

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*	10.1%	22.9%	45.5%	79.5%	63.5%	110.0%
Index (NZD)**	6.9%	8.8%	18.5%	16.0%	12.5%	19.5%
Outperformance	3.2%	14.1%	27.0%	63.5%	51.0%	90.5%

*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.

Given performance, it would be easy to discount a mistake which caught up with us during the March. Instead, we detail that mistake below under Featured Company and what we have done to correct it.

Fund Review

6.9%: that was the Index return in March, setting a high benchmark for active managers to outperform.

Last month we said “*Experience has taught us that companies which report well in February often continue to perform as the market reallocates capital toward them.*” This played out in March with the Founders' Fund finishing up 10.1% vs the Index of 6.9%. In the 18 months since inception, the Founders' Fund's annualised performance is 63.5% vs the Index of 12.5%.

Featured Company

We made a mistake which caught up with us during March as **Aussie Broadband (ASX:ABB)** lost a significant customer. As the name suggests, Aussie sells broadband packages to consumers in Australia. In a hyper competitive market, Aussie has grown to be Australia's fifth largest telco due to its quality service offering and acquisitions.

Telco is a capital intensive industry which lends itself to consolidation. Either get big or get bought. Aussie knows the playbook and has recently complemented its organic growth with acquisitions. This continued in February, as Aussie acquired 19.9% of Superloop and launched a takeover for the remainder at 95c. The bid has more twists than a season of Billions. Superloop rejected Aussie's bid

on 26th Feb and then won Aussie's largest customer, Origin Energy on 14th March. In March, Aussie announced that it had lost Origin as a customer with an estimated FY24 EBITDA impact of \$14m. The part year impact represented 13% of Aussie's FY24 EBITDA guidance of \$105m-\$110m. Aussie shares fell +20% as investors downgraded earnings and reduced the probability of Aussie acquiring Superloop.

Customer concentration is risk management 101. We were aware Aussie was renegotiating its contract with Origin but placed a low probability on the possibility of this contract being lost. Given Aussie's exposure to Origin, we weighed the probability (and therefore position size) incorrectly. This was a mistake and one we will aim not to repeat in future.

Outlook

Keen observers noted that the Fund's unit price passed \$2 during March. When considering the outlook, we believe investors should bear the following in mind:

1. we're early in the mission so there's no celebrations. It's performance over the medium and long term that counts; and
2. investor expectations should remain grounded. We're excited about the portfolio, but performance doesn't come in a straight line. The good news is that the Fund is small, nimble and we're highly aligned.

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) 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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with Discovery today**

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Email our Team

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