PURE ASSET MANAGEMENT

Investor Newsletter

Period to: 31 December 2022

The Income and Growth Fund

Dear Investor,

We enclose the December 2022 update for the PURE Income and Growth Fund.

The PURE Income and Growth Fund is open for investment.

Foundation Class Portfolio Returns (After Fees)

The PURE Income and Growth Fund returned +0.1% in December 2022, and declared a 2.4 CPU distribution (Foundation Class) for the quarter, bringing the trailing 12m yield to 7.2%

	1 Month	3 Month	6 Month	1 Year	3 Years	Since inception
Returns (%) p.a.	+0.1%	-4.8%	-6.8%	-8.4%	+12.2%	+12.2%
St Dev (Annualised %)				6.6%	14.4%	12.7%
Sortino Ratio						1.8
Sharpe Ratio						0.6

**After fees and assuming reinvestment of all income distributions. Fund inception 21 December 2018.*

Fund overview as at 31 December 2022	
Funds Under Management	$143.9m
Since Inception Annualised Return After Fees (Foundation Class, Dist. Re-Invest)	+12.2%
Foundation Class Current Unit Price (Ex-Distribution)	$1.1690
Total Distributions Paid After All Fees	40.5cpu
Number of Investments	30
Average Loan Size	$5.7m
Weighted Average Portfolio Interest Rate	9.7%
Total Establishment and Arrangement Fees Paid to Investors (Gross)	$3.8m

Current Portfolio Exposure	
Fixed Income	71.1%
Equity/Warrants	13.7%
Cash	15.3%
Total	100.0%

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Portfolio Summary

2022 was a volatile year for markets and PURE's most challenging yet. Macro sentiment dominated 2022, with liquidity and recession fears driving US indices lower. The commodity-heavy ASX fared better, yet markets 'shot-first' and priced in earnings risk for most industrial sectors.

With this in mind, we raise two points to consider in determining the performance of investment markets in 2023:

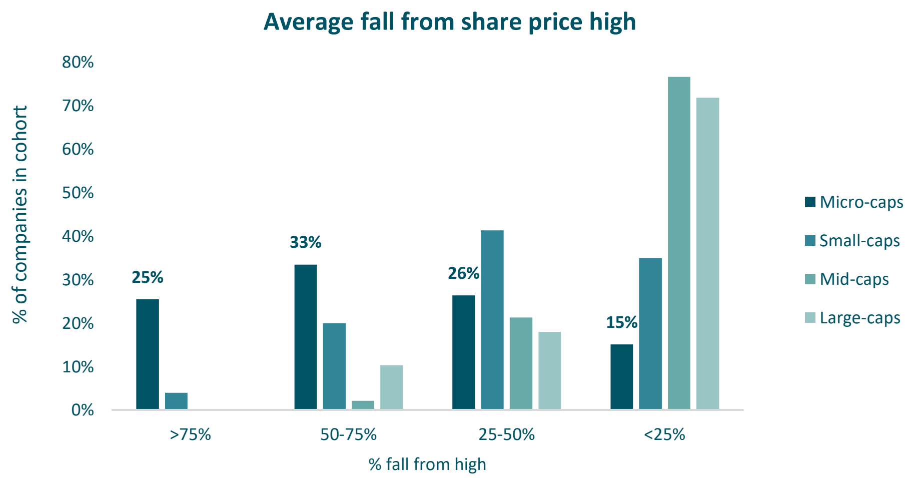
i) Central bank and macro impacts were immense in 2022.
ii) Investors have de-rated equity prices in anticipation of an earnings downgrade cycle.

Starting with point i) – The Federal Reserve raised interest rates by 4.25ppts in 2022, the largest increase since 1985. Closer to home, the RBA increased rates by 3.00ppts. Given the magnitude of these moves, equity indices digested the adjustment surprisingly well. Looking forward, it's inconceivable that this magnitude of headwind prevails in 2023.

Inflation is falling, not yet to a level that is comfortable but certainly the trends for both headline and core are encouraging. And with this news, say it quietly, but perhaps we can all worry about the Fed a little bit less than has been the case during 2022.

In terms of point ii) - It's inevitable that earnings downgrades lie ahead in 2023. The quantum of the downgrades and to what degree they have been priced in, will, in the absence of a new shock, define equity market performance. But the fact that the market is starting to look bottom-up (i.e. at companies) rather than top-down (i.e. macroeconomics) is *relatively* encouraging.

