

PURE Income and Growth Fund

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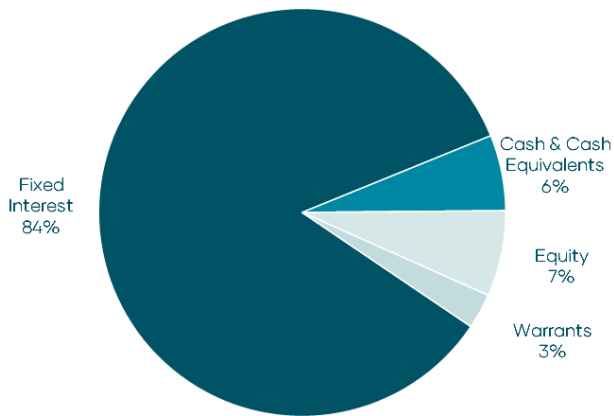


Foundation Class Portfolio Returns (After Fees)

	1 month %	3 Months %	6 Months %	1 Year %	3 Years % p.a.	Since inception* % p.a.
PURE Income and Growth Fund	+0.5%	+1.3%	+2.0%	-3.9%	+2.4%	+11.0%
Standard Deviation (Annualised %)				6.0%	9.3%	11.9%
Sortino Ratio						1.5
Sharpe Ratio						0.6

* Fund inception 21 December 2018

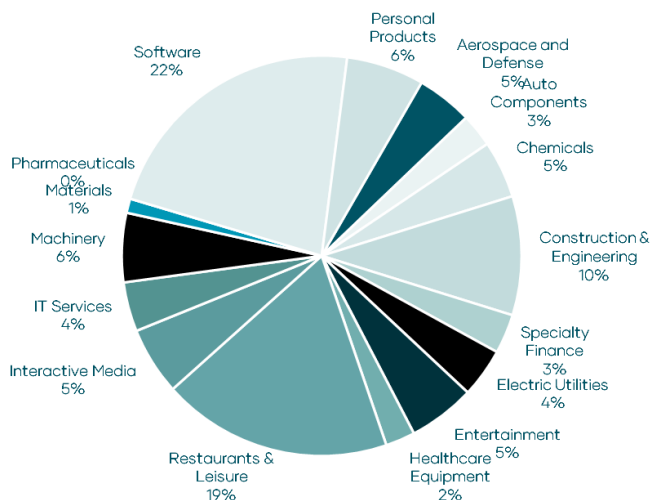
Portfolio Asset Allocation



Fund Overview

Fund Size	\$124.5m
Foundation Class Unit Price	\$1.1557
Number of Investments	22
Average Loan Size	\$4.9m
Weighted Average Interest Rate	9.7%
Arrangement Fees Paid to Investors	\$4.0m
Trailing Fund Yield (12m)	6.2%

Fixed Interest Sector Allocation



Monthly Commentary

The Fund delivered performance of +0.55% in August, which was received interest from the portfolio's bond positions less the very modest impact from weaker markets during the month.

Equities were broadly weaker, with the ASX Small Ordinaries lower by -1.5%. This performance reflects continued worries over troubles in the Chinese real estate sector, and a non-event reporting season locally. More positively there are signs that inflation continues to abate, which meant there were no further increases in official interest rates by either the Fed or RBA during the month.

This month we explore the concept of risk and note the improved risk asymmetry for Australian small-caps, given valuation multiples have declined to cyclical lows. This is in stark contrast to what's happening presently in large cap tech stocks, where the Nasdaq is once again trading on exceptionally high P/E multiples.

PURE online application form

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Risk management versus no risk

For investors, appreciating that there is a distinction between risk management and no risk is essential. No risk is not accepting any uncertainty which could be negative. Downside risk can theoretically be mitigated by buying government bonds, which although looking attractive in nominal terms, are currently generating negligible inflation adjusted (real) returns. In investing, the avoidance of risk is typically the avoidance of returns.

In its essence investing consists of embracing risk-adjusted uncertainty in the pursuit of attractive returns. This is as true today as it has been at any point in the market cycle. The aim of investing is to create asymmetric bets; trying to find higher returns for the risk you are taking.

If you take no risk, you should not suffer from holding any losers, but conversely you will not enjoy owning any winners. Not risking any losers is a good capital preservation goal, but it is not an investment goal. Therefore, the question for the investor is not whether you're going to have losers, but rather, how many will you have and how bad will they be relative to your winners.

The job of fund managers is to try to find investments that have an asymmetry of risk and return. In technical terms this is called "alpha", which is the added performance derived from the skill of the fund manager, compared to the "beta", which is the performance of the asset classes in which they are invested.

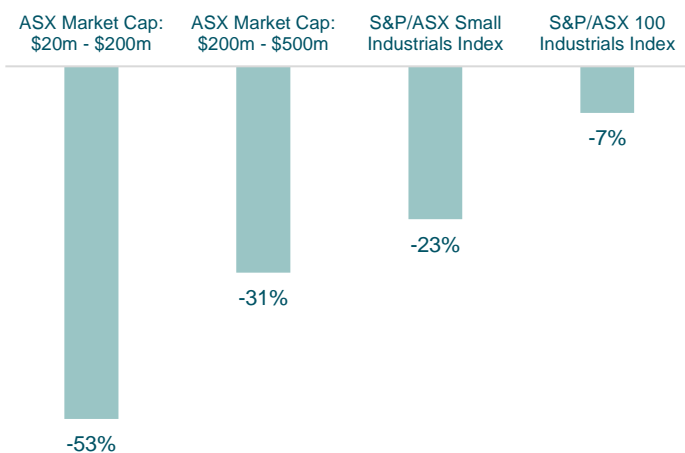
The equation with which investors must grapple is their desire for profits, versus their tolerance for losses. Human nature means we are more fearful of loss than we are excited by profit. Over the market cycle this can ebb and flow as we move between fear and greed (or to be more accurate, FOMO – fear of missing out).

