

DISCOVERY FOUNDERS' FUND

Monthly Report for June 2023

For wholesale investors only – not for retail distribution

PORTFOLIO MANAGERS



CHRIS BAINBRIDGE

Founder and Portfolio Manager



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Founder and Portfolio Manager

NET PERFORMANCE	1 MONTH	3 MONTHS	6 MONTHS	SINCE INCEPTION
Discovery Founders' Fund*	2.9%	11.4%	20.1%	30.4%
S&P/ASX Small Ordinaries Accumulation Index (NZD)	0.6%	0.9%	2.6%	4.0%
Outperformance	2.3%	10.5%	17.5%	26.4%

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

'June was a quiet month for the Founders' Fund.'

Fund Review

Focus is the key to success. Focus means concentrating in a handful of the best ideas. This focus means there will be months with little news from our large positions. June was one of those months. The good news is that most of our positions will report in July or August.

The Founders' Fund finished up 2.9% in June. This was a strong performance vs the Index which finished up 0.6%. In the nine months since inception the Founders' Fund is up 30.4% vs the Index which is up 4%.

Contributor

Contributing to performance in June was **Duratec (ASX:DUR)**. DUR provides maintenance and remediation services to the Defence, Mining and Building industries in Australia. DUR re-rated after it advised that its Mining and Industrial segment had continued to strengthen, securing \$30m of work since mid-May. The Australian mining industry experienced a production capex boom from 2011-2015. Those aging facilities have seen maintenance spend increase from \$5.6bn in FY17 to \$7bn today. These tailwinds saw DUR's Mining and Industrial segment grow revenue 29% in the 1HFY23 on 2HFY22. Whilst Mining and Industrial only contributes 25% of DUR's revenue, it's high margin, contributing 33% of gross profit in 1HFY23. The high growth rate in this segment bodes well for FY24.

Detractor

Detracting from performance was **Johns Lyng Group (ASX:JLG)**. JLG manages trades people who carry out repair and remediation work on behalf of insurance and government clients. We reduced JLG in November on the back of insider selling, but maintained a position as our thesis was that JLG would upgrade earnings for the full year. JLG upgraded in June. Unfortunately, the upgrade was more anticipated than the NZ Prime Minister's plane breaking down. JLG's upgrade was driven by catastrophe work which is more uncertain as reliant on weather events. The update also included a bad debt write-off and higher than expected losses in the Commercial Construction division. Incrementally negative news combined with crowding in the name resulted in a de-rate. FY24 numbers haven't changed but sentiment has. To maximise returns you need be non-consensus and right. JLG provided us with a sharp lesson in being the dangers of being neither.

Outlook

The Fund's performance has been largely driven by stock picking. Whilst June was quiet in terms of company updates, most of our companies will report in either July or August. Mark and I have added to our holdings in the Fund ahead of this period.

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) 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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with Discovery today**

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Email our Team

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