How much is priced in is a particularly pertinent point at the smaller end of the market. As can be seen below, since the October 2021 market high, companies with a market cap of below $200m (micro-caps) have been savaged, with a quarter falling over 75%.

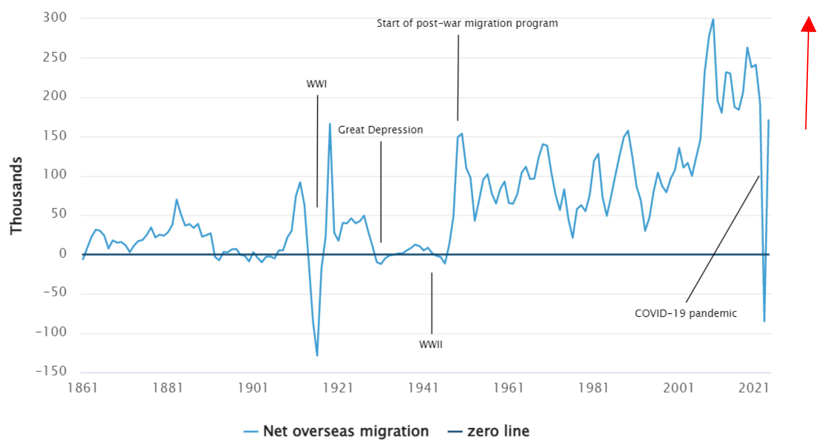


There is no doubt consumers are tightening their belts, however migration normalisation is providing Australia with an enviable tailwind. The chart immediately below illustrates the impact the COVID pandemic had on Australia as cross-border movement evaporated.

The snapback is now being felt, with the Treasury budget estimating a 2023 net migration figure of 235,000 people. Speaking recently, Abdul Rizvi, former deputy secretary of the immigration department, believes recent trends support an even higher figure:

"Treasury are assuming net migration will be 235,000 but I think it is on track for well over 300,000 this year," Rizvi said. "I've never seen anything like this in 30 years – it's out of the realm of anything we've seen before".

Graph 1.1 Net overseas migration - Australia - historical(a)(b)



The takeaways above leave us cautiously optimistic. While possible, it's unlikely central banks impact investment markets to the same degree as 2022. Earnings are no doubt under pressure, yet much of this has been priced into emerging industrial companies. Challenges clearly remain, however the addition of 300,000 migrant consumers may surprise in cushioning the earnings impact.

While disappointing to deliver a negative return in 2022, we are looking to 2023 with some exciting prospects. Below we share four areas of near-term equity return interest, noting there are additional companies we're optimistic about.

Factoring $10m in income on the average 10% interest rate currently being enjoyed across the portfolio, we can see how the return potential for the Fund in CY23 quickly builds to double digit on its asset base of c.$140m.

Thank you

Nick, Mike, Tim, Dan, Jonathan and Jean-Luc

Monthly Returns – After Fees

The Income and Growth Fund – Foundation Class													
Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Fin YTD
FY19						2.4%	-1.8%	1.2%	0.3%	-1.0%	2.5%	1.7%	5.4%
FY20	2.6%	-1.4%	2.1%	1.4%	-0.8%	3.8%	2.8%	-2.2%	-3.8%	3.8%	5.7%	0.7%	15.0%
FY21	15.9%	8.8%	-1.0%	12.2%	0.7%	2.6%	-1.0%	-1.0%	-3.5%	2.1%	0.0%	0.8%	40.9%
FY22	3.4%	-3.2%	2.3%	1.2%	-2.2%	1.0%	-0.1%	-2.3%	1.6%	0.5%	-0.5%	-1.0%	0.5%
FY23	1.3%	-1.7%	-1.6%	0.9%	-5.7%	0.1%							-6.8%

The Income and Growth Fund – Platform Class (APIR: PUA7226AU)													
Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Fin YTD
FY21	16.0%	8.9%	-0.9%	12.4%	0.7%	2.7%	-0.9%	-1.0%	-3.5%	2.1%	0.0%	0.8%	41.8%
FY22	3.4%	-3.2%	2.3%	1.2%	-2.2%	1.0%	-0.1%	-2.3%	1.6%	0.5%	-0.5%	-1.0%	0.5%
FY23	1.3%	-1.7%	-1.6%	0.9%	-5.7%	0.1%							-6.8%

Unit Price Data Download

Please click on the link below to download the updated unit price data for each unit class.

The Income and Growth Fund – unit price data to 31 December 2022