OVERVIEW

The Geometrica Fund returned **+2.9%** in September, net of all costs bringing our calendar year to date return to **+12.6**%.

The ECB and US Federal Reserve both dropped their official interest rates in September, with the Fed opting for a larger than normal 50 basis point cut. Less heralded was the end of the US yield curve inversion.

Key contributors to performance in the month included Applovin, Rightmove, Oracle, Carnival Corp, Insulet and Aritizia. Detractors included Novo Nordisk and short positions in commodity stocks. We discuss below.

HOUSEKEEPING – UNIT ACCOUNTING

There are two ways to invest in the Fund:

- Direct applications where an investor fills out an online or paper form, or
- Indirect or platform-based investment where investors enter via Hub24, Netwealth, Ausmaq or another platform.

The accounting method for each differs. Direct applications have used Series-based accounting. Indirect applications, which commenced after the Fund started, are accounted for using Whole of Fund accounting given most Australian platforms do not support Series-based accounting. With Whole of Fund accounting, there can be a benefit sharing effect that favours new investors. When a fund is below its high water mark and material inflows occur, new investors share the travel back to high water mark. Whilst Series-based accounting addresses this, practically, fund flows follow performance.

In offering Series-based accounting our attempt was to be as equitable as possible amongst all investors. However the cost has been significant confusion for some investors for little to no practical benefit.

The Fund default going forwards for all *new* investors is Whole of Fund accounting irrespective of the channel of investment. Whole of Fund accounting is the overwhelming norm in Australia given the simplicity.

No impact for existing investors. There is no impact or change for existing investors.

For new investors who have a particularly strong preference for Series-based accounting, we are also able to accommodate that on an exception basis.

PORTFOLIO

AppLovin (APP.US, mkt cap US$46.0bn) rose +40.6% in September, after running up +20.5% in the month prior. It was the fund's largest positive contributor during September. The price surge this month was less about broker upgrades chasing the share price and perhaps more about information filtering out on APP's ongoing market share gains and progress with its broader product offering.

Rightmove (RMV.LN, mkt cap £4.9bn), the UK's dominant property portal gained +11.7% in September as it caught a takeover offer from **REA Group** (REA.AU, mkt cap A$25.6bn). Or more correctly, a possible offer.

REA made four separate *conditional and indicative offers* for Rightmove during September. However, Rightmove characterised these offers as opportunistic, opining that they "*materially undervalued Rightmove*".

Cast in this light, REA's continued approach of small incremental increases in value was never going to bridge the chasm of "material undervaluation".

To boot, REA's proposed bid consideration was predominantly its own stock. When a bidder ramps the stock component in a deal, its stock price tends to sag in response given value in the deal is transferred to the target from the acquiror.

REA faced other constraints on its bid. At its maximum, the scrip dilution would have seen News Corp (REA's parent company) drop below 50% ownership threshold with the attendant risk of deconsolidation[1]. More cash would have pushed leverage up uncomfortably.

And with REA trading on a 12-month forward consensus P/E of 48x versus Rightmove at 22x, perhaps Rightmove's board thought REA's scrip was overvalued.

We sold 90% of our holding before the clock ran down on REA's bid and banked the P&L.

But as we write we are buying back our position at a price lower than what we sold at. That benefit is small in the context of what may be on offer for the patient investor here, given Rightmove's revenue per listing is a quarter of REA's.

Despite the kick higher from REA's approach, Rightmove continues to trade at a discount to its historical valuation levels, driven by concerns of competition and the UK housing cycle. This discount to historical valuation may well close as earnings growth re-accelerates in FY25 and yet another competitor fails in its quest to unseat Rightmove. Central to this is our view that Rightmove will not need to significantly increase costs to maintain its competitive position (the bears on the stock disagree on this point).

History may be on our side. When Zoopla tried to gain share in 2015-17 by outspending Rightmove on marketing, it failed. We think CoStar's attempt to displace Rightmove by outspending it on marketing will likely fail. So far, the data and historical experience is consistent with this view – for more detail, see our brief case study on Rightmove.

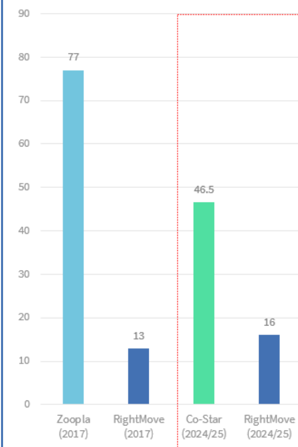
This is because most of Rightmove's traffic is organic. Spending money buying Google ad-words like "buy house" doesn't help when 85% of the eyeballs go direct to Rightmove's mobile app to search for UK real estate.

