OVERVIEW

The Geometrica Fund returned **-1.1%**[1] in April net of all costs, bringing Calendar YTD returns to **+7.4%.**

Global equity markets mostly fell in April as strong US economic data forced a repricing of US inflationary expectations and interest rates, driving the US S&P500 Index down -4.2% for the month.

Positive contributors in the month included Resmed, DOF Group, Paladin, First Solar and Interactive Brokers. Detractors included Lamb Weston, Uber, Carnival Corp and Nvidia.

PORTFOLIO

Lamb Weston (LW.US, mkt cap US$12.3bn) fell -21.8% in April following a weaker than expected quarterly result, stripping around -0.7% from performance.

We tend to regard price falls that do not break our investment thesis as opportunities.

Equally, we want to be swift and decisive in recognizing our errors. A critical part of protecting and compounding capital is the avoidance of large left tail losses. George Soros used to say that there is no shame in being wrong, only in failing to correct our mistakes.

With Lamb, our thesis was that pricing power, driven by a highly consolidated industry structure, would enable the company to preserve margins in a period where volumes softened due to the ending of loss-making contracts, which would see the business gradually cycle back to growth. Along with the undemanding valuation multiple, that would provide attractive upside.

Lamb's recent earnings result revealed weaker than expected volumes and a write down of excess inventory, telegraphing that customer demand was weaker than management had forecast. Lamb likely has less pricing power than we thought. At this point, we have thesis break. We exited the position.

Resmed (RMD.AU, mkt cap A$47.5bn) rose 9.0% in April. Strong earnings trumped fears that GLP-1 drugs targeting obstructive sleep apnea (OSA) would erode Resmed's earnings trajectory.

Eli Lilly's SURMOUNT-OSA trial released topline results in April. The trial was an outstanding success, with around a 60% reduction in OSA recorded for users of Tirzepatide with high body mass index. In response, Resmed's stock fell -4% on the day of the release, then climbed to be up +9% for the month, after Resmed reported stronger than expected quarterly earnings.

Resmed's CEO contextualised the SURMOUNT-OSA results thus:

> *"[Tirzepatide in SURMOUNT-OSA] somewhere in that sort of 59% to 63% reduction of AHI…do the math…look at the average AHI coming in of around 50. The average AHI coming out is in the low 20s…*
>
> *…patients were, at the end of the study, on average were suffocating every three minutes of sleep after treatment [with] this drug, right?*
>
> *And so AHI of 20 or more, you know, moderate-plus sleep apnea. <u>These patients would be treated by any sleep physician on the planet and really require positive airway pressure treatment</u>."*
>
> Source: Transcript – edited down and emphasised for effect. AHI = Apnea Hypopnea Index.

[1] Founder class lead series

Given CPAP alleviates OSA almost immediately, whereas incretins / GLP-1s are generally inferior in treatment outcomes, it is highly unlikely that these drugs will displace CPAP as the standard of care.

Resmed shortly after the trial release announced quarterly earnings which were strong. Gross margins in particular rose over 200bps, catching the market by surprise.

Resmed's share price has now recovered to levels it was at prior to the onset of GLP-1 fears in August 2023. Consensus sell side price targets imply quite modest upside of less than 10% on average.

