PURE
ASSET MANAGEMENT

Investor Newsletter

March 2020

Dear Investor,

We have pleasure in providing you with the PURE Income and Growth Fund March 2020 update. An overview of our returns and portfolio comments are detailed below. As always, thank you for your support, and Godspeed on the great loo paper hunt.

Portfolio Returns

The PURE Income and Growth Fund returned -2.18% in February, with the bulk of the decline attributable to a previously at-the-money warrant position coming under pressure in the broad end-of-month sell-off. We detail below how the monthly warrant mark-to-market can impact the NAV, and why it will be difficult for this months' negative movement to be replicated next month.

	1 Month	3 Month	6 Month	1 Year	Since inception
Returns (%)	-2.2%	4.3%	7.0%	12.0%	14.0%
St Dev (Annualised %)		9.0%	7.1%	6.4%	6.4%

After fees and assuming reinvestment of all income distributions

Portfolio Summary

Portfolio overview as at 29 February 2019:

Funds Under Management	$33.5m
Since Inception Return After Fees (distribution re-invest)	+14.0%
Total Distributions Paid After All Fees	+7.0 cpu
Total Committed Capital	>$50m
Number of Investments (+month movement)	11 (+1)
Average Loan Size	$3.0m
Weighted Average Portfolio Interest Rate	+10.7%
Total Arrangement Fees Paid to Investors	$0.7m

PURE added one new position to the portfolio during February, detailed below, and submitted one additional term sheet for consideration to a >$50m microcap.

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Anatomy of a One-Month NAV Decline

PURE's Income & Growth Fund is designed to deliver positive absolute annual returns in good and bad markets.

We aim to achieve this through a predominantly credit-based NAV, with returns augmented by equity warrants derived from the origination of a transaction.

Each month when it comes to valuing the portfolio, accounting standards require us to mark-to-market the value of the warrants in the NAV. This is an objective process; the method of valuation is Black & Scholes, and the inputs are:

i. The trailing 12-month volatility for the stock
ii. The month-end risk free rate (10-year Australian Government Bond)
iii. The month-end share price of the underlying security

If the underlying share price over which we hold a warrant rises, and all else remains equal, the mark-to-market on the warrant value will increase. Conversely, if the underlying share price declines, the mark-to-market on the warrant value will decline, but as the warrant value diminishes its impact on the value of the fund diminished rapidly too.

Two things should be acknowledged about the warrants. Firstly, due to the conservative accounting treatment, for all intents and purposes their value is written-off on issue, and therefore at issue they represent only up-side. At this point the value of the loans in the funds have a larger theoretical discount applied than the value attributed to the warrants.

Secondly, the warrants are long-dated, and retain significant optionality even if their value is temporarily depressed.

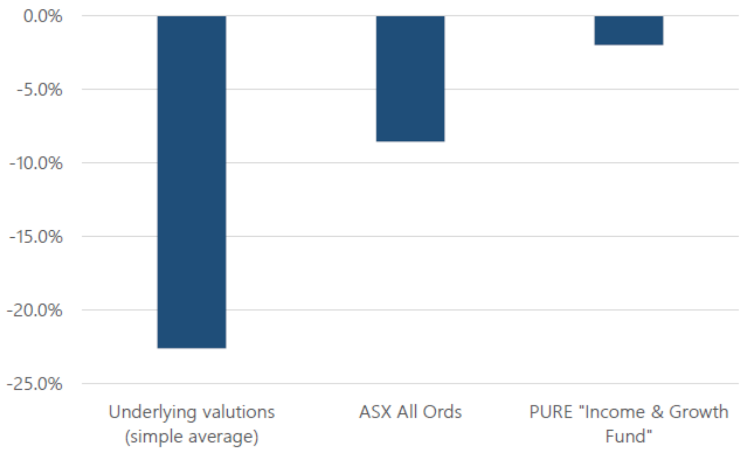
Here's the portfolio NAV breakdown from the end of January to the end of February*:

NAV Components (A$M)	31-Jan	% of NAV	29-Feb	% of NAV	% chg.
Value of Fixed Interest	26.7m	77.8%	26.9m	80.3%	+0.7%
Value of Warrants	4.3m	12.5%	3.2m	9.4%	-25.6%
Value of Equities	1.0m	2.9%	0.3m	1.1%	-70.0%
Cash at Bank	2.3m	6.7%	3.1m	9.3%	+34.8%

*Excludes new portfolio addition FiscalNote

As you can see, both the value and NAV share of the credit has increased, while the value and NAV share of the warrants has declined, reflecting the broader market movement.

Here's the actual share price movements underpinning the warrant values from 31 January 2020 to 29 February 2020:



Almost without exception share prices declined markedly during February and our portfolio companies were no different. However, despite a material negative decline across the board our predominantly credit NAV only declined 2.2%.

After February's correction, the total warrant value as a proportion of NAV is now 9.4% as seen in the table above. If the underlying securities were to fall by the same amount in March, all things being equal, the NAV would fall by a lesser amount than that experienced in February.

Such a fall could happen, but for the several of the positions, the value on the table is already arguably hard to ignore. Moreover, from a credit perspective, since we funded our portfolio companies, 40% have subsequently raised equity capital and two others are in the process of doing so.

Prior to the sell-off we sold the majority of our position in Whispir following an uninspiring result's update and some additional work we undertook to better understand the company's internal culture. We originally acquired the position as a pre-IPO convertible note and although we have locked in a profit that meets our targeted return it was an underwhelming outcome.

We have also reduced our modest position in the Nufarm Step-up Securities, we continue to see value but considering the market conditions decided to lock in the profit and retain the cash. We hope to re-acquire the position at lower levels.

At the time of writing the Fund is sitting on a ~$4.5m cash balance, providing resources to respond to market conditions as required.

Kind regards,

Nick, Mike and Tim