

PURE Income and Growth Fund

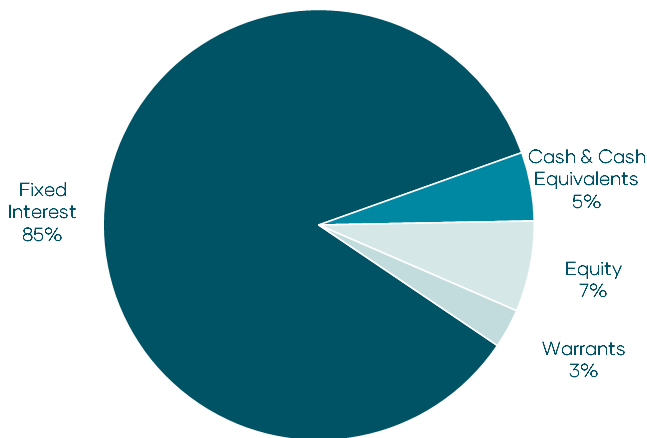


Foundation Class Portfolio Returns (After Fees)

	1 month %	3 Months %	6 Months %	1 Year %	3 Years % p.a.	Since inception* % p.a.
PURE Income and Growth Fund	+0.7%	+1.7%	+2.5%	-1.7%	+3.0%	+11.0%
Standard Deviation (Annualised %)				5.9%	9.3%	11.7%
Sortino Ratio						1.4
Sharpe Ratio						0.6

* Fund inception 21 December 2018

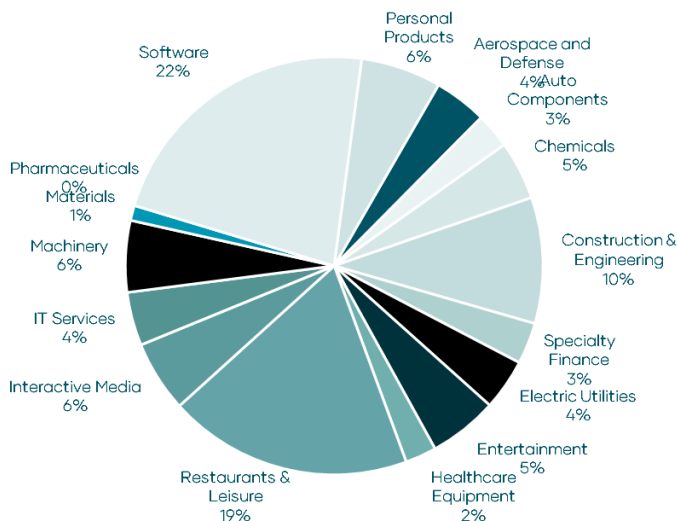
Portfolio Asset Allocation



Fund Overview

Fund Size (Cum Dist.)	\$122.8m
Foundation Class Unit Price (Cum Dist.)	\$1.1633
Number of Investments	21
Average Loan Size	\$4.9m
Weighted Average Interest Rate	10.1%
Arrangement Fees Paid to Investors	\$4.0m
Trailing Fund Yield (12m) Est.	~6.0%

Fixed Interest Sector Allocation



Monthly Commentary

And just like that, it was gone. Equity market optimism wilted in September on the back of rising bond yields and a growing consensus of 'higher for longer' interest rates. The small-cap industrial index fell 5.2% in the month and has now given up all the gains achieved in 2023.

The Fund was up 0.7%, which although by no means stellar, was our 10th consecutive month of positive performance.

Hawkish messaging from central banks about the risk of further rate rises and the concomitant impact on interest rates weighed on stocks and saw bond yields rise to cyclical highs. Uncertainties around a US Government shutdown (again, temporarily avoided), ongoing recession anxiety, and rising oil prices added to the negative sentiment.

This month we explore megatrends driven by interest rates and drill into what this could mean for the years ahead.

PURE online application form

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The world has changed

It is hard to find a bullish investor, which may be a good counter-cyclical guide, but we doubt it. Most small-cap fund managers we speak to are, on the one hand, flabbergasted at the valuations of companies in their portfolios, and believe that the small-caps have priced in a meaningful economic downturn, and on the other, feel that large caps (which have held up well) are vulnerable.

Leaders lead, as they say, and if large-caps lead lower, they'll probably take small-caps with them, despite the material underperformance over the last 15 years. Nevertheless, we think the small-caps will meaningfully outperform in the years ahead for valuation reasons.

We are not especially bearish on corporate earnings, despite there being a good case for it, not least of all as there are good arguments to support a resilient Australian economy. We do however believe that the next decade for many asset classes (large caps, private equity and property) will not be anything like the last few decades, the reasons for which we explore below.