[1] Noting that the concept of "control" rather than 50% or greater ownership level determines the capacity to consolidate.

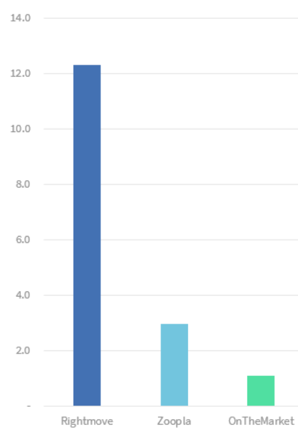
Demand side attacks on Rightmove are costly and ineffective

Geometrica Fund

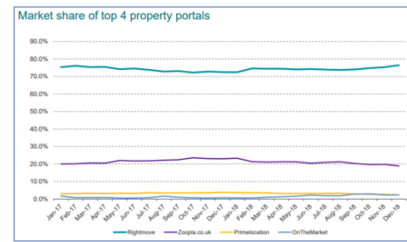
Marketing Spend (£m)

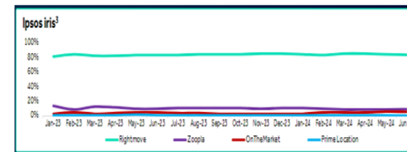


Time on site (millions of hrs/mth)



Market Share – No Change





Source: Geometrica & Company documents

Oracle Corp (ORCL.US, mkt cap US$472.bn) gained +20.6% in September, as the company reported strong quarterly results and then upgraded its outlook at its investor day.

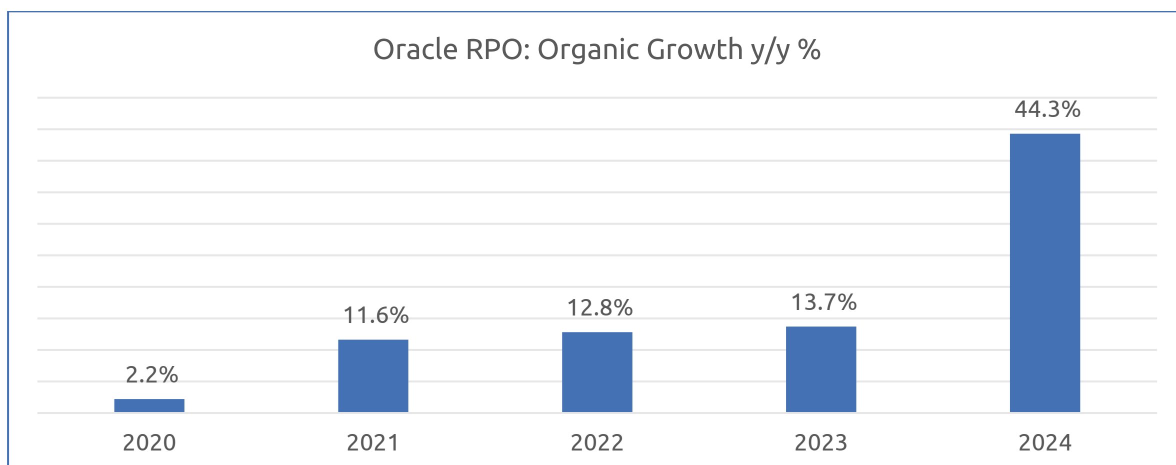
The fastest growing and most attractive part of Oracle is OCI, or Oracle Cloud Infrastructure.

But it was not always so. Oracle spectacularly missed the cloud shift two decades ago, as noted in 2008 by its founder and then CEO, Larry Ellison when he said: *"What the hell is cloud computing? It's complete gibberish. It's insane."*.

Having missed the initial cloud shift, Oracle now appear hell bent on not missing the AI data center demand wave.

Oracle believe they can build and rent out data center capacity cheaper than most. There is evidence to support this contention. Demand is now surging, with Oracle's order book (RPO or Remaining Performance Obligations) leaping ahead of current revenue growth.

We have no doubt that as revenue accelerates to match RPO growth that earnings will also grow very strongly.



