

## PURE Income and Growth Fund

FundMonitors.com  
Trusted Targeted Research



Approved

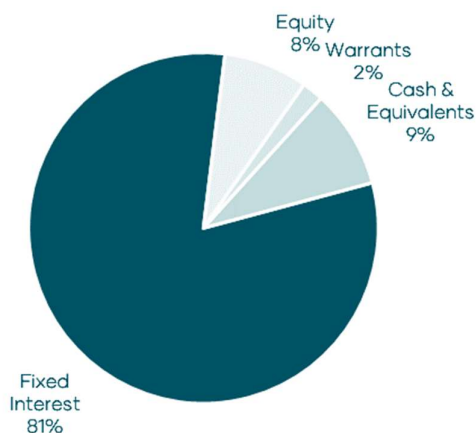


### Foundation Class Portfolio Returns (After Fees)

	1 month %	3 Months %	6 Months %	1 Year %	3 Years % p.a.	Since inception* % p.a.
PURE Income and Growth Fund	+0.2%	+0.7%	-4.1%	-7.0%	+13.7%	+11.7%
Standard Deviation (Annualised %)				6.2%	14.0%	12.4%
Sortino Ratio						1.8
Sharpe Ratio						0.7

\* Fund inception 21 December 2018

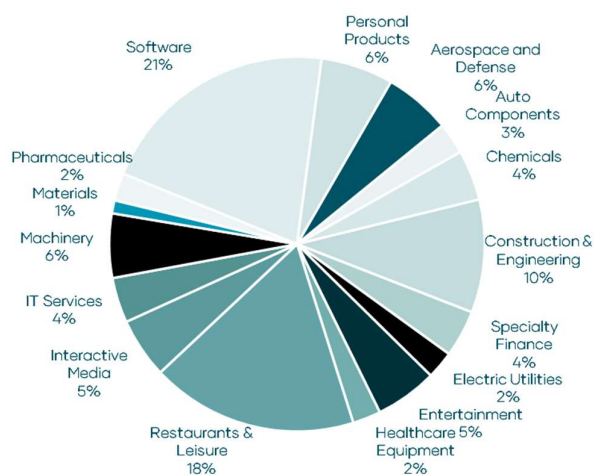
### Asset Allocation



### Fund Overview

Fund Size	\$130.7m
Foundation Class Unit Price (Ex-Dist)	\$1.1573
Number of Investments	25
Average Loan Size	\$5.4m
Weighted Average Interest Rate	9.8%
Arrangement Fees Paid to Investors	\$3.8m
Trailing Fund Yield (12m)	7.2%

### Sector Allocation



### Monthly Commentary

The Fund achieved +0.2% in the month of March, and declared a 2.0cpu distribution (Foundation Class), which brings total distributions paid for the first three quarters of FY23 to 5.7cpu.

It was pleasing to see continued positive momentum as the Income and Growth Fund logged its fourth consecutive positive month. The current climate is akin to a game of wet weather football – not pretty, but you take the little wins and gain territory where you can.

More broadly, equity markets exhibited a tail of two halves through March, as initial concerns of a mooted US banking crisis spreading to Europe moderated with UBS's expeditious purchase of Credit Suisse, larger US banks stepping in to stabilise the liquidity of smaller, regional banks, and investors getting to grips with the nuances of Silicon Valley Bank's solvency issues versus those of Credit Suisse.

Exiting the month, the RBA paused increasing interest rates for the first time in 11 consecutive

months as inflation slowed, and US treasury yields declined as cracks in the US growth story began to emerge, raising the prospect of maybe one more interest rate increase, and a possible recession.

