

### 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*	1.1%	7.0%	21.9%	62.2%	54.7%	178.7%
Index (NZD)**	4.4%	2.9%	6.9%	15.4%	10.8%	27.4%
Outperformance	-3.3%	4.1%	15.0%	46.8%	43.9%	151.3%

\*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 in New Zealand Dollars.

### Fund Review

January was the Founders' Fund's worst month of relative performance since inception. Simply put, our stock picking was unsatisfactory. We made mistakes (an example of which is detailed below). We feel underperformance viscerally. However, we don't dwell. We've reflected, learned and moved forward. The true test isn't how we perform after a good month, it's how we bounce back after a challenging one. February is reporting season. We're determined to deliver.

The Founders' Fund finished January up 1.1%, underperforming the Index which finished up 4.4%. In the 28 months since inception, the Founders' Fund's annualised performance is 54.7% vs the Index of 10.8%.

### Featured Company

One company which detracted from performance in January was **Zip Co Limited (ASX:ZIP)**. ZIP offers point-of-sale credit (think Buy Now, Pay Later (**BNPL**)) to consumers in the USA and ANZ.

Founded in 2013, ZIP was a COVID darling, riding the wave of cheap credit to the giddy heights of \$14 per share in 2021. However, the end of free money in 2022 precipitated a hard reset for the BNPL sector with insolvencies, exits and divestments. ZIP wasn't immune. ZIP's pivot towards profitable growth saw it exit sub-scale loss making operations, restructure the balance sheet and refocus on its core operations in the USA and ANZ. It was a painful journey for shareholders, with the share price dropping as low as 25c in September 2023. What ZIP's

share price wasn't reflecting at that time was the significant turnaround at both the sector and company level.

The nadir of 2022/2023 saw the BNPL sector to consolidate toward a few rational players (Afterpay, Klarna, ZIP and Affirm). At the company level, ZIP engineered a significant turnaround, moving from an Underlying Cash EBITDA loss of -48.2m in FY23 to an Underlying Cash EBITDA profit of \$78.8m in FY24. The turnaround resulted in ZIP being one of the best performing stocks on the ASX in 2024. Unfortunately, this hasn't continued in 2025.

ZIP dropped 18% in January as slowing US growth, increasing arrears and higher costs saw it miss Q2FY25 earnings expectations. We made two mistakes (1) consensus earnings expectations for Q2 were elevated and (2) ZIP was a crowded trade.

Where to from here? Despite the miss, FY25 earnings expectations remain elevated. This creates a challenging set up for investors. Q3/Q4 is when ZIP begins cycling higher growth rates in the US. Incremental US growth will be driven by new customers who are more likely to default. Indeed, arrears were already near the top of ZIP's targeted range in December. If arrears increase further, ZIP could pull back on US growth (like APT appears to have done recently). In sum, the path to meeting expectations for ZIP in FY25 isn't straightforward. We've learned it pays to hunt for non-consensus easy beats, not crowded difficult meets.

### Select Holdings

1. Generation Development Group
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.

<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

**Enquire about investing today**

[Email our Team](#)

Investment enquiries can be made online via our website at [www.discoveryfunds.co.nz](http://www.discoveryfunds.co.nz) or by contacting the team at [info@discoveryfunds.co.nz](mailto:info@discoveryfunds.co.nz) or phone +64 22 192 2332