OVERVIEW

The Geometrica Fund returned +4.0% in January.

Healthcare was the largest positive contributor by sector, with Resmed and Novo Nordisk advancing 14.8% and 11.0% respectively in January.

Contributors (positive and negative) are discussed below.

PORTFOLIO

Paladin (PDN.AU, mkt cap A$4.2bn) rose +31.5% in January.

The set up continues to be positive for uranium prices.

In the prior cycle (2007) Kazatomprom, currently the world's largest producer of uranium based in Kazakhstan, was the up-and-coming low-cost producer rapidly growing production. They ultimately displaced high-cost producers, in the process inducing a uranium price crash that lasted roughly a decade.

Now, Kazatomprom are missing production targets and downgrading forecasts. Kazatomprom's issues appear to be systematic as evidence strongly suggests the process of declining resource productivity is in play.

Unlike 2007, the proportion of low-cost supply relative to demand is shrinking, not growing. Meaning additional high-cost supply is needed to sate demand over time.

We see limited reason why uranium costs cannot go higher in the next one to two years and think cost curves at this point in the cycle are not so useful when it comes to predicting where near term prices are going.

The old dictum "*all models are wrong, but some are useful*[1]" springs to mind. The question is more around net back economics[2] for the marginal buyer who may be uncomfortably low on fuel inventory. The issues of firming capacity and carbon all feed into this.

We think Paladin have the potential to produce more material in the years ahead than the market currently gives them credit for, both from a new operating asset and a new development asset.

Ambu (AMBUB.DC, mkt cap US$4.2bn), the largest single use endoscope maker and a recent investment initiated last November, rose +9.2% in January after reporting first quarter sales growth and an EBIT margin which were ahead of full year guidance rates in the context of an ongoing positive sales trajectory[3]. Somewhat surprisingly, management declined to upgrade guidance for 2024.

For perspective on Ambu's new found fiscal conservatism, Ambu grew operating costs 1.95x faster than revenue from 2019 to 2022, driving the share price and EBIT down 80% and 71% respectively. This may have been the key driver for a CEO and CFO refresh in mid-2022, setting the scene for the current self-help story.

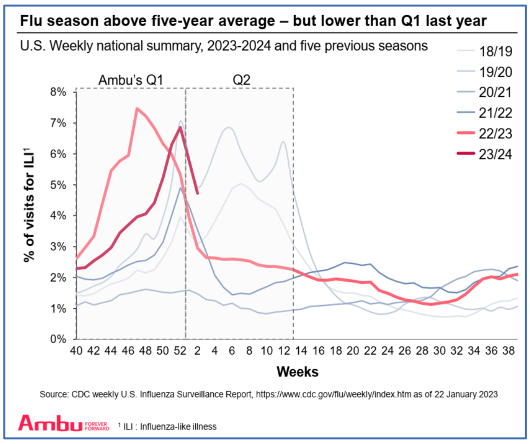
It's little wonder management are sticking to the mantra "*under promise and over deliver*."

[1] George Box.

[2] Using black wholesale prices to measure the value of green firm capacity undersells the future value of this generation form.

[3] Ambu has a 30 September financial year end.

Ambu offered the below chart showing flu incidence slowing down as reason for their reticence to calibrate guidance to the current earnings trajectory, in essence implying that pulmonology endoscope sales (ie bronchoscopes) would slow down in 2H 24. Intuitively the chart leads you to infer that there is *always* a large second half sequential sales deceleration.



We dug out Ambu's bronchoscope unit sales from old presentations and transcripts over the years to fit year on year grow patterns to flu patterns (table below left). There isn't much fit.

The 4Q-2019 decline in the table below was caused by Ambu taking 40% of US aScope 4 bronchoscope sales back from its US distributor Tri-anim on 1 October 2019[4].

The 2022 sales decline was due to the channel stuff of aScope 4 bronchoscopes during covid, apparent from 2Q-2021, and the desire of some large hospitals to work off their precautionary covid stocks thereafter.

Outside of the covid epidemic, there is no visible impact of flu in any of this.

