Undemanding valuation
Share register: Under owned
Success not priced in
Robust business model
Pricing power or scarcity value
Declining competitive intensity
Low or no debt
Generates and grows free cashflow
Rising buybacks or dividends

Shorts
Nosebleed current valuation
Share register: Lots of marquee investors
Success already priced in
Flawed business model
Price taker
Increasing competitive intensity
Excessive debt
Burns cash and needs more
Reliant upon capital markets for future solvency

Valuation dichotomy

As a direct consequence of applying the above framework for investing in inflationary times, there is a fairly extreme valuation dichotomy emerging between our long and short portfolios. The chart below shows the weighted average forward price / earnings ratio for both.



Every single stock in our long book generates cash earnings which are growing. Most are presently growing earnings faster than consensus expectations, which should drive analyst upgrades and share price performance.

Our long book is, we think, significantly undervalued relative to underlying earnings trends. Valuation multiples are compressing so there is an intertemporal effect but provided earnings keep growing, we will in time be rewarded on the long book.

In contrast our short book has a weighted average forward P/E almost triple the long book at over 35x forward P/E – expensive! Notably, that 35x forward P/E for the short book is drastically understated because half our single stock shorts don't have cash earnings. Even more expensive!

It is not always so, but in the current market conditions, very near-term earnings based valuation really matters. Interest rates are the lens through which markets dimension the future, and as interest rates rise, markets tend to be far more concerned about near term earnings than they do about the very long term.

Our short book contains a number of boom time concept stocks that used debt to build businesses that generate insufficient cash to properly service their debt.

We have also been targeting over-leveraged companies reliant upon high yield debt markets. We have seen the high yield markets effectively close in prior cycles, driving such issuers to outcomes involving severe equity dilution.

Benefits of short selling

In most market conditions short selling is a hard way to make money and as a result we tend to only short opportunistically. Markets tend to rise over time, most especially when interest rates are falling.

Now, we have rising rates, falling liquidity and an altogether more favourable backdrop for short selling. We are on the hunt and have almost doubled capital deployed into shorts as we write. It's a scrupulous process because the diligence standard for a short is quite high. In addition, if you are correct, the short book gets smaller, necessitating a constant quest for more short sale candidates.

There are multiple benefits we can derive in the current market from assiduous short selling:

1. Protect capital.
2. Generate positive returns during falling markets.
3. Reduce portfolio volatility.
4. Funding source for additional long investments.

PORTFOLIO

Shorts being the largest return generator this month leaves us in a quandary as we don't typically detail single stock shorts.

We have however previously noted a short position in **Carvana** (CVNA.US, mkt cap US$15.8bn) and it was March's largest short book contributor.

If there is a single common thread to all of our shorts, it is the element of something unsustainable in the business model. Carvana has this in spades. The only other element required for success in shorting is timing. For the short to work we need the market to swing from thinking Carvana has a growth business to the realisation that Carvana's business model is built upon multiple unsustainable elements.

Carvana benefitted from Covid as the prices of used cars increased by over 30% year over year. Because there is a time lag between when CVNA buys a used car and sells it, this price growth bled into their profit margins. This is unsustainable and will reverse; used cars are supposed to go down in price over time, not up. Prices have just started falling. We see this as a significant headwind to unit economics.

Consider that Carvana has a very high rate of financing attachment to its used auto sales. On the one hand a distinct positive because financing fees are critical to Carvana's unit economics. On the other hand, Carvana's typical credit customer is sub-prime and its ability to continue to write this business is contingent upon the credulity of auto ABS markets to take collateral risk when the underlying collateral of a used car is likely to mean revert much lower in time given Covid artificially boosted the prices of used cars.

In a sense, Carvana has double leverage. First: ABS securitisation leverage underwriting its capacity to drive the top line by financing sub-prime borrowers at a time of rising rates and falling collateral values. And second: significant leverage at the company level funding its operating losses.

Carvana has essentially borrowed a lot of money from multiple sources to build its business model and yet still doesn't generate positive operating cashflow despite an ultra-low interest rate environment now ending and a significant margin boost from Covid-19 which is also now unwinding.

The market is starting to wonder how all this debt is going to get paid back, with Carvana's bonds trading wider over time. This is a business with a number of existential risks ahead that we think are still yet to fully come home to roost.