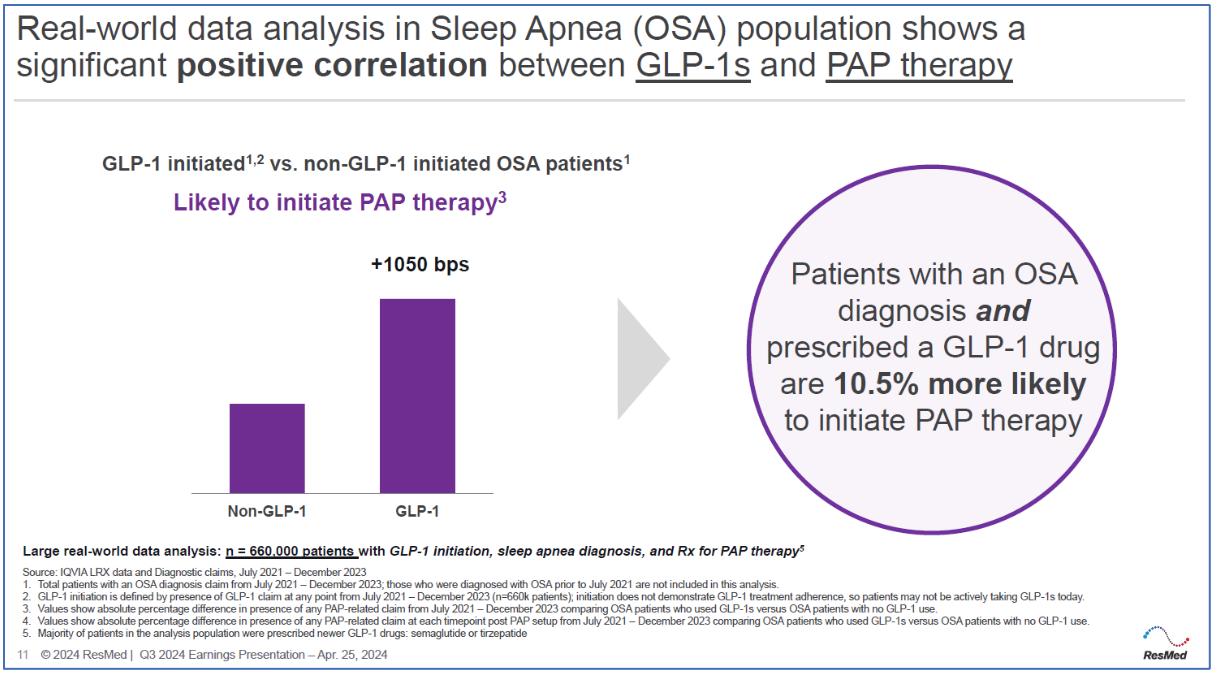
We think there is far more than this on offer. Gross margins are likely to go higher than they have been in recent years driven by Resmed's displacement of Philips in US CPAP devices, normalisation in sales mix of masks, the roll out of the still new AirSense 11 and falling levels of historically high-cost inventory.

Meanwhile, Resmed's balance sheet is in rude health, with the capacity to accelerate buybacks or acquire.

That the enterprise value in US$ terms of Resmed is no higher than immediately prior to the Philips US CPAP device recall in early 2021 makes no sense, given Resmed have catapulted to an estimated 80-85% US device market share versus an estimated 60-65% previously.

Clearly the stock has derated. The market fears that some CPAP users with low AHI who take GLP-1s will have no further need for CPAP. This part seems inevitable. But the population of undiagnosed OSA sufferers is a multiple larger than the existing base of CPAP users. As people present to their GPs seeking GLP-1s, they are likely to receive medical attention on a broader scale: blood pressure, bloods…possibly even a sleep study.

Doing the math shows that the increase in new CPAP users from GLP-1 seeking OSA sufferers may swamp the number exiting CPAP treatment from GLP-1 usage. This can persist for quite a few years. So, we get to the point where we think GLP-1s are going to **increase** Resmed's revenue growth, not detract from it. It seems heretical. But it is where the math leads you, albeit it is early days. And it comports well with what Resmed are seeing: patients prescribed a GLP-1 drug are 10% more likely to adopt CPAP treatment than those not taking GLP-1s.



Source: Resmed Investor Presentation April 25, 2024

DOF Group (DOFG.NO, mkt cap US$1.6bn) advanced +11.4% in April, bucking the market trend.

DOF is an owner of high specification offshore supply vessels (**OSV**s), where prices are rapidly rising.

The crux driver of pricing is a level of customer demand that now exceeds prior cycle peaks, yet the combined fleet size of the main subsea EPC companies is 30% lower. Prices are going to be the rationing mechanism. Thus far there has been no supply response. Orderbooks for new vessels remain at very low levels (~2% of the total fleet).

To finance new vessels, a financier has to believe that day rates on average will be ~30% above current rates for the next 20 years. Who wants to part with cash to buy an asset requiring 20+ years for payback when oil production volumes will ultimately decline as Electric Vehicle's increase their share of the vehicle parc? This is the perfect set up for what might be an extended sunset period of high returns.