Given we know the aScope 4 and 5 are both growing in sales to existing and new accounts, and that the procedure mix is quite broad, the probability that flu season will lead to materially lower 2H sales appears slim. We think Ambu are sandbagging the guidance, but time will tell.

Ambu: YoY % change in bronchoscope unit sales

	1Q	2Q	3Q	4Q
2018	76.3 %	52.6 %	53.7 %	43.5 %
2019	43.3 %	25.5 %	31.5 %	(50.7)%
2020	17.1 %	65.9 %	66.4 %	186.9 %
2021	99.5 %	15.9 %	1.7 %	35.1 %
2022	(21.2)%	(26.3)%	(21.2)%	(39.3)%

Source: Ambu presentations and transcripts.

Resmed (RMD.US, RMD.AU, mkt cap US$28.1bn) and **Novo Nordisk** (NOVOB.DC, mkt cap US$522bn) rose +14.8% (AU listing) and +11.0% respectively in January. Both are top 10 positions of the Fund.

Resmed make continuous positive airway pressure (**CPAP**) machines and masks which treat obstructive sleep apnoea (**OSA**). An apnoea occurs when you stop breathing for more than 10 seconds during sleep. If this happens more than 5 times in an hour (5 on the Apnoea-Hypopnea Index or **AHI**) you have OSA.

Novo makes GLP-1 drugs Wegovy and Ozempic. Wegovy is indicated for weight management in individuals with body mass index (BMI) > 27. It is highly effective, with weight loss of around 15% in one trial for baseline BMI of 38.5.

There is a cross-over between Resmed and Novo. At first blush, it is not so good for Resmed.

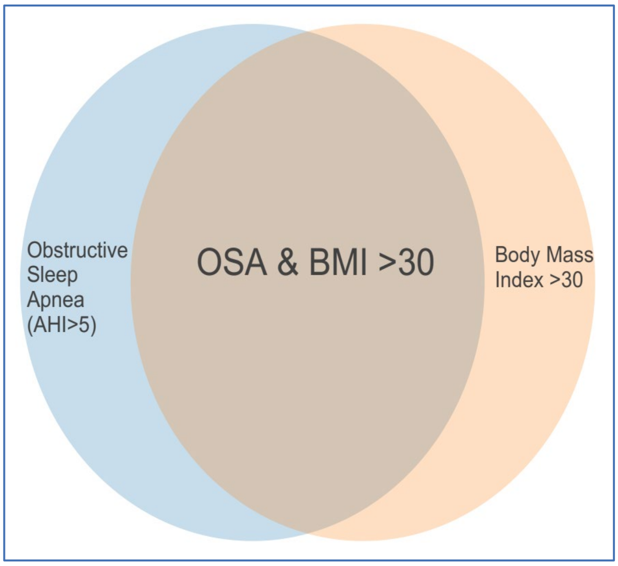
Simplistically, ~70% of OSA sufferers (i.e. Resmed's potential customers) have a BMI >30.

Wegovy in achieving, say, a 15%-20% weight loss outcome, for a 1.8m high individual with a baseline BMI of, say, 32 would see a BMI of 27 to 26.

There is plenty of evidence to show correlation of weight and OSA.

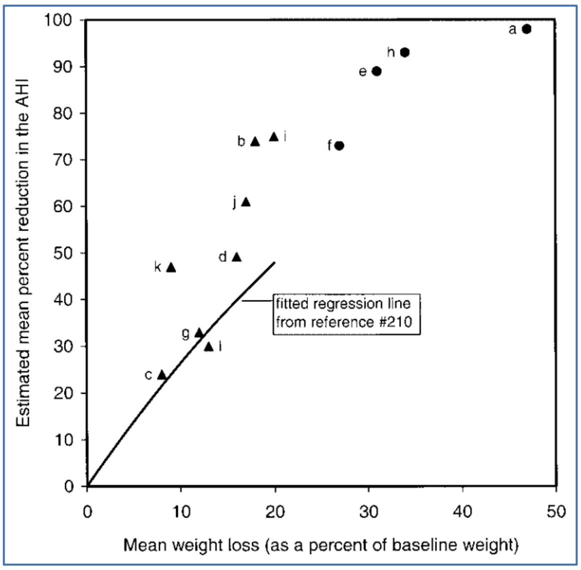
[4] Ambu deconsolidated those sales to Tri-anim previously recognised equivalent to the distributors unsold inventory on the change date of 1 October 2019. No impact to end consumption, just timing of sales recognition.

