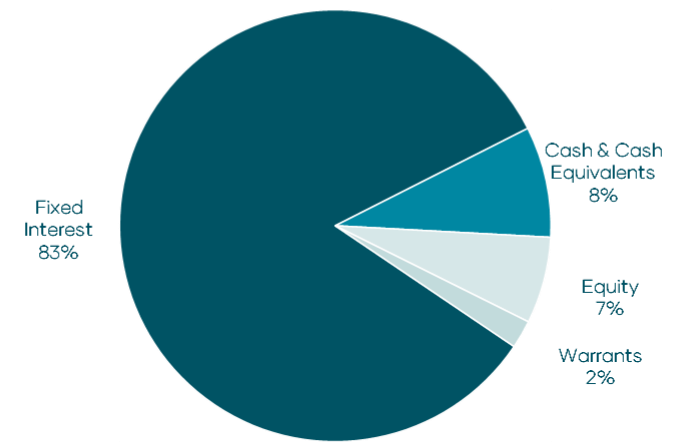
PURE Income and Growth Fund

Foundation Class Portfolio Returns (After Fees)

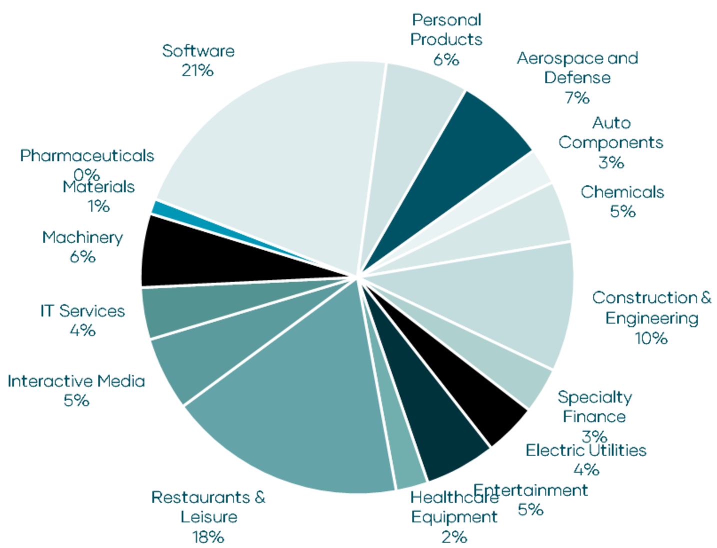
	1 month %	3 Months %	6 Months %	1 Year %	3 Years % p.a.	Since inception* % p.a.
PURE Income and Growth Fund	+0.3%	+0.8%	+1.5%	-5.3%	+10.3%	+11.2%
Standard Deviation (Annualised %)				6.2%	13.7%	12.1%
Sortino Ratio						1.6
Sharpe Ratio						0.6

** Fund inception 21 December 2018*

Portfolio Asset Allocation



Fixed Interest Sector Allocation



Fund Overview

Fund Size (Cum Dist.)	$126.4m
Foundation Class Unit Price (Cum Dist.)	$1.1667
Number of Investments	23
Average Loan Size	$5.0m
Weighted Average Interest Rate	9.6%
Arrangement Fees Paid to Investors	$4.0m
Trailing Fund Yield (12m) Est.	~7.0%

Monthly Commentary

The Fund was up 0.3% for the month, below target, but the seventh consecutive positive month. The S&P/ASX Small Industrial Index was flat. The Fund enjoyed several catalysts that underpinned positive performance offsetting the impact of the microcap tax loss selling in June and the final mark-to-market of Ellume, which is now carried at zero. Ex-Ellume, performance was +2.5%.

It's not much more than sense, but it does feel like sentiment towards small-caps is improving. This is the first time we could have made even this equivocal statement for more than a year. In the US, the Russell 2000 Index (representing the smallest US companies) is up 13% over the last eight weeks. Locally, our comparable index has been *range trading* for nine months, but we are starting to see instances of positive news lifting share prices, which is something that has been absent.

PURE online application form

POWERED BY OLIVIA123

In a further sign of the green shoots, brokers are starting to talk about IPOs again. On average there have been 140 IPOs per annum on the ASX, there have been just 17 so far in 2023, but 10 more have been announced. M&A Activity is increasing - in resources the value of deals this year is more than in 2021 and 2022 combined.

Although PURE is largely a credit Fund, these things matter as we also play equity upside. Our listed warrant book is carried at less than $1m, versus a theoretical Black & Scholes valuation of ~$4.5m. This excludes additional option value from unlisted investments, most of which we are currently carrying at zero.

Over the last two years we have negotiated significant warrant packages, or enjoyed price resets close to the prevailing share prices. Consequently, if there is a rally in small caps, the Fund should be able to realise significant profits.