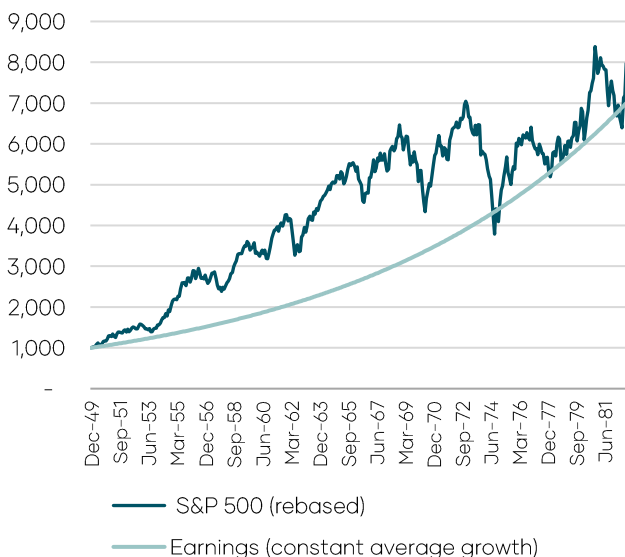
Earnings versus Valuation

Monetary policy has been an incredible driver of returns; lowering the cost of capital as an operational expense and inflating asset prices. Or to put it another way, artificially increasing profits and then capitalising those profits at an artificially high multiple. It would be surprising if the central banks reinstall *emergency level rates* for a sustained period ever again. With hindsight it was a dreadful policy error.

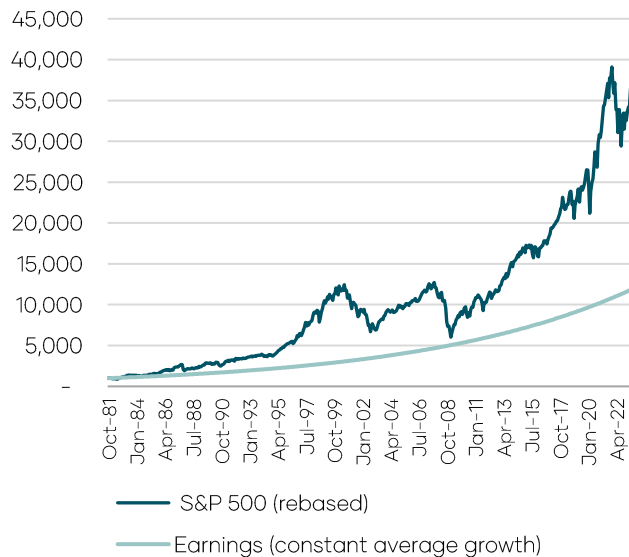
All other things being equal, the stock market should rise in line with corporate earnings. If we look back at the long run (using S&P 500 data as it's a longer data set) we can see that proven over time.

Over the last 70 years US corporate earnings have compounded at 6.1%. From the beginning of the 1950s there is a clear correlation between the performance of the stock market and the growth in average compounded earnings.

Earnings vs S&P 500 Index
Dec 1949 - Oct 1981



Earnings vs S&P 500 Index
Oct 1981 - Oct 2023

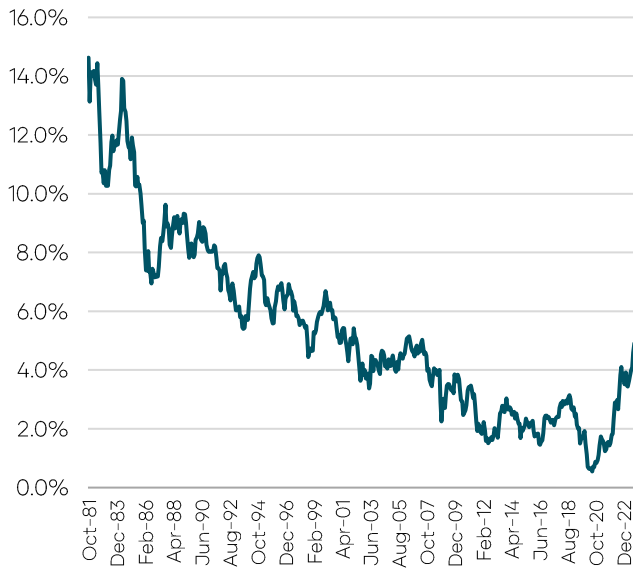


But after October 1981 things started to change, with the stock market (S&P 500) growing much faster than corporate earnings.

So what changed?

Interest rates changed. Interest rates began a consistent downward trend which lasted 40 years to mid-2021.