Venn diagram: OSA and BMI (per American Heart Association)



Source: Geometrica diagram, American Heart Association.

Estimated mean AHI reduction associated with mean weight loss



Source: Epidemiology of Obstructive Sleep Apnea.

The market believes the risk runs thus:

a) GLP-1s will cut incidence of obesity.
b) 70% of CPAP users are obese.
c) Therefore GLP-1s will cut the number of CPAP users.

It all seems elementally obvious, which is probably partly why Resmed's stock fell 40% from August to September 2023. Resmed also missed its own gross margin guidance on the 3rd of August 2023, sending the stock down, but thereafter GLP-1 fear has dominated the narrative.

If excessive weight drives OSA incidence and GLP-1 drugs drive weight loss and are getting better (noting that current iterations are mostly single agonist; dual and triple agonists are on the way) then isn't Resmed the medical equivalent of a buggy whip maker?

The history of statins and interventional cardiovascular surgery procedures may provide a useful analogue.

In industrialised countries, **around 25% of all adult deaths result from atherosclerosis cardiovascular disease**, the build up of plaque caused principally by **LDL cholesterol**[5].

The same simple logic that indicates a potential fall in CPAP usage from GLP-1 adoption applied in the late 1980s to statins and interventional cardiology procedures. Back then statins promised to cut LDL cholesterol levels in users and boost HDL levels, and thus reduce the incidence of CV disease.

So, if the cardiovascular disease is eradicated, who needs cardiovascular surgeons, stents or interventional cardiology?

Let's lay out the logic flow as a syllogism to dig a bit deeper - for statins & other similar drugs vs cardiovascular procedures and GLP-1s vs CPAP.

[5] Goldstein, J., & Brown, M. (2015). A century of cholesterol and coronaries: From plaques to genes to statins. *Cell*, *161*(1), 161-172.

Statins and interventional cardiology syllogism	GLP-1 and CPAP syllogism
Statins will cut the incidence of LDLs (1987)	GLP-1s will cut incidence of obesity (2023)
LDL cholesterol is the single biggest cause of CVD	70% of CPAP users are obese
Therefore, statins will cut CVD intervention surgery	Therefore, GLP-1s will cut number of CPAP users

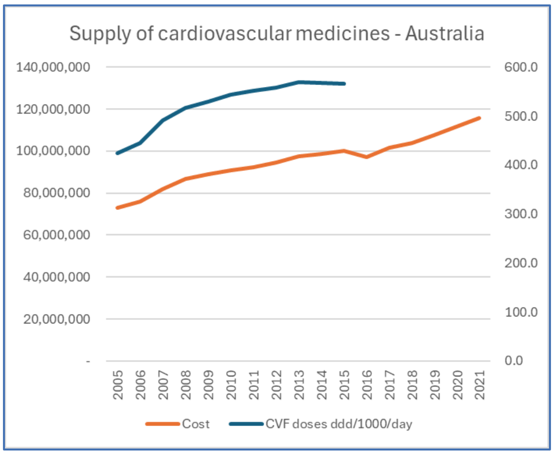
In the above table, there is a simple logic flaw whereby the population of sufferers is conflated with the treatment pool. Necessarily the treatment pool is smaller than the population. Increased diagnosis (and reimbursement!) grows treatment pools, even if the overall incidence falls.

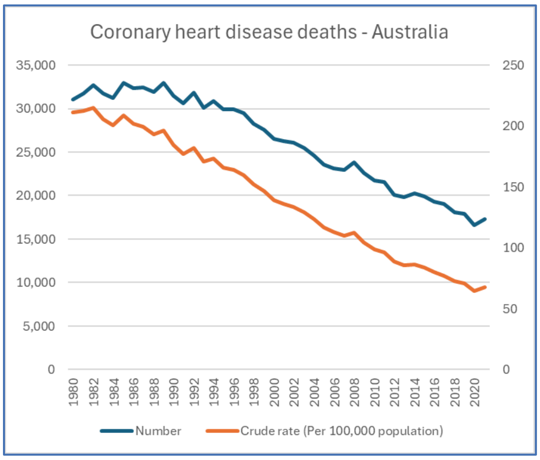
What happened with statins? Did interventional cardiology go the way of the buggy whip?

