

DISCOVERY FOUNDERS' FUND

Monthly Report for January 2024

For wholesale investors only – not for retail distribution

PORTFOLIO MANAGERS



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Founder and Portfolio Manager

NET PERFORMANCE	1 MONTH	3 MONTHS	6 MONTHS	1 YEAR	SINCE INCEPTION (P.A)	SINCE INCEPTION (TOTAL)
Discovery Founders' Fund*	0.6%	24.3%	18.8%	47.4%	49.6%	71.9%
Index (NZD)**	0.5%	14.2%	2.9%	0.6%	7.6%	10.4%
Outperformance	0.1%	10.1%	15.9%	46.8%	42.0%	61.5%

*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.

'January was a quiet month ahead of February reporting.'

Fund Review

After strong performance in November and December, the Founders' Fund solidified its gains in January.

In a relatively quiet market, the Founders' Fund finished January up 0.6% vs the Index which was up 0.5%. In the sixteen months since inception, the Founders' Fund's annualised performance is 49.6% vs the Index of 7.6%.

Looking at our key measure, four months into Year 2 the Founders' Fund is up 19.0% vs the Index of 9.5%.

Featured Company

It's easy to talk about your winners. However, we're committed to being candid and not all investments go according to plan. A small position which detracted from performance was **Aroa Biosurgery (ASX:ARX)**.

ARX is a soft tissue regeneration company which develops and manufactures medical devices used primarily in trauma, hernia and breast reconstruction surgeries.

Founded in 2008, ARX is a New Zealand success story which ticks a number of our four Ps (Potential, Predictability, People and Profitability). ARX's value proposition is faster healing with lower complication rates at a cheaper price. This proposition has proved compelling, with revenue growing from \$22m in FY21 to \$67m-\$70m in FY24. However, FY24 has proved a challenging year.

In November, ARX revised guidance driven partially by softer sales of a key product Myriad. We materially reduced our position but retained a small holding given ARX's potential. This was a mistake.

In January, ARX downgraded FY24 guidance due to lower than expected sales. Lower sales were attributed to a myriad of issues including inventory management, a delayed product launch, lower procedure levels and staff holidays.

Despite the downgrade, ARX's has plenty of potential: sales are growing strongly, FY25 should provide an inflection in profitability and ARX remains well capitalised with \$30m of cash and no debt. However, with investor confidence wounded, the market will likely require evidence of execution before ARX achieves a recovery.

Outlook

After a quiet January, February is half year reporting for our Australian companies and a key period for performance. We've sharpened the portfolio ahead of this period and are looking forward to the updates.

We'll be on the road meeting companies at the beginning of March, so **our February Report will be released 8th March**. We look forward to updating you on our performance post reporting.

Select Holdings

1. Aussie Broadband
2. Duratec
3. MMA Offshore

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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Email our Team

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