

DISCOVERY FOUNDERS' FUND

Monthly Report for October 2025

For wholesale investors only – not for retail distribution

PORTFOLIO MANAGERS



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Founder and Portfolio Manager

NET PERFORMANCE	1 MONTH	6 MONTHS	1 YEAR	2 YEAR (P.A)	SINCE INCEPTION (P.A)	SINCE INCEPTION (TOTAL)
Discovery Founders' Fund*	-2.6%	35.9%	35.5%	59.7%	50.3%	252.8%
Index (NZD)**	2.0%	32.9%	27.6%	27.8%	15.9%	57.8%
Outperformance	-4.6%	3.0%	7.9%	31.9%	34.4%	195.0%

*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

It was a tough month for the Founders' Fund. To be transparent, by our standards, it's been a tough four months. Markets have been strong and we've failed to fully capitalise. October was a case in point. We had a number of positive updates which failed to translate into positive share price performance. That's in the past. We've reduced or exited positions which haven't delivered or where the upside no longer meets our hurdle rate (e.g. Superloop). The opportunity is ahead. November is a busy month of company updates and we're positioned to capitalise on that.

The Founders' Fund finished October down 2.6%, underperforming the Index which finished up 2%. In just over 3 years since inception, the Founders' Fund's annualised performance is 50.3% vs the Index of 15.9%.

Featured Company

One company which detracted from performance in October was ZIP Co (**ASX:ZIP**). We've discussed ZIP in a prior newsletter. 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. However, the reset proved successful with ZIP moving from an Underlying Cash EBITDA loss of -48.2m in FY23 to an Underlying Cash EBITDA profit of \$170.3m in FY25. The share price followed earnings and ZIP traded at \$4.42 at the end of September.

ZIP dropped 12% in October after it provided an update on Q1FY26. ZIP's Q1FY26 delivered an acceleration in growth across most metrics, leading ZIP to upgrade US FY26 TTV growth to >40%. Margins at 19.5% were tracking above the guidance range of 16%-19% noting that the 2H of the financial year tends to see better margins.

Why did the share price drop? The pullback appears to have been driven by concern over rising US Net Bad Debts which jumped from 1.24% in the prior quarter to 1.52% in Q1FY26. ZIP had flagged a rise in Net Bad Debts as it drives Active Customer growth (400k added in the quarter). Net Bad Debts are a key measure of any lender. However, we believe concerns regarding ZIP's customer base are overstated and echo those raised during the sell-off in 2024. In our view, ZIP offers the rare combination of rapid topline growth in a relatively underpenetrated segment, expanding operating margins and strong earnings growth with a highly credible management team.

Select Holdings

1. Generation Development Group
2. Life360
3. Zip Co

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Fact Sheet

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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

**Enquire about investing
today**

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Investment enquiries can be made online via our website at www.discoveryfunds.co.nz or by contacting the team at info@discoveryfunds.co.nz or phone +64 22 192 2332