

DISCOVERY FOUNDERS' FUND

Monthly Report for May 2023

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	SINCE INCEPTION
Discovery Founders' Fund*	0.4%	6.1%	15.5%	26.8%
S&P/ASX Small Ordinaries Accumulation Index (NZD)	-2.4%	-2.1%	-2.4%	3.3%
Outperformance	2.8%	8.2%	17.9%	23.5%

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

'The Founders' Fund was resilient in a difficult market'

Fund Review

After a strong April, the Founders' Fund finished up 0.4% in May. This was a solid performance vs the Index which finished down 2.4%. In the eight months since inception the Founders' Fund is up 26.8% vs the Index which is up 3.3%.

Contributor

Contributing to performance in May was Technology One (**ASX:TNE**). TNE is a SaaS company that provides enterprise resource planning software to government, education and healthcare clients in APAC and the UK.

TNE re-rated in May on the back of a strong 1H23 result. The highlight was annual recurring revenue growth which grew 41% to \$361m (and the guide for 40% for FY23). TNE's UK business (ex Scientia acquisition) also appeared to grow strongly (est. 26%), an acceleration on prior mid-teens growth rates. The performance increased investor confidence of TNE's execution in this large market. TNE's 'a cyclical' sector exposure and its clear medium term growth roadmap are attractive attributes for investors.

Detractor

As mentioned in our last newsletter, Travel and Tourism has been a key thematic for the Fund. We gained exposure to this through Tourism Holdings (**NZX:THL /ASX:THL**).

THL is a vertically integrated recreational vehicle (RV) operator with global operations. Put simply, THL manufactures, rents and sells RVs.

Our thesis was that the recent merger of THL and Apollo Tourism (number one and two RV operators in Australasia) had created a local monopoly which would drive structurally higher returns post Covid. Following numerous industry channel checks and a significant earnings upgrade by THL in February, our thesis appeared intact. Indeed, our expectation was that THL's guidance of +\$75m NPAT for FY23 would be upgraded again.

Unfortunately, THL used their investor day to flag that they may miss guidance. A slower start to summer in the US means vehicle sales will likely slip into FY24. The timing of acquisition synergies was also tempered. The first rule of Fight Club is: don't disappoint at your investor day. Our core thesis on THL remains intact. However, we've adjusted the position to reflect the lower level of confidence regarding the shape of normalised earnings.

Outlook

The strength of the Founders' Fund is structural. We have all the best ideas, team and alignment focused in one place. The Fund remains nimble so we can capitalise on opportunities. The great news is that we're seeing plenty of them.

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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