

# DISCOVERY FOUNDERS' FUND

## Monthly Report for April 2024

For wholesale investors only – not for retail distribution

### PORTFOLIO MANAGERS



**CHRIS BAINBRIDGE**

Founder and Portfolio Manager



**MARK DEVCICH**

Founder and Portfolio Manager

NET PERFORMANCE	1 MONTH	3 MONTHS	6 MONTHS	1 YEAR	SINCE INCEPTION (P.A)	SINCE INCEPTION (TOTAL)
Discovery Founders' Fund*	-4.2%	17.1%	45.6%	59.4%	55.2%	101.3%
Index (NZD)**	-2.5%	5.6%	20.6%	10.1%	10.1%	16.6%
Outperformance	-1.7%	11.5%	25.0%	49.3%	45.1%	84.7%

\*Performance is reported after all fees and expenses. Past performance is not a reliable indicator of future returns. Inception date 28<sup>th</sup> September 2022.

\*\* Index is the S&P/ASX Small Ordinaries Accumulation Index.

### Fund Review

Following strong performances in February and March, the Founders' Fund pulled back in April.

The Fund pulled back for two reasons:

1. the Market: heightened tensions in the Middle East combined with the expectation of interest rate cuts being pushed out resulted in the Index finishing down 2.5%
2. our Stock Picking. Two of our companies provided updates which missed expectations. We have taken action with both. The advantage of a small nimble Fund is the ability to act decisively when companies aren't performing.

The Founders' Fund finished April down 4.2% vs the Index which was down 2.5%. In the 19 months since inception, the Founders' Fund's annualised performance is 55.2% vs the Index of 10.1%.

### Featured Company

One company which contributed positively to performance in April was **Resmed (ASX:RMD)**. Resmed is the global leader of medical devices used for the treatment of sleep apnoea with a market cap of \$49bn (AUD).

Until mid-2023, RMD was a market darling. A track record of strong growth at high margins saw RMD rank as the 19th highest performing company in the US (where it's dual listed) over the past decade. However, in mid 2023, RMD's share price dropped +30% as investors became concerned

that the new weight-loss drugs known as GLP-1s would severely impact the need for sleep apnea devices.

The best investments often involve a great business which suffers a market overreaction. That was the case with RMD. Feedback from RMD's distributors pointed to continuing healthy demand despite the rising adoption of GLP-1s. At the same time, RMD instituted a cost out program and guided to a recovery in gross margins. Gross Margins had fallen from over 60% pre-Covid to 56% at Q1FY24. We believed RMD's margins could recover quickly as it cycled through old inventory. With a variant perception, we initiated a position.

RMD re-rated in April as its Q3 result significantly beat expectations. It was a high quality result led by solid topline growth and a leap in gross margins. We believe the re-rate will continue as investors' breathe easier about RMD's future prospects, particularly as its major competitor, Philips, has been sidelined with a product recall which could keep it out of the market for up to three years.

### Outlook

Mark and I both topped up our holdings in the Fund during April. We don't have a crystal ball, but the Fund typically moves on news and we're heading into a busy period of company updates. We look forward to updating you on our performance.

### Select Holdings

1. Aussie Broadband
2. Duratec
3. Resmed

### The Investment Opportunity

Discovery was established with one mission: outstanding performance. Mark and Chris believe there's three foundations for success:

**Focus:** one fund, one focus. Targeting 20 of the best companies in Australasia, delivered in one nimble, limited capacity fund.

**Expertise:** Mark and Chris are experts in Australasian equities. Discovery leverages over 20 years combined experience and the competitive drive of two founders to outperform.

**Alignment:** Mark and Chris have virtually their entire liquid networth invested in the Founders' Fund.

### The Manager

Discovery Funds Management is a performance driven boutique investment management firm specialising in investing in high calibre companies for sophisticated investors. Discovery was launched in September 2022 and is wholly owned by Mark and Chris.

### Our Approach

**High Conviction:** targeting 20 of the best companies in Australasia.

**Active Manager:** benchmark unaware.

**Deep Fundamental Research:** mosaic approach incorporating independent company sources, industry experts, feedback from customers and base rates derived from local and international competitors to generate unique insights.

**Rigorous Risk Management:** disciplined framework designed to minimise drawdowns and protect capital.

**Limited Capacity:** \$300m close to new investors.

<b>MANAGER</b>	Discovery Funds Management Limited
<b>FUND TYPE</b>	Wholesale (unregistered) PIE unit trust
<b>STRATEGY</b>	Long only concentrated portfolio of companies listed on the ASX/NZX
<b>STOCK HOLDINGS</b>	Target 20 holdings
<b>STOCK LIMIT</b>	10% at cost
<b>CASH HOLDING</b>	Generally, no more than 20%
<b>APPLICATIONS</b>	Minimum \$250,000 (unless otherwise agreed)
<b>BENCHMARK</b>	S&P/ASX Small Ordinaries Accumulation Index (NZD)
<b>MANAGEMENT FEE</b>	1.2% per annum (excluding GST) on the net asset value of the fund
<b>PERFORMANCE FEE</b>	20% (excluding GST) of the total return of the fund in excess of the Benchmark during a six month performance period and provided any underperformance has been recovered (high water mark)
<b>UNIT PRICING</b>	Daily in NZD
<b>WITHDRAWALS</b>	10 Business Days
<b>AUDITOR FOR THE FUND</b>	PricewaterhouseCoopers
<b>LAWYER</b>	Chapman Tripp
<b>TRUSTEE</b>	Public Trust
<b>CUSTODY, REGISTRY AND FUND ADMIN</b>	Adminis

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