In prior letters we wrote extensively on **Entain Plc** (ENT.LN, mkt cap £9.1bn); Entain remains as one of our largest return contributors since inception. A few months ago we drastically reduced the sizing of Entain in anticipation of a negative UK regulatory shock which we think is nigh.

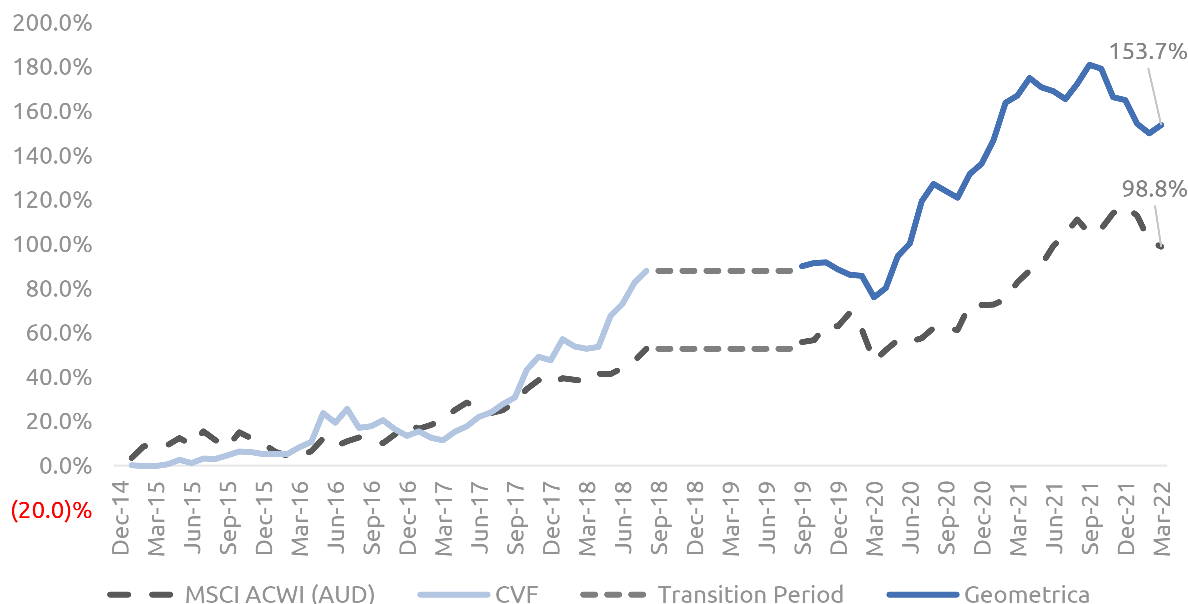
At the time we reduced our Entain position sizing, we also short sold the stock of a more vulnerable UK focused operator that lacked Entain's US growth prospects yet had benefitted from the lift in valuation multiples across the sector. This short position was a meaningful return generator during the month. Whilst we remain short, we are equally focused on the significant US growth runway that awaits Entain once regulatory shock is fully absorbed and priced by the market.

During the month we exited our holdings in **Lynas Rare Earths** (LYC.AU, mkt cap A$8.5bn). Prices for neodymium are starting to fall, much sooner than we expected. The unfortunate reality for commodity stocks is that the commodity price is typically the most important driver of stock returns. Lynas has been a very profitable investment.

We have also taken the opportunity to short sell the stock of one of Lynas' competitors, where a pie in the sky vision of rare earth mining moving to full element separation, metals and magnets has led to ludicrous earnings forecasts and valuations. We have studied this sector in a bit of detail. The margin or economic rent is captured largely in the

mining sphere we think, with magnet makers generating far less attractive returns. The stock in question has been bust twice before, so we're betting on a hat trick.

