PURE Income and Growth Fund

Foundation Class Portfolio Returns (After Fees)

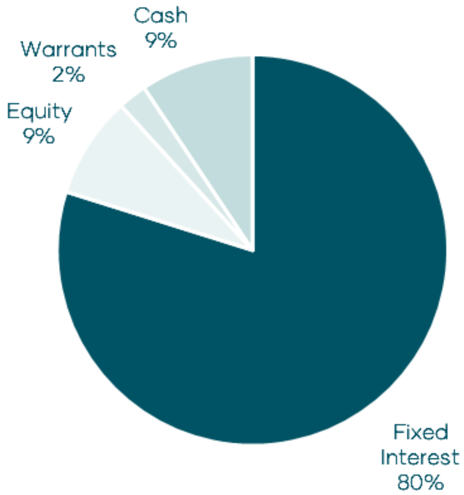
	1 month %	3 Months %	6 Months %	1 Year %	3 Years % p.a.	Since inception* % p.a.
PURE Income and Growth Fund	+0.3%	+0.6%	-5.8%	-5.7%	+12.2%	+11.8%
Standard Deviation (Annualised %)				6.5%	14.3%	12.5%
Sortino Ratio						1.7
Sharpe Ratio						0.6

* *Fund inception 21 December 2018*

Fund Overview

Fund Size	$131.2m
Foundation Class Unit Price	$1.1749
Number of Investments	25
Average Loan Size	$5.6m
Weighted Average Interest Rate	9.8%
Arrangement Fees Paid to Investors	$3.8m
Trailing Fund Yield (12m)	7.4%

Portfolio Asset Allocation



PURE online application form

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Monthly Commentary

The Fund achieved a small positive performance in the month, despite a fall in the indices that had a negative impact on the Fund, but this was more than offset by income and royalties.

The Fund's exposure to equities and warrants is now just 10.8% of FUM, of which just 5.4% is listed companies, so the potential headwind from any further falls in the indices is now very modest. The unlisted equity exposure is Ordermentum which continues to go from strength to strength and is now the leading player in its niche. Our carrying value is static, having been based on an equity raising conducted in 2H2022.

Reporting season has come and gone and the highlights were: revenue growth remains solid, with volume a bit weaker and prices a bit higher; lower margins from increased input costs of raw materials, wages and borrowings.

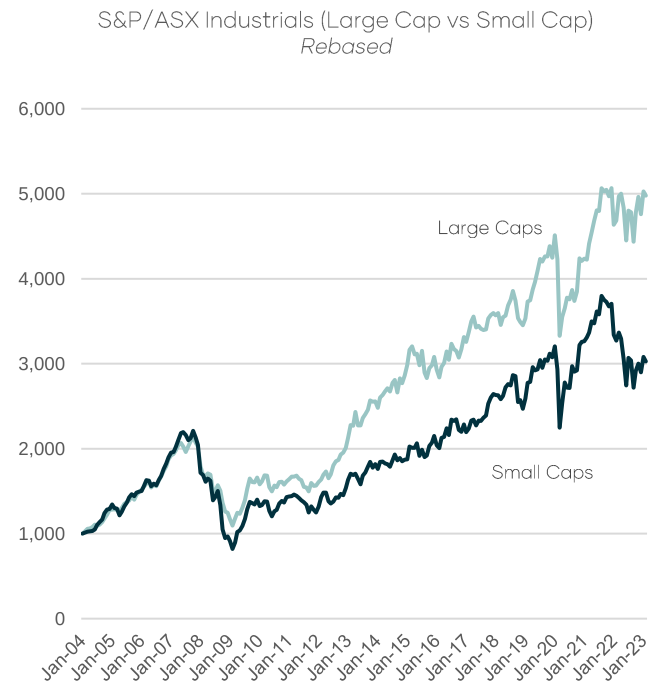
The market is forward looking, however, and although giving up some gains after a strong rally in January, the news from reporting season was already in the price.

