

# Investor Newsletter

**September 2020**

Dear Investor,

We enclose the September 2020 update for the PURE Income and Growth Fund. An overview of our returns and portfolio comments are detailed below.

As always, thank you for your support.

## Foundation Class Portfolio Returns (After Fees)

The PURE Income and Growth Fund returned +8.8% in August, continuing the strong start to the FY21 year.

<b>PURE</b> ASSET MANAGEMENT	1 Month	3 Month	6 Month	1 Year	Since inception*
Returns (%)	+8.8%	+27.0%	+34.0%	+43.4%	+52.8%
St Dev (Annualised %)		21.5%	21.4%	17.4%	14.3%

After fees and assuming reinvestment of all income distributions

\*21 December 2018

## Portfolio Summary

Portfolio overview as at 31 August 2020:

Funds Under Management	\$86.1m
Since Inception Return After Fees (distribution re-invest)	+52.8%
Total Distributions Paid After All Fees	+9.2 cpu
Total Committed Capital	>\$90m
Number of Investments (plus two at Binding Term Sheet)	12
Average Loan Size	\$3.6m
Weighted Average Portfolio Interest Rate	+10.8%
Total Arrangement Fees Paid to Investors	\$0.9m

August was another strong month for the Fund, driven by excellent performance from Tesserent (TNT.ASX), Hydrix (HYD.ASX), and the initiation of a new position in Xref (XF1.ASX). Once again, these moves were based on strong operational catalysts, strengthening the case that this value creation is sustainable.

After announcing PURE's upsized \$15m facility in July, along with the acquisition of Seer, Tesserent continued its momentum in August with the acquisitions of Airloom and Ludus. These transactions are immediately earnings accretive (+\$5.8m underlying EBITDA acquired), but also importantly, strategic in the capabilities they add to the group. Tesserent has quickly become the ASX go-to for cybersecurity exposure, a thematic we see continuing over the medium-term.

Our original thematic view on cyber-security was that it would ultimately lead to legally mandated thresholds for a wider section of corporate Australia. We thought this would occur several years into the future, but with the spike in cybercrime this year, this requirement may be realised much sooner than anticipated, leading to a significant increase in demand for Tesserent's services (see the following news article).

<https://www.afr.com/politics/federal/major-expansion-of-mandatory-cyber-security-requirements-on-way-20200901-p55r7z>

On the back of a \$3m equity raise in July, Hydrix announced first supply and implant of the AngelMed Guardian device. The Guardian uses Artificial Intelligence and machine learning algorithms to continuously monitor a patient's heart signal, to warn of an acute coronary syndrome event, including silent heart attacks. Hydrix estimate that 500,000 people annually suffer from an acute coronary syndrome event in their target Asian markets, representing a significant addressable market for growth. We are eagerly monitoring progress, as this initiative has the potential to generate meaningful shareholder wealth.

The balance of the portfolio was stable throughout August, yet catalysts continue to develop within this cohort. We remain excited by the growth opportunities which may present themselves over the coming months.

Equity investors received the announcement of the Fund's new investment in Xref (XF1.AX) positively, with XF1's share price improving 20% on removal of the Company's cum-raise appearance with our funding piece, and the publication of positive operational news.

## Distribution

The Fund will pay the next quarterly distribution in October. Based on realised gains within the portfolio, we estimate this to be far larger than previous distributions. Acknowledging the recent introduction of new investors into the Fund, many of you may be interested in re-investing these proceeds given the recent nature of your commitments. If you would like to amend your distribution preference to 're-invest', please contact a member of the PURE team for a Change of Details form, or alternatively alter your preference via the Olivia123 Platform if your original application was processed through this platform.

<https://www.olivia123.com/>

## Deal Flow

In late August, Oliver's Real Food (OLI) and Founders First (FFL) announced new PURE funding facilities to the ASX. Despite both companies having exciting growth prospects, they are frustrated by their cost of equity, and are under-researched by the professional investment community. Documentation is currently being finalised with both borrowers, and we will revert with further information on our theses after completion.

The current environment continues to provide a fertile operating environment for the Fund. Many companies have significant growth opportunities yet are reticent to access equity markets given the dilutive nature of this funding source. The team continues to progress multiple opportunities, many of which would not have been available to us 6-12 months ago.

## Capital Raise

We are pleased to report that between funds received and current commitments, we have raised more than the targeted \$30m in new subscriptions we were targeting to fund our deal pipeline. We remain open to additional capital, as new opportunities continue to present themselves, but we have now completed the concerted effort to raise further funds.

## Outlook

The last couple of months have been extraordinary and well in excess of the consistent 15% per annum return the Fund targets. We are actively managing the portfolio to lock in some of these gains, to recycle the proceeds into cash for distributions and new loan investments. As a consequence, we remain optimistic about our ability to achieve our targeted return into the future, however, we would caution investors that the CAGR of +27% achieved to date, is a better performance than investors should come to expect.

The economic outlook remains concerning, but at the corporate level, many companies seem to have adjusted to this *new normal* and are finding ways to protect themselves and grow. The market continues to present a target-rich environment, and we are fielding multiple inbound enquires for capital each week.

Stay safe.

Nick, Mike and Tim

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