

PORTFOLIO MANAGERS



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Founder and Portfolio Manager



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Founder and Portfolio Manager

NET PERFORMANCE	1 MONTH	3 MONTHS	1 YEAR	SINCE INCEPTION
Discovery Founders' Fund*	2.6%			9.8%
S&P/ASX Small Ordinaries Accumulation Index (NZD)	2.8%			5.8%
Outperformance	-0.2%			4.0%

*Performance is reported after all fees and expenses. Inception date 28th September 2022.

November performance was 2.6% versus 2.8% for the Small Ords Accum index (NZD).

Fund Review

Performance doesn't come in a linear fashion. After a strong October, the fund was only up 2.6% in November. The benchmark this month was propelled higher by the strong performance of resource stocks, an area we typically have low exposure to given the sectors' cyclical nature and poor returns on capital.

Key Contributor

Civil Contractors. We tend to avoid them. They typically execute large fixed price contracts at low margins. Things frequently go wrong. RCR Tomlinson, Forge and Decmil are recent examples. Accordingly, when we discovered **Duratec** we were wary. However, Duratec isn't a typical contractor. Three aspects demonstrate the difference: job size (many small ones), contract type (schedule of rates) and exposure (maintenance work).

Duratec fits many of our four Ps: potential, predictability, people and profitability. Duratec contributed positively to performance in November on the back of strong guidance for the year ahead. Short term, guidance looks conservative. Long term, management and employees own 39% of the company. We believe this is part of the reason Duratec has grown revenue at an average CAGR of 32%

over the last 12 years. With exposure to defence, mining and oil & gas, we're backing the team to continue executing.

Key Detractor

Detracting from performance was **Life360 (360)**. 360 is a US based app company. 360's app allows families to share their location and provides driver assistance (think AA roadside assist). 360 downgraded due to slower sales in its hardware business Tile. Tile is non-core, but important for cashflow. Slower sales were followed up by a capital raise to shore up the balance sheet. Short term, it's difficult to see a fundamental catalyst. Long term, latent pricing power, "cashflow breakeven" in Q3FY23 (don't get us started on the share-based payments!) and significant optionality from monetising unpaid users means that the odds are skewed to the upside.

Outlook

We remain well positioned. We typically target 20 companies. In the current market, we're being even more selective. We're holding a small number of companies with high returns on invested capital, earnings tailwinds and near term catalysts.

Select Holdings

In alphabetical order

1. Duratec
2. HUB24
3. Johns Lyng Group

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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