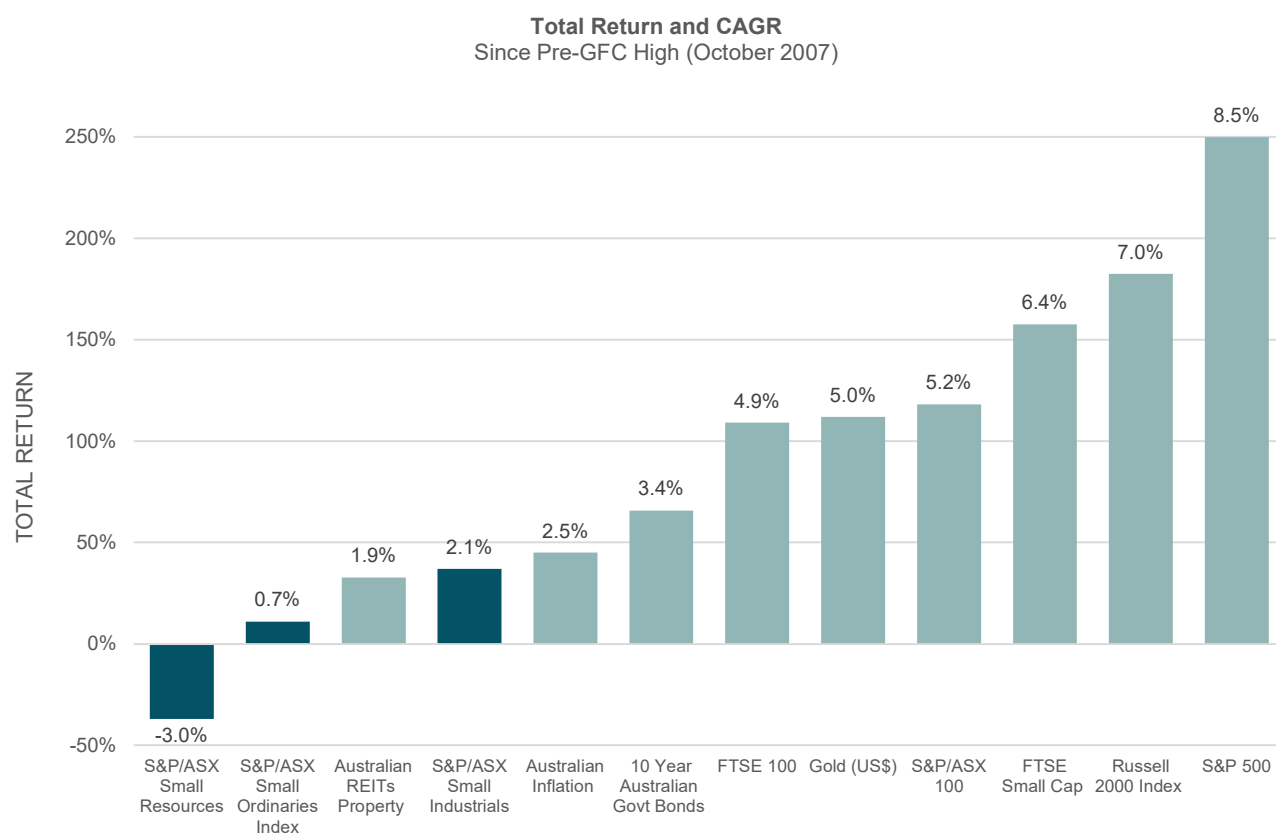
Looking forward, the Fund now has no individual warrant or equity positions that can meaningfully detract from monthly performance. Further, during March the Fund struck its third royalty deal and, combined with existing interest income, now expects c.\$1m of interest income to accrue each month. This will underpin c.+70bp of positive performance per month, before adjustments for capital gains or losses.

### Small-Caps vs Large-caps

As discussed in last month's newsletter, the underperformance of small- and micro-capitalisation companies relative to their larger cap cousins which has been the most acute since the GFC.

We revisit the theme of small versus large this month as on further reviewing the data we want to share some extraordinary findings. Before that though, we want to reiterate that over the long-run (using US data) both smaller companies and larger companies have delivered very similar outcomes.