DOF listed on the Oslo stock exchange in mid-2023 following a creditor-led restructuring. Because the IPO share register was dominated by banks and other creditors who had written off loans in exchange for shares, the IPO valuation was particularly modest given the market expected all the banks to be sellers.

Whilst the orderly exit of creditors from the register has been progressing, providing us an opportunity to start buying the stock back in November 2023, offshore rates have strengthened materially. Yet they have not yet hit DOF's earnings, as many of DOF's contracts are still to roll onto materially higher rates.

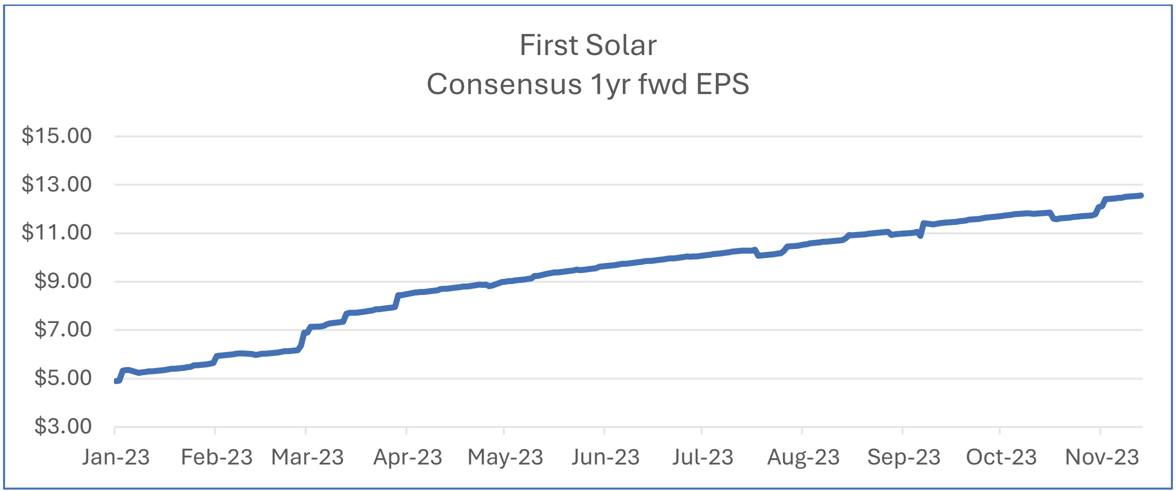
A further catalyst is when DOF refinances their debt which we think is likely given the cashflow position DOF will be in in the next 12-18 months. DOF's existing debt structure has a cashflow sweep in two key debt packages where most surplus cashflow is swept to repay debt. Over the next 18 months we forecast DOF's leverage will reduce to just over 1x Net Debt / EBITDA, which will put the company in a position to refinance the debt packages that contain the sweep.

DOF's chairman has made it abundantly clear that when that happens, returning cash to shareholders will be the key priority. Not many companies trade on a 43% prospective free cashflow yield, which likely drives the shares materially higher from current levels, if our thesis plays out as we expect.

Paladin (PDN.AU, mkt cap A$4.9bn) advanced +2% in April. The company is starting to discuss its next development project, Michelin. We have written on Michelin in past letters, which has the capacity to be as large an asset as Paladin's current sole producing asset, Langer Heinrich. Paladin's old disclosures from around a decade ago allow one to piece together a mud map of what Michelin might look like as a project. Increased disclosure coupled with ongoing progress should see the market increase its valuation of Michelin and in turn Paladin. On top of this, we think there will be persistent production issues in the years ahead for the industry's largest producer, which doesn't hurt the outlook for uranium prices.

First Solar (FSLR.US, mkt cap US$20.5bn) rose +4.4% in April after making its way back into the portfolio.

We were a little early when we wrote about First Solar extensively in late 2022 and 2023; whilst the stock price hasn't gone up much over the last 12 months, earnings estimates have more than doubled. We think the stock is ultimately going to follow its earnings.