Most people can rationalise that, over the long run, this innate apprehension for risk will only lead to sub-optimal returns. When fear is the prevailing sentiment, having the fortitude to maintain a risk appetite is particularly hard, but nevertheless an essential ingredient to investment success – if for no other reason than most investors are not willing to embrace it.

Simplistically, investments have two risks. The risk to cashflows, and the risk to the valuation of those cashflows. This is why government bonds are the lowest returning investment instruments; largely you are taking no risk on either metric. Conversely, small-caps are typically considered to be the highest risk on both metrics. But that is not the case today.

Australian small-caps will continue to have cashflow risk, but now have very little valuation risk because this has mostly been mitigated by the significant actual and relative underperformance

Last 18 months median share prices change



Source: S&P Capital IQ

Conversely, in the US, the Magnificent Seven (Apple, Meta, Tesla, Nvidia, Amazon, Microsoft, and Alphabet) are responsible for +70% of the S&P500's performance this year, and now have high valuation risk, trading on a forward PE that is 60% greater than the average of the other 493 constituents of the S&P500.

By way of example of valuation risk, in October 2021 Netflix traded at \$690 per share and despite meeting guidance fell 73% over the next six months as investors priced in the expectation of slower future growth. Its revenues have continued to grow consistently, but the valuation risk was exceptional.

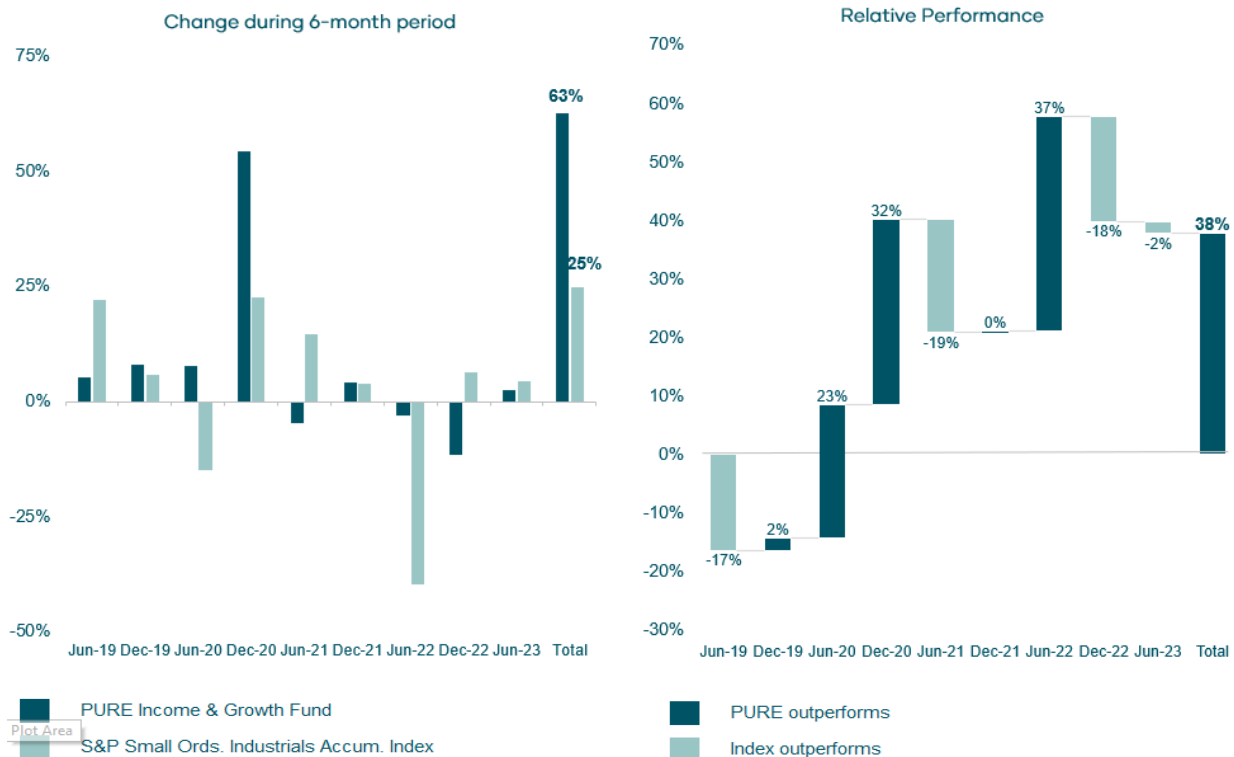
Assessing a fund manager's ability to create alpha (value add) is extremely difficult, as for most managers outperformance versus their peers is transient. It is only looking back over the long run that you can really see who achieved alpha consistently.

Unlike most fund managers, at PURE, we believe there is significant alpha embedded in the instrument and structure through which we invest. We are solving a problem – the cost of equity capital for ASX smaller companies – and because of the appeal to companies, we can gain access to attractive returns while taking lower risk. Our approach is not risk free, but it is asymmetric.

In our view, the best strategies are not the ones that have spectacular wins, as they often suffer from large losses. Furthermore, we don't believe that anyone can consistently predict which asset classes will deliver the best returns. Rather, we believe an approach that mostly performs better than the average for the assets in which they are invested will deliver over the long-term.

At PURE, our aim is to be consistently ahead of the Small Cap Index – winning when we can, but losing less when there is a market sell off – such that, over time, the accumulation of good returns builds into significant outperformance.

PURE versus the Index



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%
FY24	0.5%	0.5%											1.0%

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%
FY24	0.5%	0.5%											1.0%

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 August 2023](#)

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