10 year Treasury Yield

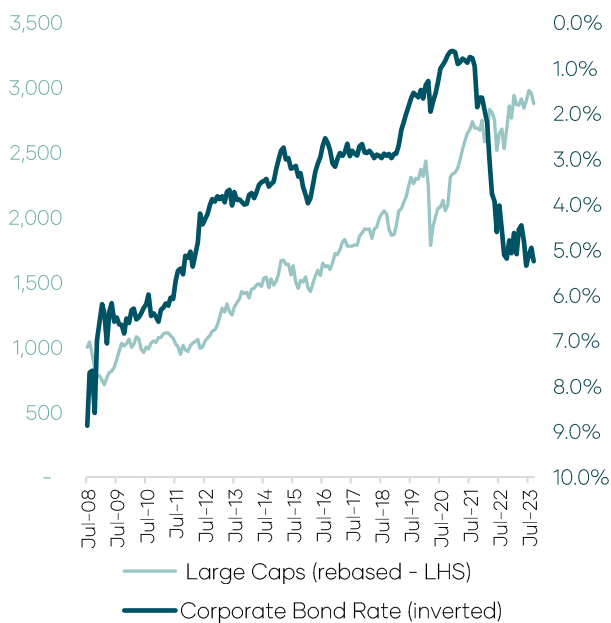


We don't know and, in many ways, we don't care, if interest rates are moved a bit higher or a bit lower in the years ahead, what is important is this major macro driver of the stock market is now exhausted. Therefore, the outlook for the future performance of the main beneficiaries: large-caps, private equity and property, is very different from that which most people have seen during their investing lifetimes.

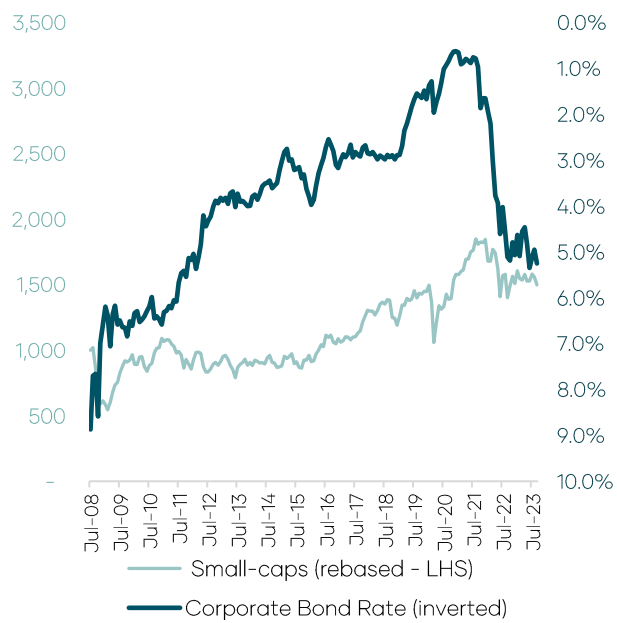
What it means for Australia

Turning to look at Australia, below we show the correlation between lower corporate bond rates (inverted in the charts), versus the large cap index and the small cap index (both rebased for comparison).

Large Caps vs Corporate Bond Rates



Small Caps vs Corporate Bond Rates



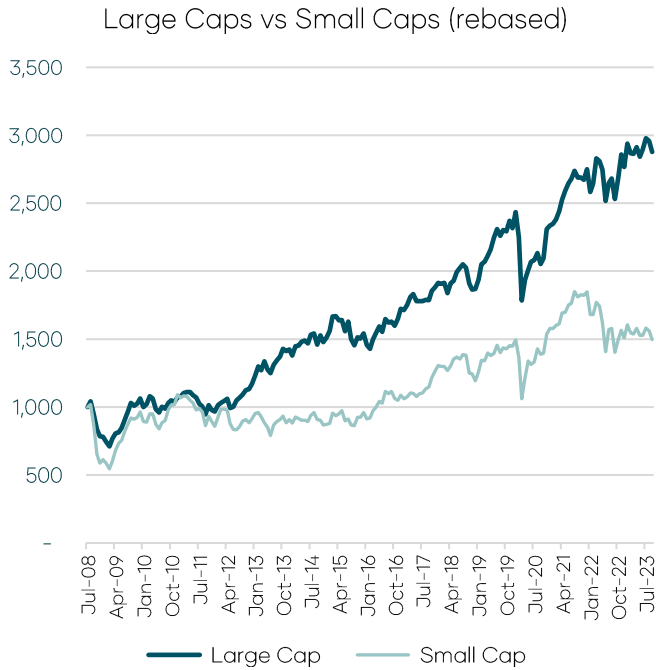
There are two points we take from this:

1. The correlation between corporate interest rates and large caps has broken down over the last 18 months, which is ominous.

- Small caps have really not benefited from falling interest rates, with the small cap performance lower than the compound growth in their earnings.

In a relative sense, the 40-year downtrend in interest rates has been bad for fixed income and small caps, compared to large caps, private equity, and property. Now that this trend has been depleted, it seems logical, to assume the next decade will be the opposite.

Small caps have faster earnings growth and so typically trade at a premium to large caps despite their volatility and risk. Today they are materially cheaper having underperformed for over a decade.



Fixed income now offers a positive and real return that is contractual, with the opportunity to renegotiate terms if things don't work out as well as planned. Equities don't have these attributes and without the tail wind of interest rate declines are less attractive than fixed income for the foreseeable future on a risk adjusted basis.

PURE is a play on fixed income and small caps.

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%	0.7%										1.7%

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%	0.7%										1.7%

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 September 2023](#)

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