Source: Bloomberg, Geometrica

First Solar is the only US based solar cell producer of any scale. Almost all other solar modules assembled in the US rely on cells and polysilicon produced in China where concerns exist around forced labour.

In an environment where US politicians on both sides are proposing measures to limit the dumping of Chinese solar modules, First Solar is thus the only scaled utility supplier that can provide long term supply assurances to US customers.

This is not lost on the hyperscalers who are driving rapid deployment of energy hungry data centers in the US. Most have committed to renewable energy. Given the demand profile, nuclear base load is the ideal power source, however this supply is highly unresponsive. Solar has thus been the go-to. Estimates are that solar is powering over 60% of new data center energy demand. Given the intermittent nature of the resource and the gargantuan scaling of demand, this is going to have some consequences, especially in places like Texas where data centers are interconnecting directly to the grid.

We are very recently seeing a picture of rising solar module prices in the USA. First Solar is fully booked into 2027, with orders being taken now out to 2030.

One risk to our thesis is wholesale retracement of incentives for US based production. We'd note that the vast majority of investment funded by incentives in First Solar's case are being deployed into red states. And, the right-leaning political position is for greater restrictions on imports of allegedly dumped solar modules which would be highly positive for First Solar given their unique position.

There is still some way to go here, but our original thesis of additional US based capacity expansions by First Solar may yet play out. Meanwhile, earnings march higher.

Uber (UBER.US, mkt cap $144bn) fell -13.9% in April, in part due to fears that Tesla might become competitor to Uber using self-driving cars. We were buyers.

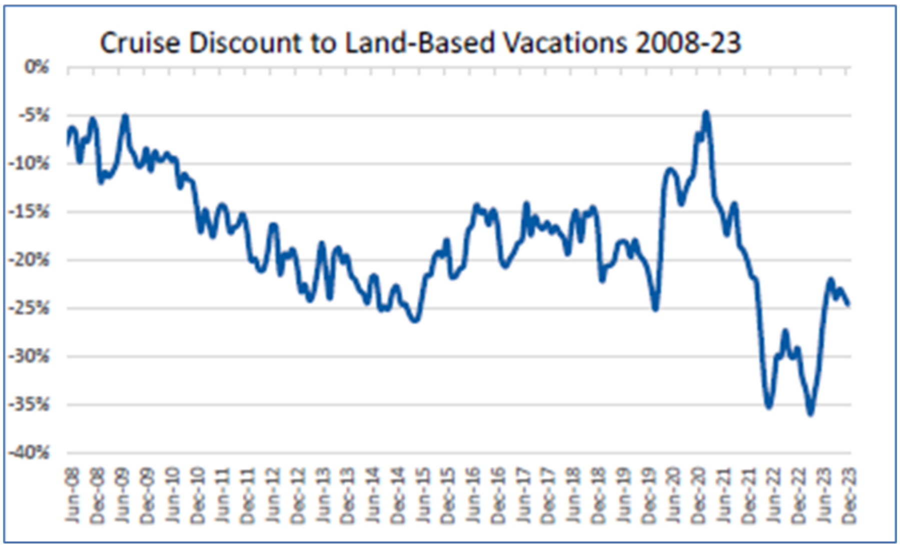
We find the notion that Uber will suffer because Telsa is going to deploy a fleet of autonomous vehicles in the near future speculative at best.

It will likely take a significant period of time for the technology and regulatory framework to develop. Post this, there will likely be an extended transition period from human drivers to full AV.

Uber has more than 150 million monthly users along with price matching, routing and payment technology that they have built up over the last 15 years. We suspect AV companies going alone will be at a competitive disadvantage to AV's that partner with Uber.

Carnival Corp (CCL.US, mkt cap US$18bn) fell -9.3% in April. Carnival is a cruise line operator which on our numbers has the most upside of the major cruise operators.

We have written at length about the cruise industry in the past; historically this sector is cyclical, and no doubt will always retain some cyclicality. But over the last four years price differentials between land-based vacations and cruises have widened materially contributing to a divergence between land- and sea-based travel growth.