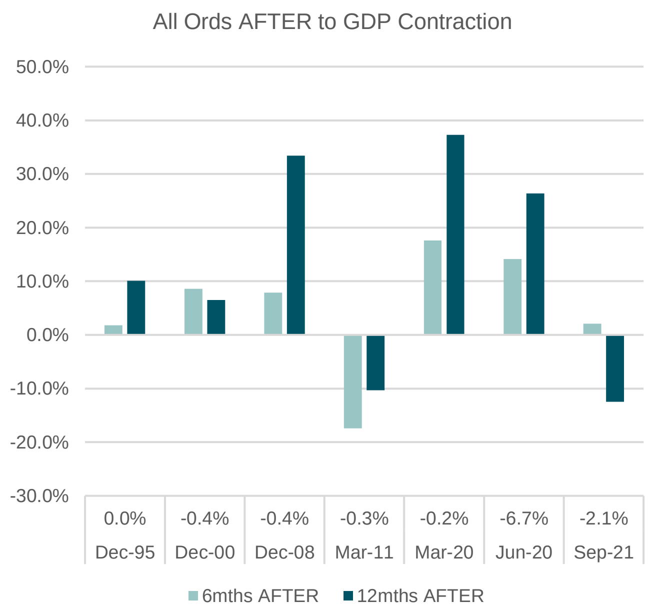
Who's afraid of a recession?

"The only function of economic forecasting is to make astrology look respectable."

- John Galbraith economist

Howard Marks, the co-founder of Oaktree Capital Management, recently wrote a letter to investors about the futility of macro forecasting, concluding that due to the vast array of corollary inputs, it was impossible. He argued that the exercise of macro modelling is not pointless, but its infallibility is illusory, and we need to stop assuming it has predictive value for the stock market.

With macroeconomics news still dominating the conversation, the key concern we hear from our investors is: what happens to the Fund if there is a recession?



The stock market is largely unaffected by the GDP contraction, or at least, typically it is priced-in well before it happens.

Let's look at the data. Remarkedly Australia has only experienced seven quarters of negative GDP growth since 1995 (28 years).

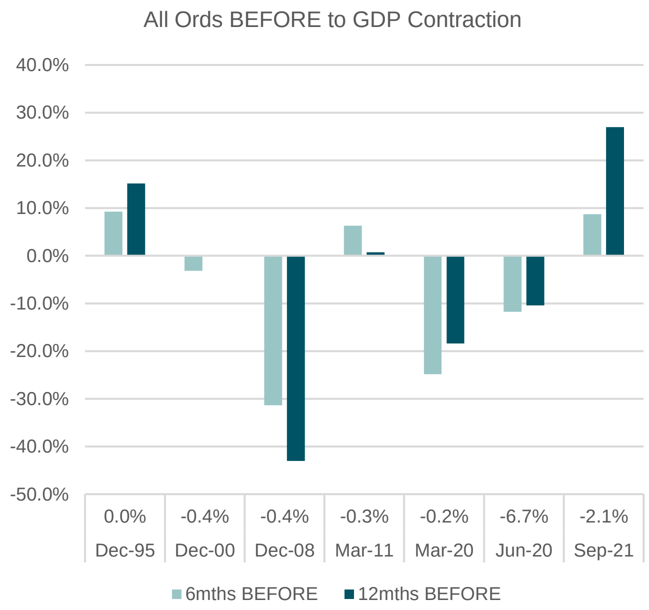
But, if we are to suffer another one, what can we expect the impact on the stock market to be, if we use history as a guide?

As the chart on the right shows, in most previous instances, it was uncorrelated. On average the market was up +5% in the 6 months after a contraction, and +13% in the following 12 months.

How can this be, surely companies' earnings are deteriorating and the valuation multiple applied to future earnings trimmed, to reflect the worsening economic outlook?

Yes, and yes; but the stock market is the aggregate view of all participants. When contractions occur, they have largely already factored into stock prices, because those participants have anticipated this outcome based on the news they have been hearing for months.

This is illustrated by looking at the stock market performance in the period before the period of negative growth. As we can see (right), on average, the market fell by 7% in the 6 months prior to economic contraction and by 4% in the 12 months prior.



This is not to say the underlying companies in the Fund will not be impacted by economic downturn but, if a contraction should occur, based on history, it is unlikely to impact share prices.

Over the last three years, smaller companies have suffered from Covid induced labour issues, supply chains freezing up, lockdowns, rampant inflation, a deterioration in trading terms with suppliers, soaring energy input costs, an unprecedented cadence of interest rate rises and a collapse in equity market support.

These factors are either historical, or dissipating, and in our view, an economic slowdown will still be, by comparison, an improvement on the environment they have navigated over the last three years.

