

Discovery

Q1 investment update

April 2025

Investment manager Douglas Brodie and client relationship manager Beth Harris give an update on the Global Discovery and Worldwide Discovery strategies covering Q1 2025.

Your capital is at risk. Past performance is not a guide to future returns.

Beth Harris (BH): Hello and welcome to this quarter's update for the Discovery Strategy. As a reminder, Discovery looks to find the next generation of excellent growth companies. We find them when they're young and we hold them for the long term as they scale. My name is Beth Harris and I'm a specialist in the clients team and I'm joined by Douglas Brodie who's the head of the strategy. Hi Douglas.

Douglas Brodie (DB): Hello.

BH: So it's fair to say it's been a very volatile start to 2025. We're just interested to hear how you're thinking about that ever-changing environment.

DB: Sure. So, as I reflect, I'd say 2024 was a period of consolidation. You had moderation in inflation. You had excitement towards the end of the year with the new regime coming in in the US. And then as you went into January post the inauguration, I'd say attitudes hardened, frankly, attitudes both within stock markets and politically. That whole 'make America great' mantra clearly had implications that extended well beyond the borders of the US.

You had the emergence of tariffs as a pretty blunt diplomacy tool, and you had a real storm blowing through Washington in terms of various government departments, a sort of real resetting of the agenda. And this made for a melting pot of uncertainty. And stock markets, they struggle at times like that.

So what does this all mean for interest rates, inflation, economic growth, technology, supremacy? I think these are all very valid questions that people are wrestling with. And I'm not trying to downplay them because they are incredibly hard to answer at a period of flux.

But, you know, there's a real resetting of concepts that have been around for decades. US hegemony, US exceptionalism, a real resetting of some of the alliances that have been in place for a long period of time.

So, trying to understand what that means for the long-term investing landscape. At the very least, I think it means more reshoring and resiliency built into business models.

BH: So what you've described is quite a significant shift from where we were at the end of 2024. Has that translated to changes in the portfolio?

DB: Yeah, I would say some of these things we've been in tune with before. Now, fair enough, their magnitude has probably surprised us. Businesses like MP Materials. So they are a rare earth miner based in California, mining rare earths that are particularly useful for making very high-performing magnets.

So anytime you want to convert electrical energy into kinetic energy, you need these magnets. And historically, China has been the dominant provider of that. But we're excited about MP materials because we think they have a really interesting claim to become one of, if not the only, vertically integrated supplier in the Western world of these magnets.

Another example would be Xometry. So Xometry is a really interesting marketplace that connects the users and buyers of industrial parts with a very fragmented base of parts suppliers. So milling machines, machine shops, 3D printing businesses, etc. And they deliver real value for both sides in that equation.

And what we're seeing is that companies now really value an adaptability, a dynamic, almost intelligent aspect to how they can source products, how they can scale that up very, very effectively. And that whole offering of Xometry is moving away from being sort of prototypes and low volume parts, into providing much bigger orders for bigger businesses. So very much in tune with that sort of self-resiliency that companies want.

I'd also say it's been an environment where it has been more valuation-sensitive. We've been in tune with that with reductions that we've made to businesses like Doximity and Axon that have performed very well. But it's also an environment where companies that deliver real value, real efficiency and real revenue boosting potential for their clients, that still very much resonates.

So we've purchased an interesting business called Amplitude that really helps companies build better websites, drive better conversions, consolidate a base of tools that historically they'd be doing that with to do that more effectively and drive better revenue growth for them.

BH: Excellent, thanks. Sticking with the portfolio, I guess, a company, Aerovironment, has had a particularly difficult quarter. Can you explain what's gone on there, please?

DB: Yeah, there's been a couple of noisy effects around AeroVironment. So, they manufacture drones largely for a military customer base. And Ukraine over the past few years, for reasons that we all know, has become a sort of real test bed, a real use case for those devices, and AeroVironment have carried material exposure to that.

As that sort of conflict begins to move into a different phase, people are worried about, you know, what does that mean for the future growth on a short-term view for air environment. As a business, they also had a disruption from some of the LA fires, their main headquarters manufacturing facilities are in that area, and that provided some disruption.

So we think both of those incidents are near-term, they're manageable. And what we're seeing, frankly, at the business level is a real explosion in their order book, huge interest from customers all around the world, but particularly, I would say, on the eastern flanks of Europe. South China Sea, and the US very much keen to have more of these in their arsenal.

BH: Okay, so no change to the initial investment case there. Another company, Alnylam, seems to be going from strength to strength. So is there any significant news there?

DB: Yeah, a couple of very interesting news points. One I know we've covered in this format before. They had FDA approval very recently for one of their drugs for a rare form of heart failure. But perhaps less well known, they've also had approval for a drug that they've got partnered with Sanofi. And this is a drug for haemophilia.

So roughly about a million patients in the world who inherit genetic disorders related to haemophilia, various forms of that disease. Alnylam's drug works in all forms of that disease, and crucially, it also works in patients that have historically developed an immune response to the conventional therapies. So we think that's a really interesting drug with a big potential.

BH: Great. And I guess just to kind of close things out with your concluding thoughts, how are you thinking about things going forward and the outlook from here?

DB: Yeah, we're very enthused by the portfolio. When we look down at the portfolio, we have a collection of businesses that have earnings growth potential over the next three years. There's about double what we think the broader market can offer. We get deeply excited about where we think these businesses will get to on that three-, five- and ten-year view. And as much as the current environment is noisy and unhelpful, we take that enthusiasm from the businesses that we invest in.

BH: Great. Thanks so much, Doug. And that brings us to the end of this quarter's update. Thank you.

Discovery (representing Global Discovery and Worldwide Discovery strategies)

Annual past performance to 31 March each year (net%)

	2020	2021	2022	2023	2024
Worldwide Discovery Composite*	99.5	-31.0	-26.8	-9.4	-5.2
MSCI ACWI Small Cap Index	82.7	0.0	-9.1	17.0	0.0

Annualised returns to 31 March 2025 (net%)

	1 year	5 years	10 years	Since inception
Worldwide Discovery Composite*	-5.2	-2.9	N/A	2.4
MSCI ACWI Small Cap Index	0.0	14.2	N/A	6.6

*Inception date: 30 June 2017.

Source: Revolution, MSCI. US dollars. Returns have been calculated by reducing the gross return by the highest annual management fee for the composite. 1 year figures are not annualised.

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