Source: Morgan Stanley

Cruises are now taking share in the broader sector. We can see this in recent earnings calls from hotel operators who are seeing activity slow whereas cruise operators cite ongoing strength. Disney, which also owns a small cruise line, called out the strong demand for cruises as recently as last week.

Ongoing supply shortages caused by COVID disruptions to normal vessel ordering patterns should add longevity to price pressure. The longer demand stays at these levels, the greater the supply gap becomes.

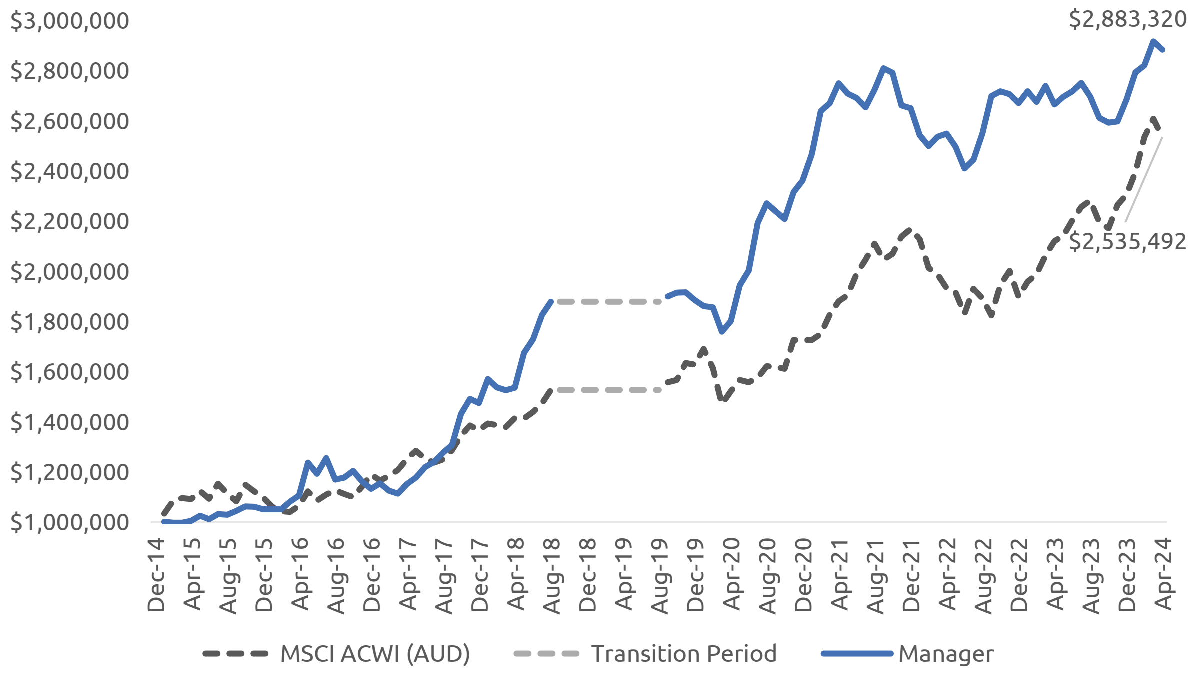
PERFORMANCE (%, NET)[2]

	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	+1.0	+3.4	-1.1									**+7.4**

2015 – 2018: CVF (same portfolio managers and strategy)
2019 onwards: Geometrica.

Manager ITD	+188.3
Manager p.a.	+13.6
Geometrica p.a.	+9.6

PERFORMANCE CHART (%, NET)[4]