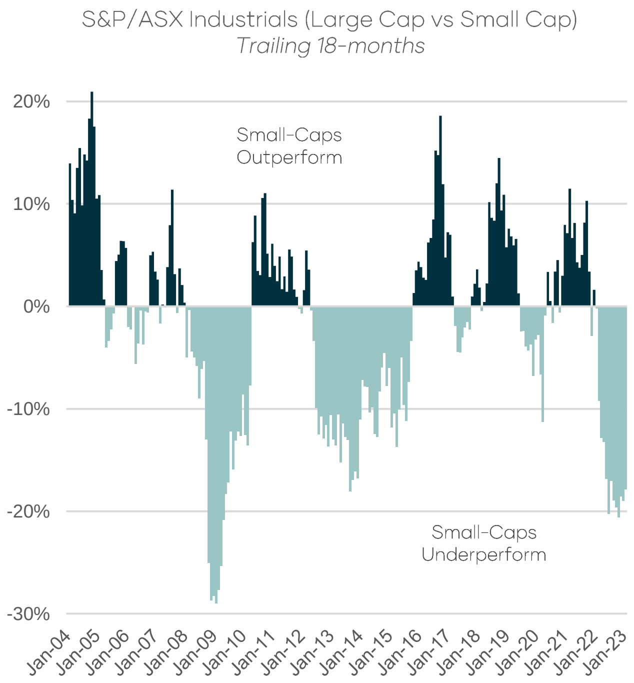
Since month end Silicon Valley Bank has collapsed. Our Fund nor any of our companies has any material exposure, and the US Treasury via the Federal Deposit Insurance Corporation (FDIC) has guaranteed all deposits.

Small-Caps vs Large-caps

The sell-off in Small-Cap Industrials began in November 2021, and since then the index has underperformed its large brethren (S&P ASX 100 Industrials) by 20%.

This is the largest 18-month underperformance since the GFC. Overall market risk remains, but based on historical data, in a relative sense, the fall in small-caps due to changed investor perception of risk is already *priced-in.*





The chart on the left suggests that irrespective of the relative performance, investors have had a good 14 year run, and stocks are vulnerable to a sell off. This may be true, we don't want to speculate on macro movements, but what we show in the tables below is the performance of the indices including income reinvested.

Small caps have underperformed meaningfully over the last 19 years, with a rally of 203%, versus 398% for large caps over the same period. This sounds like a lot, but it's just 6.0% and 8.8%. per annum respectively *(left hand chart).*

What is both disturbing and arguably reassuring, is that despite what today many perceive as the end of the great bull-run in equities, this has been largely a bull run in large-caps, with the industrial small cap index now up just 37% since the pre-GFC high 15 years ago, delivering just 2.1% compound growth to investors *(right hand table).*

Start of Chart Period from	Large Cap Jan-04	Small Cap Jan-04
Years	19	19
% change	398%	203%
CAGR	8.8%	6.0%

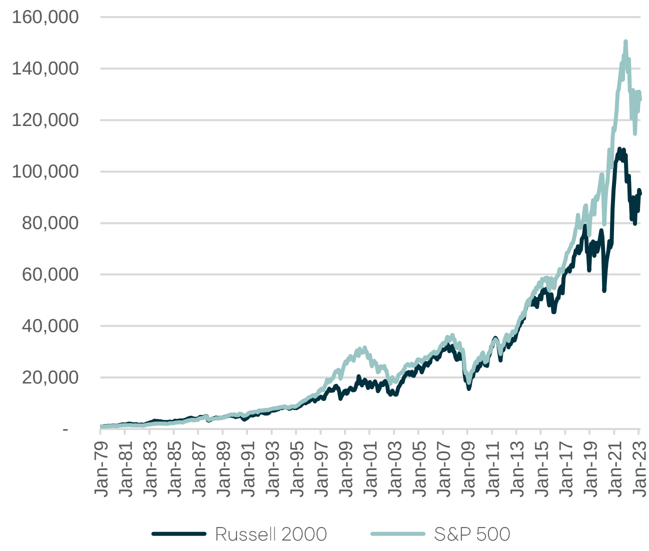
Pre-GFC high Period from	Large Cap Oct-07	Small Cap Oct-07
Years	15	15
% change	133%	37%
CAGR	5.6%	2.1%

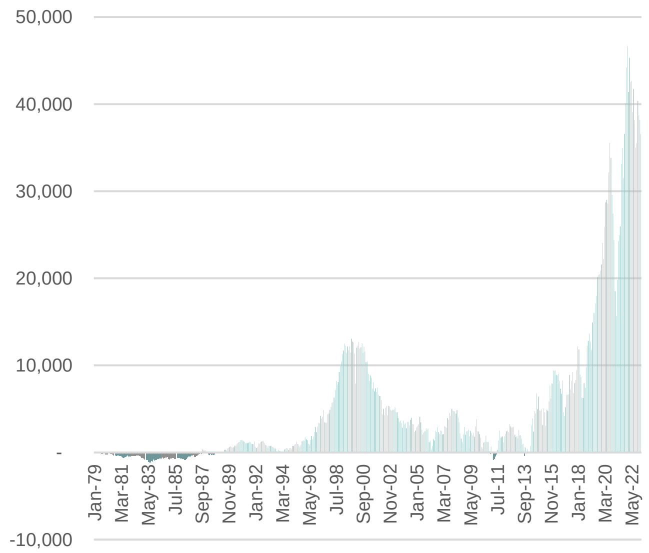
This a very poor return from small-caps and in our view underpins the value of our model, in that over the cycle we should be able to compound significantly higher annual returns through interest payments, royalties, and equity performance.