The narrative is a lagging indicator.

Investor sentiment is readily captured by the stock market trend (both up and down), not least of all because the financial press corroborates and exacerbates the mood.

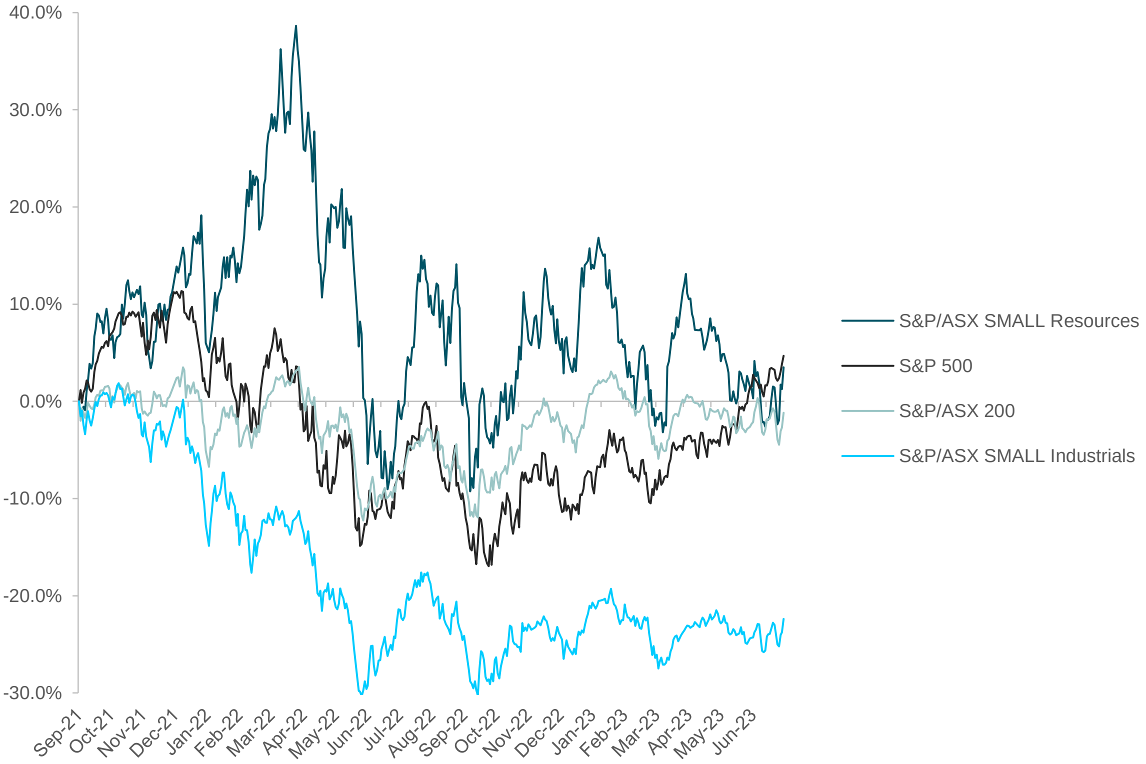
Below is a selection of headlines as the stock market bottomed during the GFC.

- *January 2, 2009: "Capitalism in crisis: Is the free-market model still viable?" - Financial Times*
- *March 9, 2009: "Stocks plunge as financial crisis deepens; analysts fear prolonged recession" - Reuters*
- *January 20, 2009: "Bank of America gets $20 billion bailout; analysts sceptical about economic outlook" – CNBC*
- *December 20, 2008: "Jobless rate soars to 6.7% as economic outlook darkens" – Reuters*
- *December 4, 2008: "Is this the end of capitalism as we know it?" - The Guardian*
- *March 6, 2009: "The collapse of capitalism: Can it be saved?" – Bloomberg*

In the ensuing months economic growth recovered and the stock market rallied, subsequently rising +150% over the next decade. What is the lesson? The narrative is a lagging indicator, not a predictive one.

The mood in smaller industrial companies is profoundly, and almost universally, negative. Share prices have been smashed and stock trading volumes decimated. It's easy to believe that this will continue (and it might) but with the S&P/ASX Small Industrials is down 26% since September 2021, the market has already priced-in a lot of negative news.

Spot the outlier



We don't know what the future holds, and we are sceptical of anyone that claims to know, but after 15 years of underperforming large caps and after the second longest draw down in 20 years, there is a risk that investors have become morbidly fascinated with the bad news and have started to assume that because things have been bad, they always will be. History suggests otherwise.

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%	0.2%	0.1%	0.4%	0.3%	-5.3%

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%	0.2%	0.1%	0.5%	0.3%	-5.3%

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 30 June 2023