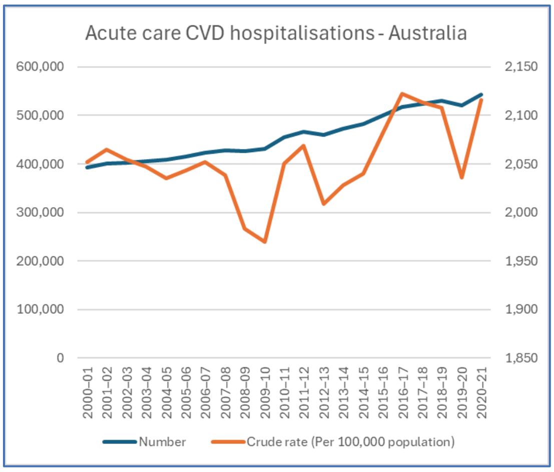
In 1987 Mevacor became the first FDA approved statin indicated for the reduction of LDL cholesterol. Waves of different statins were approved. A similar story played out with drugs indicated for hypertension – so called renin angiotensin agents such as losartan or telmisartan.

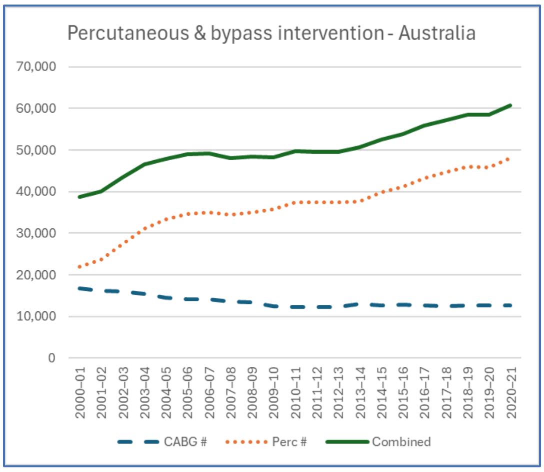
From Australian data (all sourced from *The Australian Institute of Health & Welfare*) we can see the follow four things:

1. Supply of and spending on drugs targeting cardiovascular disease has gone up.
2. Coronary heart disease deaths have declined.
3. Acute care cardiovascular hospitalisations have increased (**more awareness, treatment**)
4. Interventions have shifted from bypass surgery to stents (**more procedures in aggregate**)[6].









[6] We omitted Angiography as its largely diagnostic but still is a procedure and further strengthens the argument as shifting from CABG (bypass) to stenting is managing the disease care burden cost and in the case of obstructive sleep apnoea…CPAP wins.

In the case of Resmed, there are several factors which render the simplistic conclusion that GLP-1 drugs are a death knell to CPAP therapy false.

First, it is extremely likely, especially after the upcoming Lilly SURMOUNT-OSA trial which is likely to be successful, that CPAP will remain standard of care for OSA treatment.

This is because it drives a profound and instantaneous benefit versus a drug, which takes time. A drug is not a cure, like the CPAP stop taking the drug, the OSA comes back.

Second, OSA is massively under diagnosed. So, the procedure / CPAP volumes will likely grow for years, even when GLP-1 drugs are smash hits since the top-of-funnel grows and CPAP remains standard of care, well before you get to health system cost considerations.

Third, GLP-1 as back up therapy for OSA sufferers who cannot tolerate CPAP makes sense if they or their insurer can afford it. The more viable therapy options, the better.

The quote below was written over 35 years ago and is insightful in explaining the effect that additional therapy options have on disease awareness and treatment, especially for a standard of care that is cost effective:

> *Dr. Rifkind said he believed that **lovastatin "will be more than just a new drug,"** adding, **"It will serve as an educational instrument in its own right** because it comes along at a time when a lot of emphasis is being placed on the importance of lowering cholesterol, but until now the tools for doing this weren't too good."* New York Times, 2 September 1987.