Source: Geometrica & Company Documents

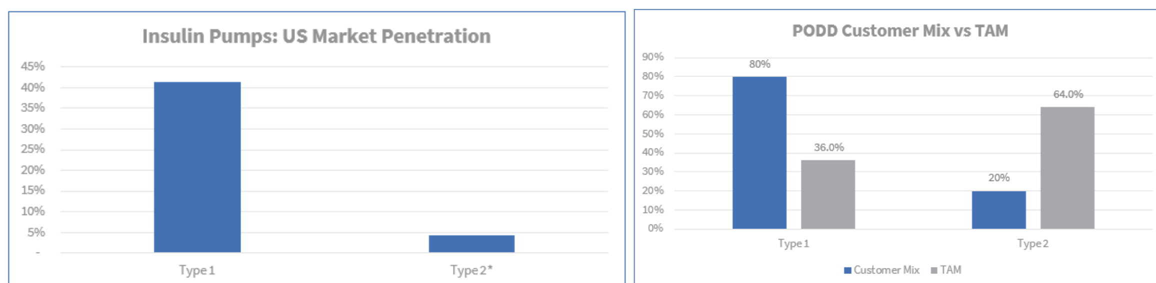
The longer dated question is around returns. Pricing for simply renting CPU compute capacity has in recent years become more commoditised; pricing across offerings has converged and the implied returns are not stellar.

Currently, this is not the case for highly sought after GPUs where pricing is extremely attractive, given demand far outstrips supply. However, history shows returns that are too attractive ultimately drag in more capacity until returns compress. The question is time scale. It could be longer than the market currently discounts.

Additionally, OCI's returns should not be viewed in isolation to the rest of Oracle's business given it also benefits Oracle's broader platform of products. Oracle previously suffered share losses in core products as competitors used their advantage in cloud servers to encroach on Oracle's core offerings (e.g. databases). This dynamic is in the early stages of reversing given Oracle's stronger product offering with OCI in the mix.

For now, we see no weakness in Oracle's return metrics, and given the market is following growth in revenue and earnings and these are set to surge, the upside on offer appears significant.

Insulet (PODD.US, mkt cap US$16.3bn) rose +14.8% in September. As noted in last month's letter, Insulet gained an indication for Type 2 Diabetes for their Omnipod 5 automated insulin device and have a first mover advantage now in a market larger than their core Type 1 Diabetes market. This should lead to a reacceleration in growth for Insulet's sales and earnings.



Source: Geometrica & Company Documents

Carnival Corp (CCL.US, mkt cap US$23.7bn), the world's largest cruise line by fleet size, rose +12.0% in September.

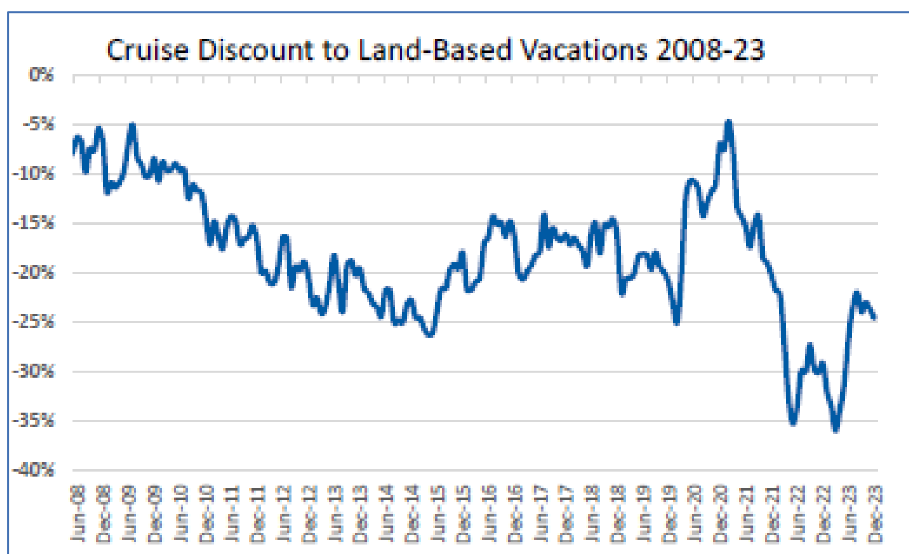
The stock is trading on depressed valuation multiples as the market is clearly nervous on consumer discretionary demand, given companies in adjacencies such as airlines and hotels have noted a softening environment.

