

DISCOVERY FOUNDERS' FUND

Monthly Report for October 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	1 YEAR	SINCE INCEPTION (P.A)	SINCE INCEPTION (TOTAL)
Discovery Founders' Fund*	-4.3%	-4.4%	9.5%	29.2%	34.5%	38.2%
Index (NZD)**	-4.2%	-10.0%	-8.7%	-6.1%	-3.1%	-3.4%
Outperformance	-0.1%	5.6%	18.2%	35.3%	37.6%	41.6%

*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.

Fund Review

Markets pulled back in October. However, we're not going to use the difficult backdrop as an excuse for our poor performance.

Two positions were responsible for a large proportion of our poor performance in October. We don't suffer losers. We acted decisively, exiting one position and halving the other.

Managing risk is half the equation. Taking advantage of the market weakness to buy quality companies is the other. We capitalised on the market weakness in October by initiating three new positions. Experience has taught us that you make your money in tough months. We're confident decisions made in October will prove that to be the case again.

In the first month of Year 2 the Founders' Fund was down -4.3% vs the Index which was down -4.2%. In the thirteen months since inception, the Founders' Fund annualised performance is 34.5% vs the Index of -3.1%.

Positive

A number of our companies provided positive updates during October. One of those was **HUB24 (ASX:HUB)**. HUB is an Australian investment and superannuation platform. HUB reported a reacceleration in net inflows during Q1FY24 on the back of a broad based improvement in adviser activity. HUB has the fastest growth rate as a percentage of FUA and we see it well positioned to continue its growth.

Detractor

A significant proportion of our poor performance was due to two investments. One of those was **Tyro Payments (ASX:TYR)**. TYR is a fast growing provider of payment terminals to merchants in the health, hospitality and retail sectors in Australia. Our thesis was that TYR ticked a number of our four Ps and that the market was underestimating both its short and medium-term earnings power. We were wrong. TYR held an Investor Strategy Day in mid-October. We halved the position prior to the investor day. We did so as we were concerned about medium term threats to TYR's competitive position resulting from partners competing with TYR in the hospitality and retail channels. The investor day highlighted that there isn't a neat solution to this issue. We also revised our short-term profit expectations given a deterioration in consumer spending. With our thesis broken, we exited the position.

The Fund / Outlook

We designed the Founders' Fund for a select number of sophisticated investors. The design was intentional. We believed that a sophisticated client base would understand that volatility creates opportunity. Top ups from a number of existing investors this month have proved out our thesis.

Looking ahead, November is AGM season and half year reporting in NZ. We look forward to keeping you updated.

Select Holdings

1. Duratec
2. HUB24
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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