

DISCOVERY FOUNDERS' FUND

Monthly Report for October 2024

For wholesale investors only – not for retail distribution

PORTFOLIO MANAGERS



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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*	2.1%	13.8%	29.4%	88.4%	57.9%	160.4%
Index (NZD)**	1.8%	3.9%	6.2%	28.0%	10.7%	23.7%
Outperformance	0.3%	9.9%	23.2%	60.4%	47.2%	136.7%

*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.

One Year Performance

Please ignore our one year performance number. From November 2023 to March 2024 the Index increased 23.6%. This provided a significant tailwind to our performance. As we cycle this tailwind, our one year performance number will look strong. Investors should ignore this number for two reasons (1) you can't make money out of the past (we're only as good as our next number) and (2) it will be very difficult to repeat.

Fund Review

We performed poorly in October. Performance was significantly impacted by two positions which missed expectations. Two significant misses in a month is rare. With hindsight, we made mistakes with both positions. We've taken lessons from both and moved forward. We're always hungry, but never more so than when coming off a poor month.

The Founders' Fund finished up 2.1% in October versus the Index which finished up 1.8%. In the 25 months since inception, the Founders' Fund's annualised performance is 57.9% vs the Index of 10.7%.

Featured Company

One company which contributed positively to performance in October was **Generation Development Group (ASX:GDG)**. GDG is a fast growing Australian based provider of investment products and financial services via two segments: Tax effective investment solutions and Lonsec.

GDG provides tax-effective investment solutions primarily via investment bonds. Investment bonds can hold a broad range of asset classes taxed at a maximum effective rate of 30%. This has proved an attractive proposition for Australians with higher marginal tax rates with funds under management (FUM) growing at a compound annual growth rate of 26% since FY20. Despite the growth, competition is limited as there are only four major APRA registered life companies in Australia which can provide this product.

In June, GDG completed the transformational acquisition of Lonsec. Lonsec is a leading provider of investment research, ratings and managed accounts with FUM of 11.7bn. We typically avoid transformational deals as they are often company breakers rather than company makers. However, GDG already held a 49.2% equity interest in Lonsec significantly reducing acquisition execution risks.

GDG re-rated in October on the back of record FUM growth in both its investment bond business and Lonsec. Momentum looks set to continue with superannuation reform, an aging population and growth in separately managed accounts providing strong tailwinds for growth.

Outlook

November is another busy month of conferences and AGMs. We expect updates from a number of our positions. We look forward to reporting on our performance.

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.

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

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Email our Team

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