It does beg the question though, given the data, are Small Caps worth investing in at all? To answer this, we have looked at the US indices, where much longer-term data is available. We have compared the Russell 2000, which is the smallest 2,000 companies, versus the S&P 500, which tracks the largest 500.

Over the long run (44 years) the Russell has delivered a 10.8% CAGR, versus the S&P 500 which has delivered 11.6%.

What is extraordinary is that until 10-12 years ago they had both delivered more or less the same return.





So what has happened in the last 12 years that has caused such outperformance? We would suggest a confluence of several factors:

1. **The rise of big tech:** Tech companies have enjoyed incredible earnings growth, with exceptionally high valuation multiples being applied to these earnings. The present-day scale of tech companies has materially lifted broader equity indices. For context, we show the 10 largest companies in the world, and the underlying domination of technology.

Rank	Name	Market Cap (US$T)	Country
1	Apple	$2.41	United States
2	Microsoft	$1.94	United States
3	Saudi Aramco	$1.91	Saudi Arabia
4	Alphabet (Google)	$1.20	United States
5	Amazon	$0.97	United States
6	Berkshire Hathaway	$0.67	United States
7	NVIDIA	$0.60	United States
8	Tesla	$0.58	United States
9	Meta Platforms (Facebook)	$0.50	United States
10	TSMC	$0.46	Taiwan

2. **Low interest rates:** Central banks around the world have kept interest rates at historically low levels since the financial crisis of 2008-2009. This has made it easier for large companies to access capital and has made their dividend payments more attractive to investors. Smaller companies tend to have lower borrowings and fewer pay dividends.

3. **Globalisation:** Large companies have benefited from the trend of globalisation, as they have been able to expand their operations into new markets and take advantage of lower labour costs in emerging economies.

4. **Regulatory environment:** The regulatory environment has been favourable for large companies in recent years, as governments have been more willing to loosen regulations and reduce taxes.

5. **The rise of passive ETFs:** Exchange Traded Funds, index trackers, are largely a big-cap investment tool as they need liquidity to rebalance. The proportion of the total market in ETFs is harder to calculate than you might think, due to internalised index tracking strategies. But on either headline numbers or shadow numbers, the ownership of the market by ETF has doubled over the last 12 years and this buying is likely to have incrementally benefited large-caps over small-caps.

   Source: https://www.ft.com/content/73a6527d-cd59-498e-9923-af5143cbb952.

To some degree these trends are now unwinding, or at least have peaked and are now priced in. In our view, the outperformance of large caps over small-caps has played out, and we would expect relative outperformance by small-cap companies in the years ahead.

If you believe in reversion to the mean, as the US data suggests you should, over the next 15 years small caps will need to compound at 12.7%, versus 8.8% for large caps, to catch-up.

But what about the failure of Silicon Valley Bank?

Does it mean that small companies are a bad investment at this point in the cycle? Well, not necessarily. We have noticed a misconception spreading this week that Silicon Valley Bank failed because of its exposure to smaller, earlier stage companies succumbing to the pressure of rising interest rates and input cost inflation. This is not, however, the reason Silicon Valley Bank failed.

The bank failed because the bulk of its assets were long duration (average just over six years), fixed rate Treasuries (and similar), which have aggressively declined in value as interest rates have increased over the past 12 months. At the same time, the vast majority of the bank's depositors held their money at call. As tech companies have increasingly accessed their cash over the last 12 months to fund trading – in part, to deal with rising input costs – Silicon Valley Bank has been forced to crystalise material carrying value write-downs on its bond investments, necessitating additional funding to cover withdrawals.

This funding requirement, once publicised, started a run-on depositor funds, necessitating the need for further bond realisation and loss crystallisation… and the rest is now history. While there may be other cases among the regional banks, major banks will largely hedge out duration and interest rate risk to protect against such an outcome, ultimately safeguarding the broader financial system.

By corollary during the GFC, PURE's investible universe for the PURE Income & Growth Fund ($20-200m market capitalisation Industrials companies) saw a total of 12 out of approximately 400 companies go into administration. More than that were acquired. It's worth remembering that these smaller companies underwent significant restructuring through 2020-2022 to become leaner, more profitable, and more nimble enterprises.

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%	0.2%	0.3%					-6.3%

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%	-1.7%	-1.6%	0.9%	-5.7%	0.1%	0.3%	0.3%					-6.3%

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 28 February 2023