The big picture summary is thus:

1. **Resmed's share price was ~A$25 in mid-2020, after earnings had been slowed by covid.**
2. **Resmed's earnings potential has been *materially expanded***. The June 2021 US product recall by rival Phillips Respironics is likely to continue driving market share for years to come[7]. Mask sales will follow, and excess inventory amassed by Resmed to serve these customers will normalise leading to continued GPM recovery.
3. **GLP-1 drugs will likely raise awareness of metabolic health and demand for OSA treatment**. We think CPAP remains as standard of care. Treatment volumes for Resmed are increasing and extremely likely to do so for many years to come as OSA is serially under diagnosed.
4. **We think an earnings kick is on the way from margin recovery**. Resmed's share price is now ~$28. EPS 2020 to 2023 is up 43% in USD terms (more in AUD). Ultimately share prices follow earnings.

Universal Music (UMG.NA, mkt cap €49.7bn) rose +6% in January. UMG as a music content owner is set to benefit from pricing action taken by the streaming platforms it supplies, such as Spotify. The streamers are further refining their revenue models which should also benefit UMG. This additional revenue will drop through to operating earnings on a high incremental margin.

We think the business model is fundamentally undervalued. UMG and its peers have gone from a state of atrophy as recorded vinyl and CD music sales structurally declined to owners of long life catalogues which they continue to grow. The business is valued like an industrial company when it is an annuity owner of some of the most desirable and irreplaceable assets on the planet.

Grifols (GRF.SM, mkt cap €6.5bn) fell -34.4% in January after a short report was released spotlighting a number of the company's accounting practices, which were disclosed in the company's financials.

[7] In June 2021, Phillips Respironics (Resmed's archrival) initiated a US product recall. A US senator accuses Phillips Respironics of orchestrating a cover up over many years, which has led to the deaths of a reported 561 people to date (link). An FDA consent decree has been issued to Respironics. It is extremely likely Phillips Respironics will be unable to re-enter the US CPAP market for years to come.

Grifols have been consolidating an entity they have no direct ownership interest in. Instead, they hold a call option over it, which is unusual and artful. The entity is held by a company related to the controlling family – Grifols on sold it to them for the same price they paid for it. In effect Grifols get the benefit of the accounting earnings for their leverage calculations without the debt that paid for it and have the right to call the asset back when the Grifols balance sheet has strengthened.

You can view it as a great deal for Grifols or something nefarious. We think the former.

We entered the stock for two reasons. First, to benefit from the recovery in plasma margins (CSL and Grifols have long inventory cycles and the margin benefit from covid recovery is still flowing through). Second, for the balance sheet repair story. Grifols had promised to sell an asset and the market didn't believe it but it has played out, yet the deal is still to settle.

At this juncture in time, we have the taint of the short seller report which should dissipate with time and the plasma recovery which has mostly played out. However, the stake sale asymmetry has inverted because the deal has been announced but not settled. And we note the market price of the subject asset has fallen materially below the negotiated price...so we've exited for now.

Insulet (PODD.US, mkt cap US$b13.9bn) declined 12% during January. We think Insulet will dominate the diabetes patch pump market for some time to come, with a serious shot at the holy grail of the "artificial pancreas" in time.

Lamb Weston (LW.US, mkt cap US$14.6bn) fell -5.2% in January. Our stake has been trimmed as the stock bounced back from its lows in the mid-80s, but we continue to hold a position.