In the chart below we have compared Australian small-caps versus a variety of compounding data. The starting date for the comparison is just before the GFC sell-off.

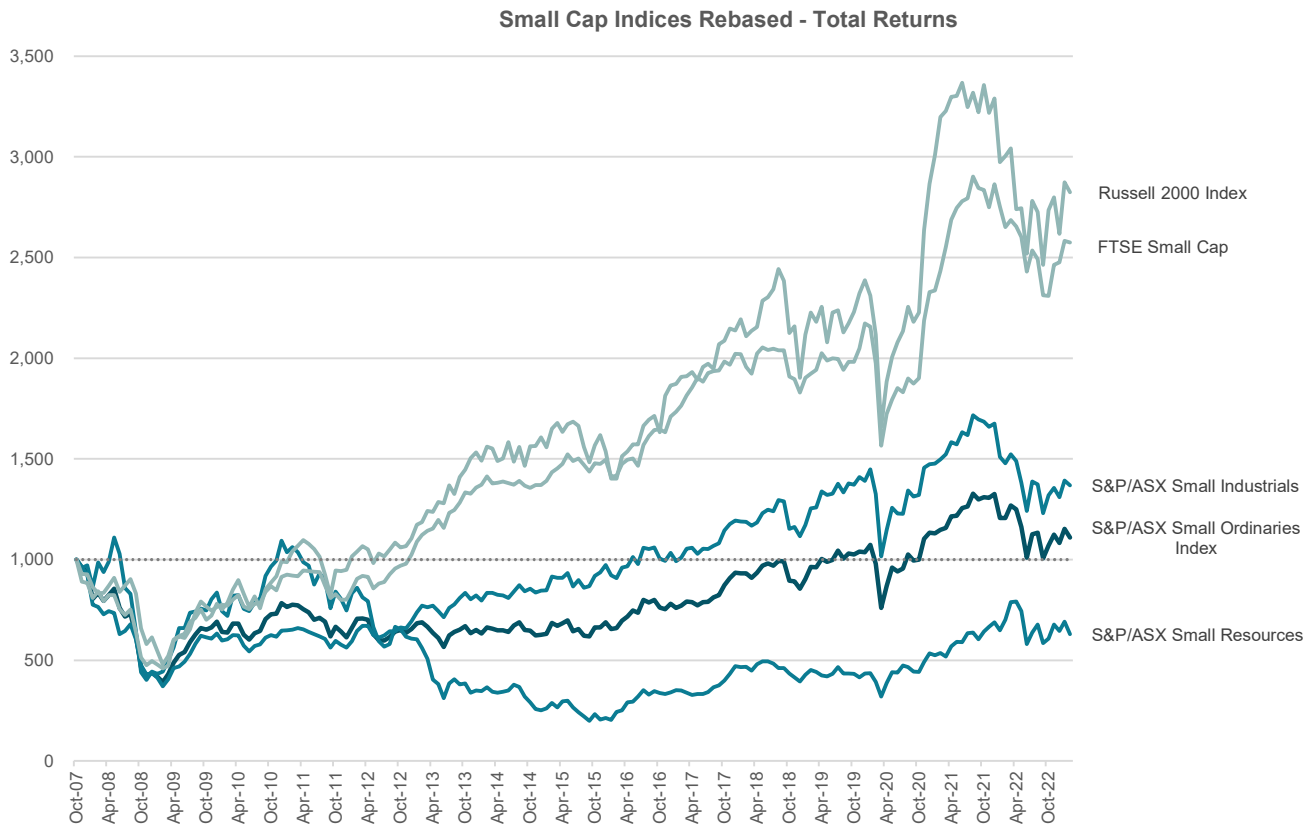


Over the last 15 years the ASX Small Ords has delivered a return of just 11% (income reinvested). This is a CAGR of just 0.7% per annum, well below inflation.

