PURE ASSET MANAGEMENT

Investor Newsletter

Period to: 31 July 2022

The Income and Growth Fund

Dear Investor,

We enclose the August 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 +1.3% in July 2022.

	1 Month	3 Month	6 Month	1 Year	3 Years	Since inception
Returns (%) p.a.	+1.3%	-0.3%	-0.4%	-1.5%	+17.2%	+16.3%
St Dev (Annualised %)				5.8%	13.9%	12.8%
Sortino Ratio						3.6
Sharpe Ratio						1.0

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

Fund overview as at 31 July 2022	
Funds Under Management	$151.3m
Since Inception Annualised Return After Fees (Foundation Class, Dist. Re-Invest)	+16.3%
Foundation Class Current Unit Price	$1.3090
Total Distributions Paid After All Fees	36.8cpu
Number of Investments	25
Average Loan Size	$4.4m
Weighted Average Portfolio Interest Rate	9.7%
Total Establishment and Arrangement Fees Paid to Investors (Gross)	$2.9m

Current Portfolio Exposure	
Fixed Income	66.3%
Equity/Warrants	12.3%
Cash	21.4%
Total	100.0%

PURE online application form

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Portfolio Summary

After an extremely difficult end to FY22, it was pleasing to see markets stabilise in July. The PURE Income & Growth Fund weathered the storm well, limiting the drawdown of May/June and returning to growth in July (+1.3%).

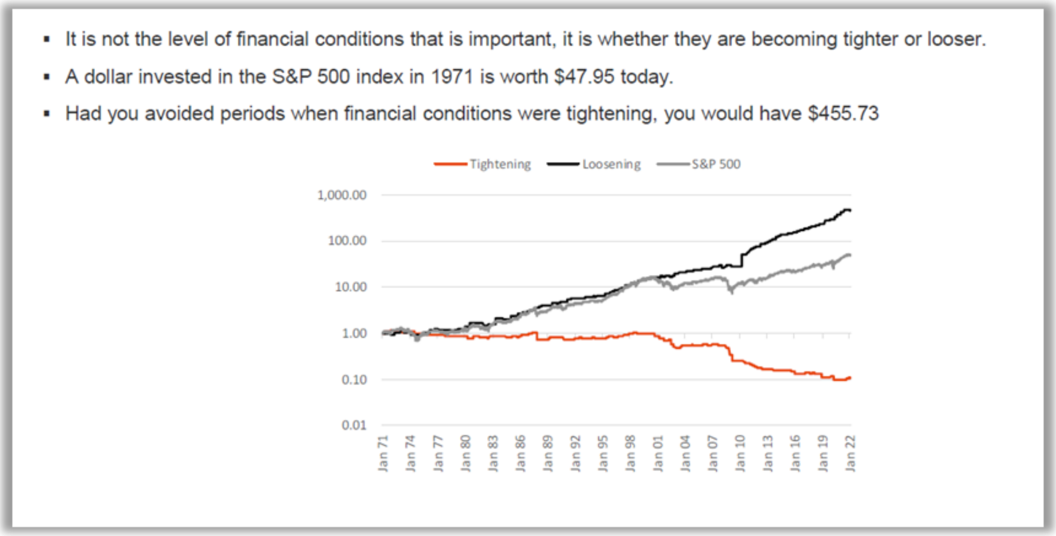
A retreat in global bond yields eased the pain for equities markets, with the culmination of tax-loss selling in Australia finally providing clear air for many small caps. We remain guarded on equity performance however, as many macro concerns are yet to be addressed.

The amazing thing about the current recessionary outlook is that it is happening while employment is peaking. This is not being caused by people exiting the labour force, as the participation rate is also above pre-COVID levels. So where have all the workers gone?

The reality is monetary and fiscal stimuli have fuelled a vast increase in the number of jobs. In essence, the economy has been running too hot and the central bankers are belatedly catching up. Their role now is to slow companies' growth so that they stop hiring as aggressively, thereby cooling the economy. Markets have rallied of late because they feel the central banks actions (and future actions) have largely been *priced in*. We are sceptical of this conclusion both because there is little evidence that they have achieved their aims, and there is a reasonable risk that they accidently slow the economy to a stall speed.

Over 2021 and early 2022 the world experienced a spike in inflation caused by supply disruption. Inflation in the price of goods is worrying, but not alarming, as it tends to be self-defeating, hence the central banks' view that it was transitory. But now, with the cost of living rising precipitously and full employment, inflation in goods is feeding into inflation in wages. This development is extremely alarming, as it is self-reinforcing.

Although, like most, we believe that we are at peak inflation, we expect inflation to remain well above the targets of most central banks. Therefore, further interest rate rises, albeit at a slower pace, are likely. This is bad for equity markets. To illustrate it, we remind investors of the chart we used in our March update from Martin Crabb (CIO – Shaw and Partners).



Moreover, if the central banks are succeeding in their ambition to slow companies' growth, nobody has told the equity analyst community, who remain bullish on the outlook for companies' earnings. The US earnings season has been surprisingly strong, with 75% of companies providing a positive EPS surprise (looking back at the year just gone).

Guidance downgrades (for the year ahead) have exceeded upgrades however, leaving the current quarter pivotal in determining the impact of inflation and interest rates on corporate earnings.

Poor markets make it harder for the fund to generate equity returns but we have a meaningful offset as elevated volatility and capital scarcity is extremely good for our negotiations and deal flow.

PURE Team

We are pleased to welcome Jonathan Kriska to the PURE Investment Team. Jonathan brings a diverse skill set, with an innate understanding of both emerging companies and Equity Capital Markets. This expands the PURE Investment Team to six, across two funds, with funds under management having grown to $230m since launch in December 2018.

Jonathan brings over 25 years of experience in financial markets across stockbroking and funds management. His experience has spanned numerous roles, including equities analysis, portfolio management and corporate advice.

Before joining PURE, Jonathan spent four years working at Charter Hall as a Portfolio Manager of several funds which invested in listed equities. Here he was also responsible for managing a $50m institutional mandate that outperformed its benchmark by 4.8% annually over three years.

https://www.afr.com/street-talk/charter-hall-pm-heads-to-boutique-manager-pure-20220814-p5b9os

Website

After much blood, sweat, tears and word-smithing, PURE is pleased to share its revamped website.

Please take a moment to let us know your experience of the site, including the fund summary and investee company videos. Feedback, as they say, is a gift.

https://www.puream.com.au

Fundraising

Market conditions have become extremely favourable to PURE's hybrid investment strategy.

When valuations have declined markedly but you're not sure if there's still more to come, exposure to convertibles can be a great way to:

1) not miss the upside should markets or an individual equity exposure begin to perform, whilst,
2) minimising your exposure to further drawdowns, and
3) getting paid to wait for the equity thesis to perform, through the coupon of the debt

Or put another way – why try and catch the proverbial falling knife when you can get paid to wait for it to hit the floor and bounce?

We believe equity-like returns can be earnt via credit instruments possessing upside optionality. As such, both PURE Funds are actively raising capital over the coming weeks to facilitate an expanding pipeline of opportunities.

We are determined to capitalise in these conditions. As such, the PURE Income and Growth Fund is actively embarking on a fundraising campaign. If you would like to invest with the PURE team, please access the online application form via the Olivia123 link below:

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The greatest compliment our investors can give is the referral of friends, family and associates. If you know of other investors who are seeking additional investment opportunities, please feel free to contact us at any time.

We thank you for your support.

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

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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%												1.3%

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%												1.3%

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 July 2022