STRATEGY PERFORMANCE (%, NET)[8]

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Fund
2015	+0.1	-0.3	+0.0	+0.7	+2.1	-1.4	+2.0	-0.2	+1.5	+1.7	-0.2	-0.9	+5.1
2016	+0.0	+0.0	+2.9	+2.3	+11.8	-3.6	+5.3	-6.8	+0.6	+2.3	-3.5	-2.5	+7.7
2017	+1.9	-2.6	-1.0	+3.5	+2.2	+3.5	+1.7	+3.0	+2.4	+9.5	+4.1	-1.1	+30.3
2018	+6.5	-2.1	-0.7	+0.6	+9.1	+3.2	+5.6	+2.9	--	--	--	--	+27.4
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	+0.5	-2.0	-3.5	+1.4	+4.4	+5.8	+0.7	-0.4	-1.3	+0.8
2023	+1.7	-1.5	+2.4	-2.7	+1.2	+0.8	+1.2	-2.0	-3.1	-0.8	+0.2	+3.3	+0.5
2024	+4.0												+4.0

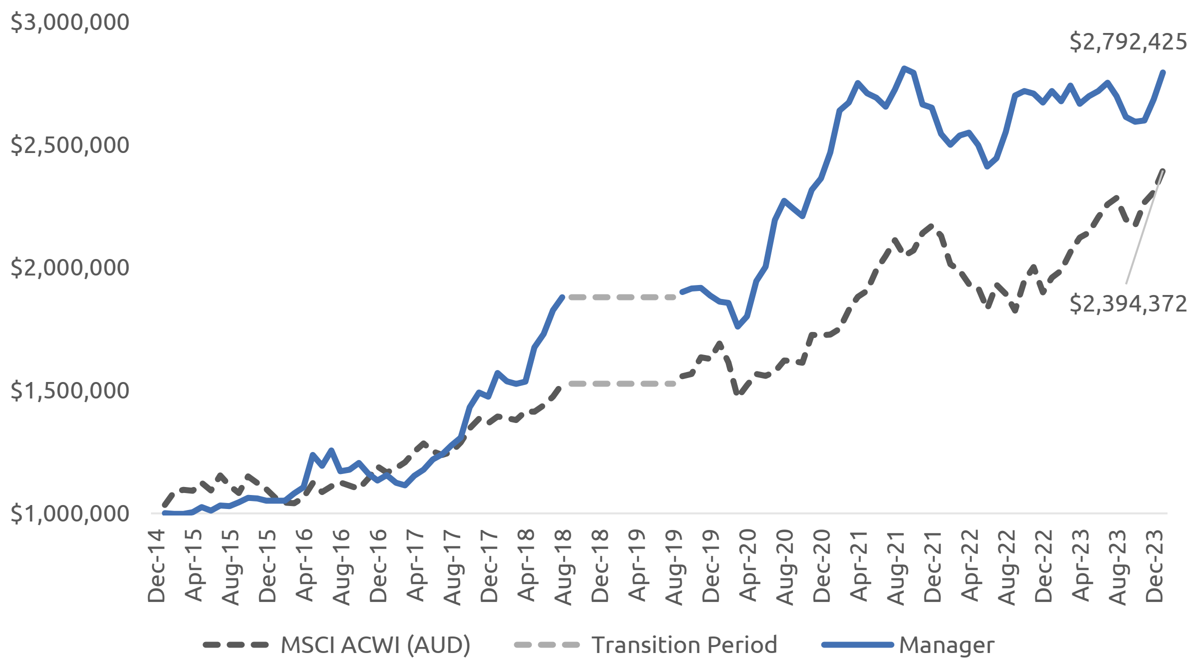
2015 – 2018: CVF (same portfolio managers and strategy)

2019 onwards: Geometrica.

Index = MSCI All Country World Index (AUD)

Since Inception	+179.2
Geometrica p.a.	+9.4
Strategy p.a.	+13.5

STRATEGY PERFORMANCE CHART (%, NET)[9]