This pattern of valuation compression mirrors the 2018-2019 period when the cruise sector de-rated as US economic growth slowed whilst interest rates stayed uncomfortably high. The pattern, in a normal cycle, makes sense. Cyclicals can turn ugly late in the cycle given they tend to be at or near peak earnings just as interest rate hikes finally start to impact aggregate demand.

This time around, the set-up is very different for cruise lines.

Covid almost killed the sector and resulted in significant capacity declines. *Covid hit so hard that Carnival reported 14 consecutive quarters of losses*. That degree of negative consistency tends to lead to very low expectations.

Post Covid, as cruise lines recovered, they raised prices far slower than other travel sectors as they prioritised occupancy recovery. But demand is far greater than capacity now and cruises are a big "trading down" beneficiary from other travel alternatives.



Source: Morgan Stanley

The indicators we look at show zero signs of demand weakness. Carnival corroborated as much on the last day of September when they reported strong quarterly earnings.

Aritzia (ATZ.CN, mkt cap C$5.7bn) rose +10.3% in September. Aritzia is a Canadian fashion retailer, selling upscale women's apparel at comparatively affordable prices, and rolling out stores in North America.

We seldom invest in these sorts of businesses as most are undifferentiated with their earnings power tethered to the randomness of the current seasons fashion.

But some business models in the sector have been wildly successful[2] and their strength always seems to manifest in a few key metrics, most especially unit economics.

Aritzia's unit economics are quite strong, but the business got knocked off course in 2022 and 2023 when management extrapolated 2021 demand levels, resulting in excessive ordering and then bloated inventory levels. Quite a few apparel retailers experienced a similar dynamic.

The price of working off excess inventory tends to be discounting, which hit Aritzia's margins, earnings and share price. It also provided an opportunity for us to invest.

Inventory is now normalising, and margins are, we think, poised to expand, which is the recovery part of the story. Aritzia's store roll out is proceeding at a very brisk pace into the US, which is the growth aspect of the story the market might end up getting quite excited about.

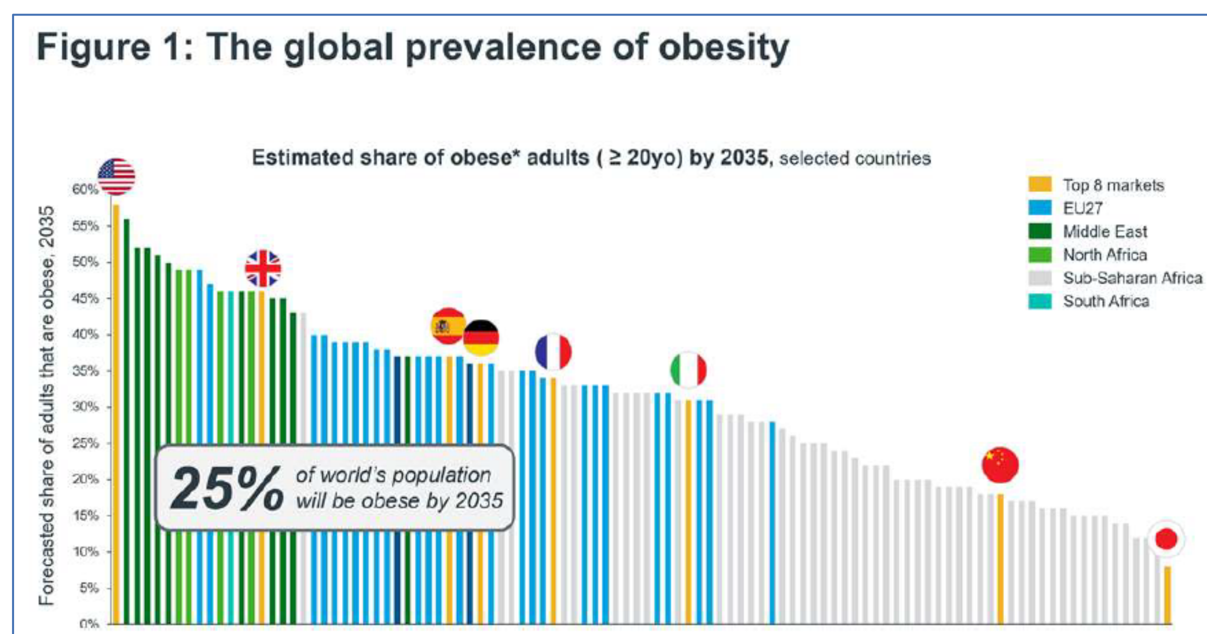
[2] Inditex (Zara) springs to mind, with its lack of spend on advertising, lower structural mark downs and higher stock velocity. Lululemon, Abercrombie, even Billabong in its day were wildly successful during their "white space rollout" phases.