MANAGER PERFORMANCE HISTORY

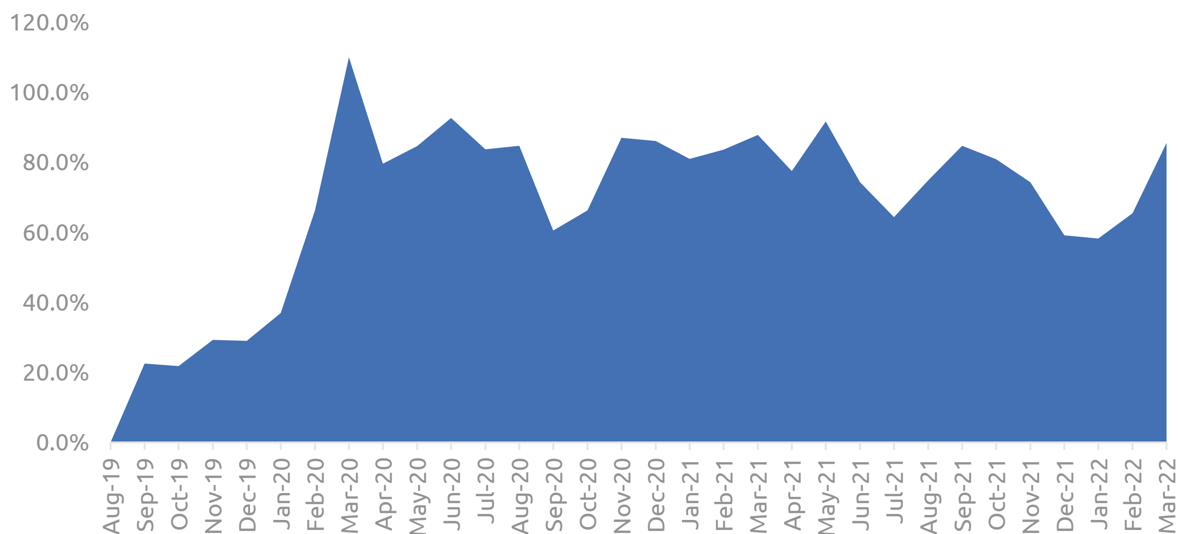


* Manager left CVF in Sept 2018 and began Geometrica in Sept 2019 NB: Performance period is from 5 Jan 2015. Performance is net of all fees.

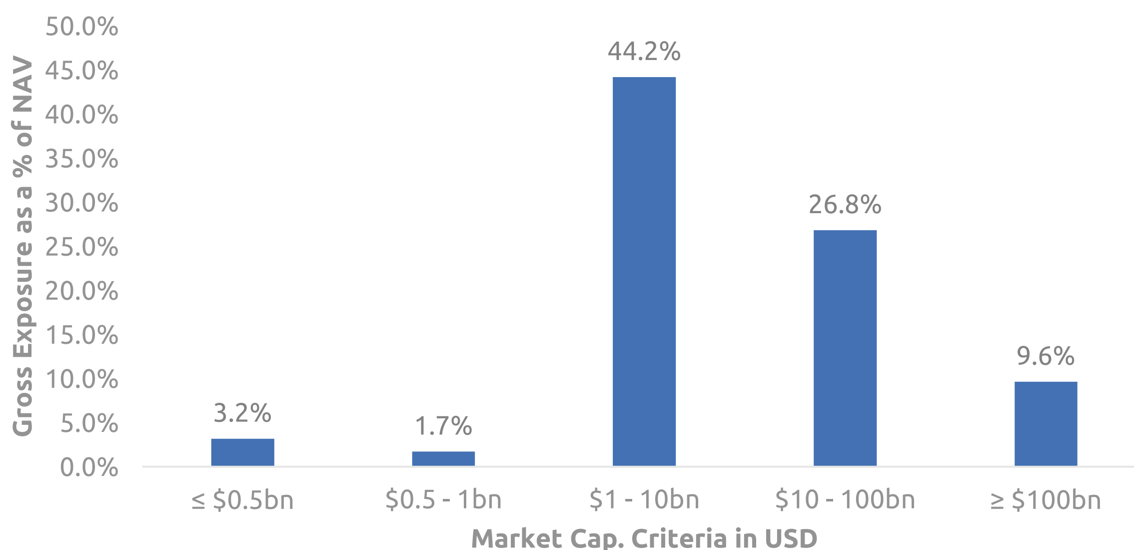
ASSET ALLOCATION

Country	Long	Short	Gross	Net
Australia	28.9%	(2.2)%	31.1%	26.7%
Americas	20.1%	(12.0)%	32.1%	8.1%
Asia	0.5%	(1.4)%	1.9%	(0.8)%
Europe	19.0%	(1.4)%	20.4%	17.6%
Total	68.6%	(17.0)%	85.6%	51.6%

GROSS EXPOSURE



GROSS EXPOSURE BY MARKET CAPITALISATION



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

DISCLAIMER

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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.