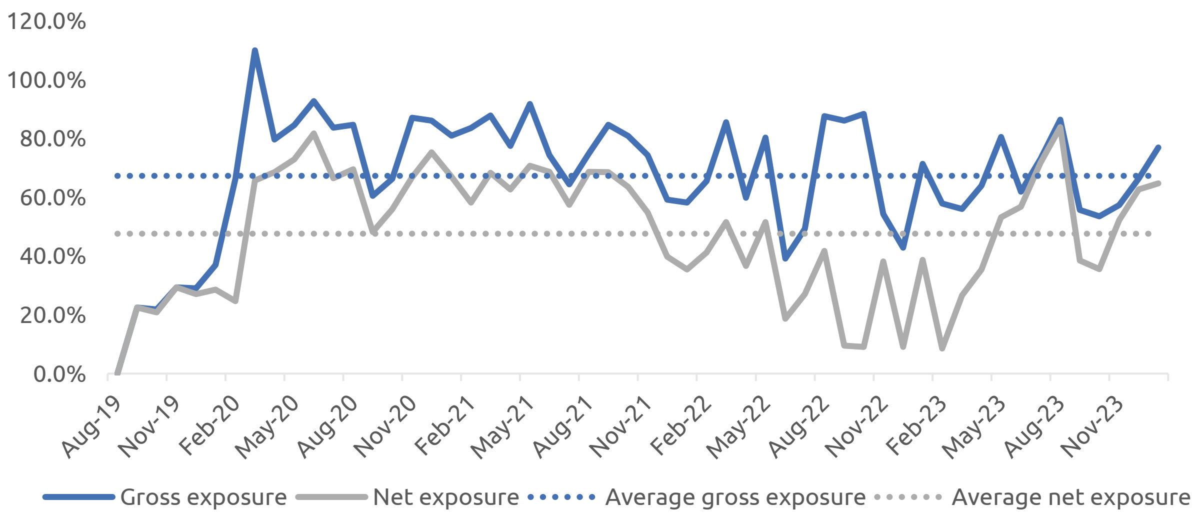


[8] *Performance is after all fees, Founder Lead Series unit.*
[9] *Performance is after all fees, Founder Lead Series unit.*

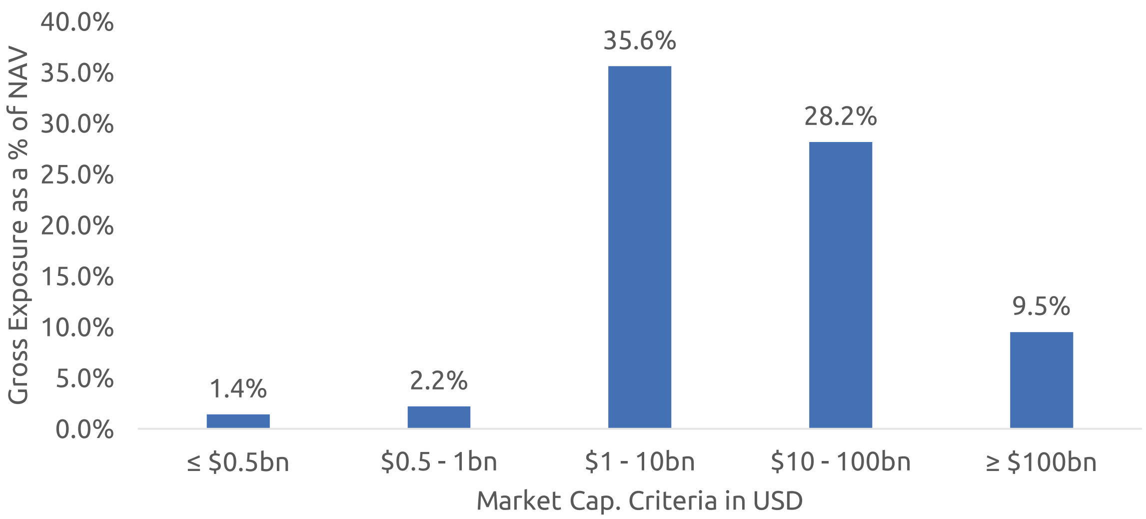
ASSET ALLOCATION

Country	Long	Short	Gross	Net
Australia	14.6%	(0.0)%	14.6%	14.6%
Americas	29.1%	(3.6)%	32.6%	25.5%
Asia	3.1%	(1.0)%	4.1%	2.1%
Europe	24.0%	(1.5)%	25.6%	22.5%
Total	70.8%	(6.1)%	76.9%	64.7%

GROSS & NET 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, Powerwrap, Netwealth
Fees (Founders Class)	1% management (+GST) 15% performance (+GST)
Benchmark	RBA Cash Rate
High water mark	Yes
Liquidity	Monthly
Administration & custody	Apex