Novo Nordisk (NOVOB.DC, mkt cap €479.7bn) fell -16.1% in September.

The fall comes after disappointing data from a clinical trial of one of its oral obesity drugs. We think this misses the bigger picture.

Novo is the leader in the obesity treatment market - a market which is in the very early innings. Obesity is an epidemic and may in time be proven to be a driver or amplifier of significant other disease states or comorbidities. Obesity increases mortality risk due to increased risks of cardiovascular disease, cancer and diabetes.

On the current trajectory, by 2035 it is estimated that nearly 2 billion people will be obese[3]. In the US alone (Novo's main market), the World Obesity Federation estimates ~57% of adults or ~160m people will be obese by 2035. Currently only ~1 million people are treated for obesity in the US. The opportunity for Novo, and the ultimate benefits to society, are clearly immense.



Source: IQVIA, World Obesity Federation

Novo has an already strong market presence with over 50% market share in obesity, together with a robust pipeline which will likely drive robust earnings growth over the next decade. Near term, upcoming clinical trial data releases for Cagrisema and oral Amycretin have the potential to demonstrate "best in disease" obesity data.

[3] Gores and Rickwood, "2024: The obesity market's inflection point?", Feb 2024

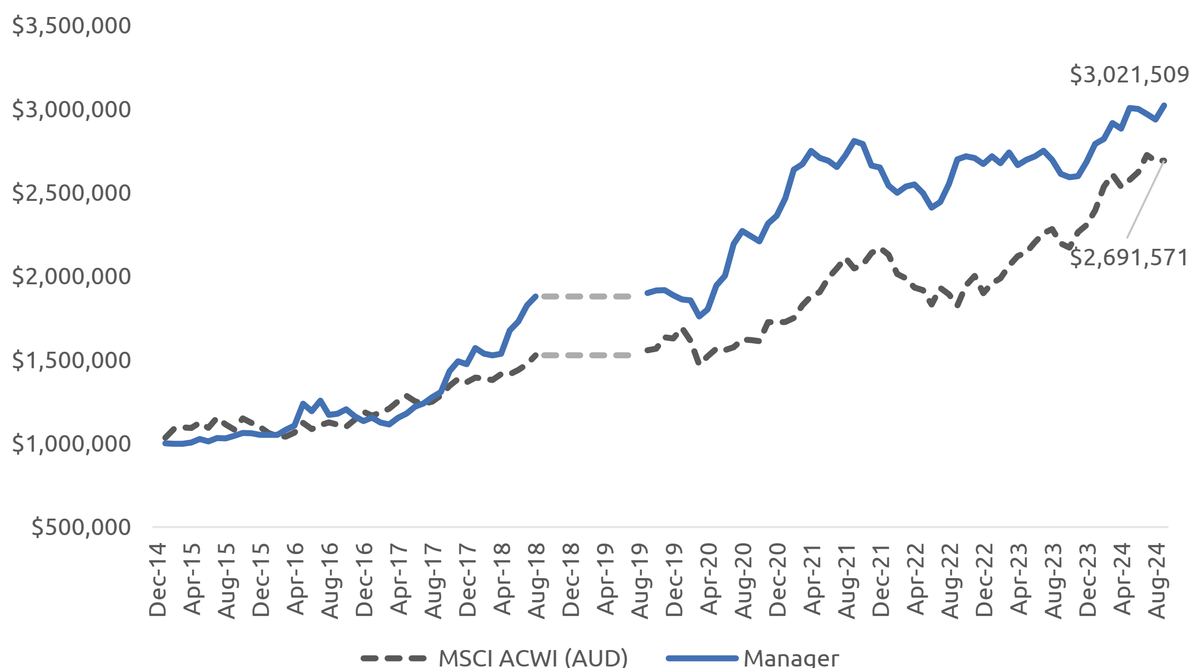
PERFORMANCE (%, NET)[4]

	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	+4.3	-0.2	-1.0	-1.1	+2.9				**+12.6**

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

Manager ITD	+202.2
Manager p.a.	+13.5
Geometrica p.a.	+9.8

PERFORMANCE CHART (%, NET)[4]

