

PORTFOLIO MANAGERS



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NET PERFORMANCE	1 MONTH	3 MONTHS	6 MONTHS	1 YEAR	SINCE INCEPTION (P.A)	SINCE INCEPTION (TOTAL)
Discovery Founders' Fund*	2.2%	11.9%	22.5%	57.8%	55.3%	133.6%
Index (NZD)**	-3.4%	0.2%	3.0%	8.2%	7.6%	15.1%
Outperformance	5.6%	11.7%	19.5%	49.6%	47.7%	118.5%

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

** Index is the S&P/ASX Small Ordinaries Accumulation Index in New Zealand Dollars.

Fund Review

The Founders' Fund had a solid August, finishing up 2.2%. 2.2% isn't impressive in an absolute sense, but it's acceptable vs the Index which finished down -3.4%. In the 23 months since inception, the Founders' Fund's annualised performance is 55.3% vs the Index of 7.6%.

August is full year reporting for most of the companies in the Fund and a key litmus test of performance. As the Index's performance suggests, overall results were patchy. However, with more than 25 companies up more than 20% during the month, there were plenty of opportunities to outperform.

Whilst our performance was acceptable, we had a number of detractors during the month which left us with plenty of room to improve.

Featured Company

One company which detracted from performance in August was **The a2 Milk Company (ASX:A2M / NZX:ATM)**. A2M primarily produces and sells infant milk formula products in China. From January to August this year, A2M was one of the best performing companies on the ASX as better than feared birth data out of China buoyed sentiment and A2M's new China label product led to a re-acceleration of growth.

Our thesis was that A2M would beat FY24 earnings expectations and guide (conservatively) to FY25 earnings in line with market expectations. We were wrong.

FY24 revenue was in-line with expectations, but earnings missed after A2M wrote down the cost of a boiler at its Matura Valley Milk plant (**MVM**). Given A2M's plans to increase the capital intensity of its business by investing in manufacturing, the MVM write down was potentially a canary in the coal mine.

More importantly, FY25 guidance significantly missed expectations. A2M advised FY25 revenue growth and margins would be impacted by supply chain issues with its manufacturer Synlait Milk. A2M had been in a public dispute with Synlait since September 2023. The implications of this dispute were both potentially significant and probable. Our failure to appropriately account for this risk was a serious error.

One view is that FY25 is a temporary setback. Our view is that there are medium and long-term headwinds which aren't being adequately reflected in earnings estimates. Accordingly, we've redeployed our capital.

Outlook

August is a crucial month for performance as companies which report well in August often continue to perform as the market reallocates capital toward them. We look forward to updating you on our September performance.

Select Holdings

1. HUB24
2. Life360
3. Superloop

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.

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

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