

DISCOVERY FOUNDERS' FUND

Monthly Report for August 2023

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	SINCE INCEPTION
Discovery Founders' Fund*	2.3%	16.8%	23.9%	48.0%
S&P/ASX Small Ordinaries Accumulation Index (NZD)	-0.9%	3.0%	0.9%	6.4%
Outperformance	3.2%	13.8%	23.0%	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.

Fund Review

Markets softened in August as investors assessed the prospect of further rate rises in the US and Europe.

The Founders' Fund finished up 2.3% in August vs the Index which finished down -0.9%. In the eleven months since inception the Founders' Fund is up 48% vs the Index which is up 6.4%.

It would be easy for us to say 2.3% was a satisfactory result in a tricky market, but that's not the case. Our execution was poor in August, resulting in a performance which fell well short of our standards. Solve, don't dwell. August's sharpened our focus. We've cut the number of positions, concentrating back on our best ideas. It's a process which has worked well to date. It's a process we believe will work well in the future.

Contributor

Contributing to performance in August was **Aussie Broadband (ASX:ABB)**. Aussie is Australia's fifth largest and fastest growing telco. Aussie delivered earnings at the top end of guidance, impressive cashflow and a positive outlook statement. Aussie's seeking to supplement its leading position as a residential services provider with enterprise and government customers. Its early days, but a successful transition into this segment could dial up Aussie's multiple.

Detractor

Detracting from performance in August was **Domino's Pizza (ASX:DMP)**. DMP revised earnings expectations downward in June, taking the opportunity to announce a

cost out program to improve earnings and franchisee profitability. Our thesis was that this was the bottom. We expected the August result to be poor, but believed signs of improved trading in Australia and Europe would generate a re-rate. DMP's result was predictably poor, but its July trading was worse than our expectations. European sales appeared to be down 6% in constant currency whilst franchisee profitability and Asia sales also missed our forecasts. We formed the view that we were too early calling the turn and sliced the position. We were wrong. DMP re-rated as investors focused on strong cashflow conversion and management talked to improving franchisee profitability (which wasn't evident in the numbers). The lesson: know what the market is looking for. This result was about the balance sheet not earnings and we underestimated the power of a great management team to focus investor attention on the long-term prospects of a quality business.

Outlook

We had over 110 company meetings in August. We've spent this week on the road doing further work on the best of them. One great idea per trip equals success. We believe two in one trip and you're making money. We've come back with the latter. We look forward to keeping you updated on our performance.

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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Email our Team

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