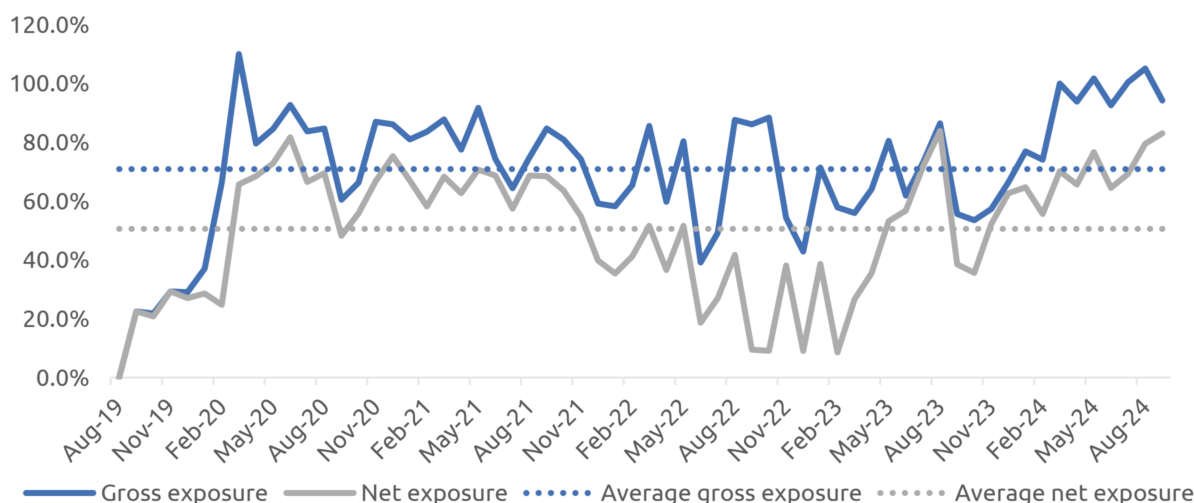


[4] Performance is after all fees, Founder Lead Series unit.
[4] 2015-2018: CVF (same portfolio managers and strategy); 2019 onward: Geometrica. Index = MSCI All Country World Index (AUD)

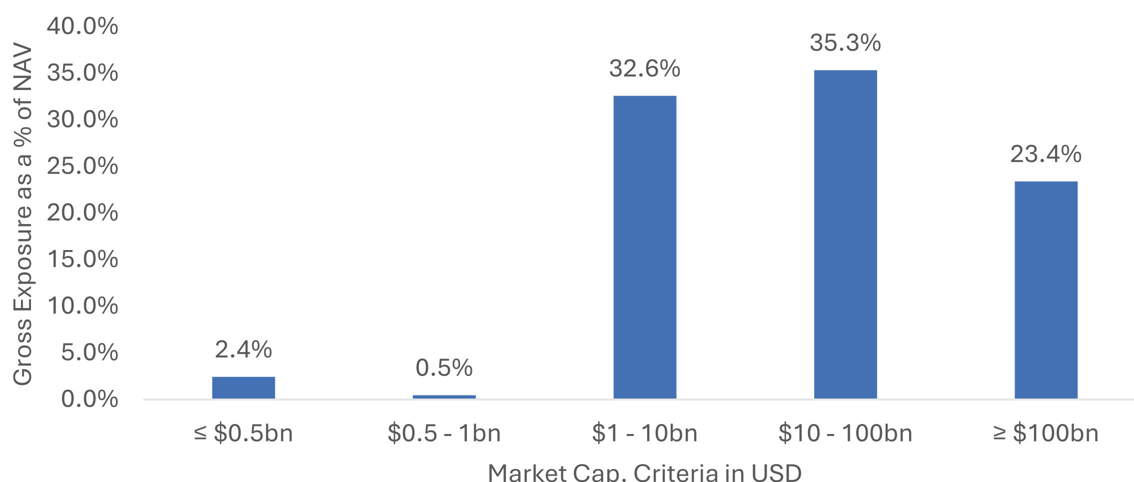
ASSET ALLOCATION

Country	Long	Short	Gross	Net
Australia	7.0%	(1.1)%	8.1%	6.0%
Americas	62.0%	(3.2)%	65.2%	58.8%
Asia	9.5%	(0.5)%	10.0%	9.1%
Europe	10.1%	(0.8)%	10.9%	9.3%
Total	88.6%	(5.6)%	94.2%	83.1%

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

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