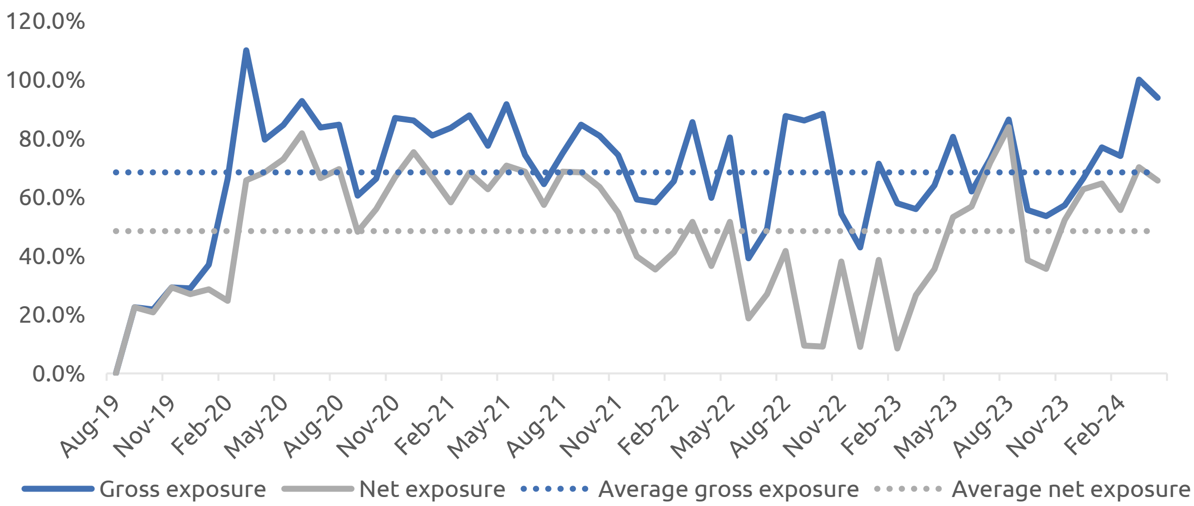


[2] Performance is after all fees, Founder Lead Series unit.
[4] 2015-2018: CVF (same portfolio managers and strategy); 2019 onward: Geometrica. Index = MSCI All Country World Index (AUD)

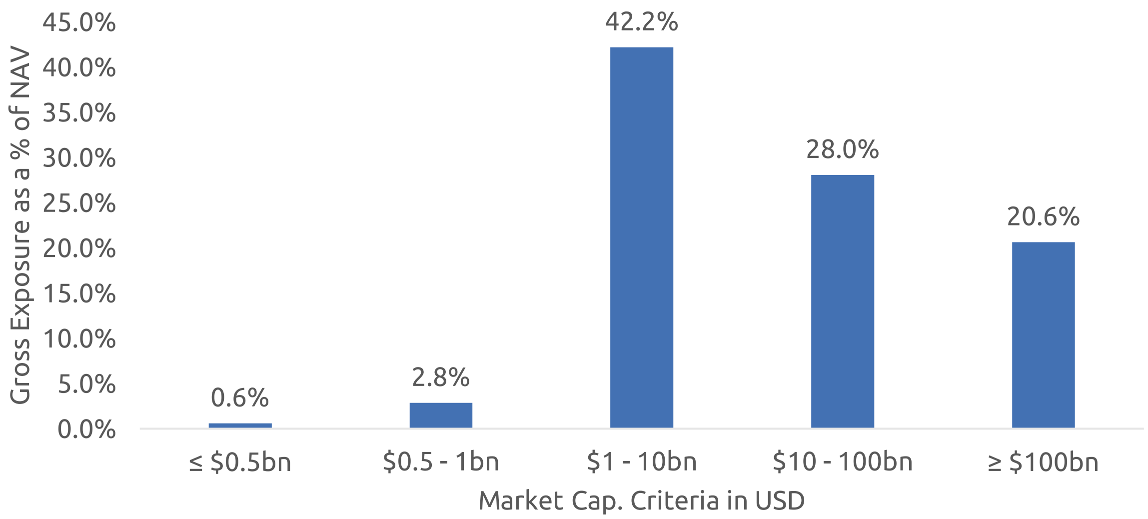
ASSET ALLOCATION

Country	Long	Short	Gross	Net
Australia	11.9%	(2.5)%	14.4%	9.3%
Americas	34.2%	(7.0)%	41.1%	27.2%
Asia	5.3%	(4.1)%	9.4%	1.2%
Europe	28.4%	(0.5)%	28.9%	27.9%
Total	79.7%	(14.1)%	93.9%	65.6%

GROSS & NET EXPOSURE



GROSS EXPOSURE BY MARKET CAPITALISATION



FUND OVERVIEW

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
More information	www.GeometricaFund.com