DISCOVERY FOUNDERS' FUND

DISCOVERY FUNDS MANAGEMENT

Monthly Report for October 2026

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	6 MONTHS	1 YEAR	3 YEAR (P.A)	SINCE INCEPTION (P.A)	SINCE INCEPTION (TOTAL)
Discovery Founders' Fund*	-6.9%	-0.2%	-33.3%	19.4%	23.2%	135.2%
Index (NZD)**	-5.2%	-4.9%	-6.5%	15.2%	10.0%	47.6%
Outperformance	-1.7%	4.7%	-26.8%	4.2%	13.2%	87.6%

*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 in New Zealand Dollars.

Fund Review

Global markets corrected in October as rising rates, high energy prices and concern regarding the AI buildout weighed on markets. A number of our companies were caught up in the sell-off, despite releasing positive news (e.g. SHA).

We appreciate it's been a difficult year for investors, but we're bullish about the set up. Why? Earnings growth has been strong across our companies, but valuations have compressed. In the last year, EV/EBITDA ratios for small companies have moved from parity to a -25% discount to the five year average vs large caps. This valuation discrepancy typically bodes well for future returns. What are we doing? Where we can't see 30%-50% upside, we're rotating into opportunities with catalysts where we can.

Contributor

One company which contributed to performance in October was **PWR Holdings (ASX:PWH)**. PWH is the leading provider of customised cooling solutions to the global motorsports market (that's a fancy way of saying it makes radiators and intercoolers for F1), with market applications rapidly expanding into the aerospace and defence industries.

PWH provided a positive trading update at its AGM with FY27 guidance upgraded. The upgraded guidance was driven by an increase in aerospace & defence revenue growth expectations from ~30% to ~50% year on year. We're positive on the ability for PWH to continue taking share in this growing market. However, trading at circa 50x current year earnings, the market is, by inference, putting a high multiple on PWH's aerospace and defence business. Despite the compelling backdrop, we've taken profits.

Detractor

One company which detracted from performance in April was **ZIP (ASX:ZIP)**. ZIP offers point-of-sale credit to consumers in the USA and ANZ. ZIP delivered a 1Q27 result which was below market expectations, driven by a fraud incident. ZIP reaffirmed its guidance for $340m in cash EBTDA (+26% year on year growth), now inclusive of fraud costs. At the same time, it guided to accelerating growth and lower bad debts in Q2 and is likely annualising north of $340m in October, prior to the seasonal peak.

The market over-reacted to the update, a view supported by ZIP's strong bounce back over the rest of the month (against a challenging backdrop). ZIP trades at a significant discount to US comps with similar or better economics and has seen significant on market buying from five directors post the update. We believe ZIP offers material upside from current levels.

Outlook

November is another busy month of company news with conferences and AGMs. We expect updates from a significant number of our companies. We look forward to reporting on our performance.

Select Holdings

1. GR Engineering Services
2. Wagners Holding Company
3. Zip Co

This information refers to investments in the Discovery Founders' Fund (the **Fund**). Any person wishing to invest in the Fund should review the Information Memorandum and seek legal, financial and taxation advice. The Fund is a Wholesale Offer as defined in the Financial Markets Conduct Act 2013. **An investment may achieve a lower than expected return and investors risk losing some or all of their principal investment. Past performance is no indication of future performance.**

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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

Email our Team

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

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