The Small Ords has been dragged down by the dire performance of Small Resources which has recorded a negative 37% return. The ASX Small Industrials, however, has only delivered investors a positive return of 37%. Over 15 years that is just 2.1% per annum, again below inflation.

Investors that could have invested in just about anything and done better. You would, however, in our view be mistaken to think that it is the nature of risk in small-caps, and therefore normal.

This is not normal. In the decades prior to the GFC Small and Large Australian companies delivered similar returns. Moreover looking at Australian smaller companies versus both the UK and US small-cap indices the underperformance is stark, With the US and UK indices having delivered 158% and 182% returns respectively:



### So what conclusions can be drawn from this?

It would be easy to conclude that small-caps underperform because of comparative risk, but this is not supported by overseas experience, nor the long run Australian experience.

We believe there are several hypotheses that we think are worth considering.

- Firstly that Australian small-caps are undervalued and that over the next decade they are likely to outperform their larger peers.
- Secondly, that there is a structural issue in the Australian small cap market.

These two suppositions seem contradictory, but in our view the structural issue undermines the likely level of outperformance, rather than negate it.

### What is the structural issue?

Liquidity and access to capital. Australian small companies are much smaller than the constituents of the UK and US indices. The turnover in their shares is lower and consequently their access to capital is more challenged.

This problem is amplified by – in our experience – the fact that company management teams generally raise capital later than they should and consequently suffer worse outcomes than if they were more pre-emptive in managing their capital requirements.

The consequence of this acute dilution is that the faster growth and operational performance exhibited by smaller companies, does not translate as much as it should into share price performance.

### What does this mean for PURE?

Arguably we are only seeing things through the lens of our own assumptions, but in our view, this underscores the significant opportunity for our hybrid product for the following reasons:

- If companies are consistently raising capital when their share prices do not reflect their operational performance, it is an advantage to the new investor at the expense of the existing investor. Therefore, as a provider of new capital, we are the beneficiary of this vulnerability.
- When we invest in companies, we take an active role in helping them manage their relationship with the stock market and have covenants that can ensure they raise capital more pre-emptively than is typical.
- We have a reset price mechanism in our warrants, such that if the company does need to raise capital below our warrant strike price, we are reset lower to ensure we are compensated for the additional dilution.
- Excluding any credit losses, the Fund generates income of between 9-15% per annum on each investment, so we are not depending on the share price performance to make a return and as mentioned, in aggregate the Fund is now producing \$1.0 million per month in gross income.

### Thank you

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



### PURE online application form

POWERED BY  
**OLIVIA**123

## 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%	0.2%				-6.1%

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%	0.2%				-6.1%

## 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 March 2023](#)

### Disclaimer

The information contained in this document is produced by PURE Asset Management Pty Ltd ("PURE") in good faith, but does not constitute any representation or offer by PURE. It is subject to change without notice and is not complete or definitive. PURE does not accept any responsibility, and disclaims any liability whatsoever for loss caused to any party by reliance on the information in this presentation. Please note that past performance is not a guarantee of future performance. PURE is in the business of issuing managed investment schemes. A product disclosure statement or information memorandum for the managed investment schemes referred to in this presentation can be obtained at [www.puream.com.au](http://www.puream.com.au) or by contacting PURE. You should consider the product disclosure statement before making a decision to acquire or continue to hold an interest in the managed investment schemes. This advice is general in nature and does not consider your individual objectives, needs or financial situation. You should consider your individual circumstances before making a decision about any of the financial products discussed in this document.

### Confidential Information

The information in this document is confidential and may be privileged or subject to copyright. It is intended for the exclusive use of the addressee(s). If you are not an addressee, please do not copy, distribute or otherwise act on the document, except as otherwise required to inform PURE Asset Management. If you have received the document in error, please contact the sender immediately and delete the document. The unauthorised use of this document may result in liability for breach of confidentiality, privilege or copyright. Subject to applicable regulations and laws under the Corporations Act 2001.