

## PURE Resources Fund

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Favourable

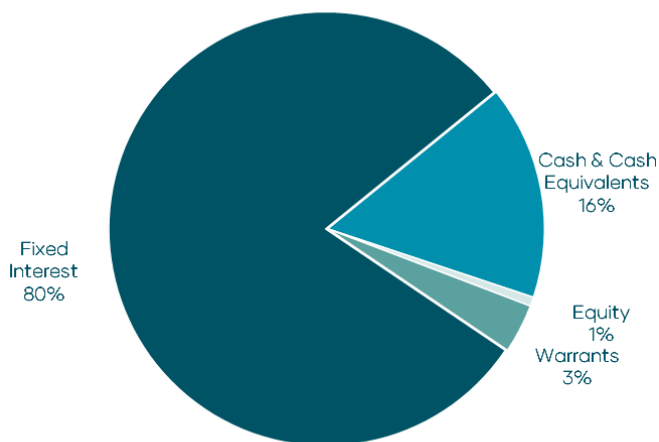


### Foundation Class Portfolio Returns (After Fees)

	1 month %	3 Months %	6 Months %	1 Year %	2 Years % p.a.	Since inception* % p.a.
PURE Resources Fund	1.0%	0.7%	4.7%	4.6%	9.1%	8.0%
Standard Deviation (Annualised %)				3.5%	6.3%	5.9%

\* Fund inception 30 April 2021

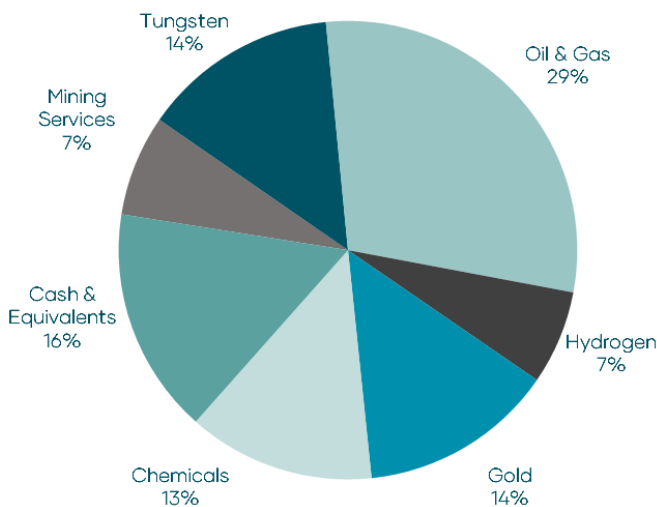
### Asset Allocation



### Fund Overview

Fund Size	\$75.8m
Foundation Class Unit Price	\$1.1111
Number of Investments	7
Average Loan Size	\$8.6m
Weighted Average Interest Rate	9.3%
Arrangement Fees Paid to Investors	\$1.8m
Trailing Fund Yield (12m)	6.2%

### Sector Allocation



### Monthly Commentary

The Fund returned to growth in October, lifting a healthy +1.0% as our equity/warrants rebounded, and the loans delivered a consistent return. Once again, we beat the Small Cap Resources Accumulation Index which fell -1.0%. The Fund has now delivered a +28.7% return above the index since our first investment.

In this month's newsletter we look at the Gold sector and the ability for stocks to close the gap and revert to the mean in terms of valuations and performance. For some time now, Gold has been trading around A\$3,000/oz, however junior miners have not reflected this strength.

In the Fund, our exposure comes from Kingston Resources, which exhibit the characteristics we look for: underexploited asset, tier 1 location, first class Management/Board, and undervalued.

Overall Junior Resources markets remain under pressure, with near term fears of weaker demand weighing on long term value drivers.

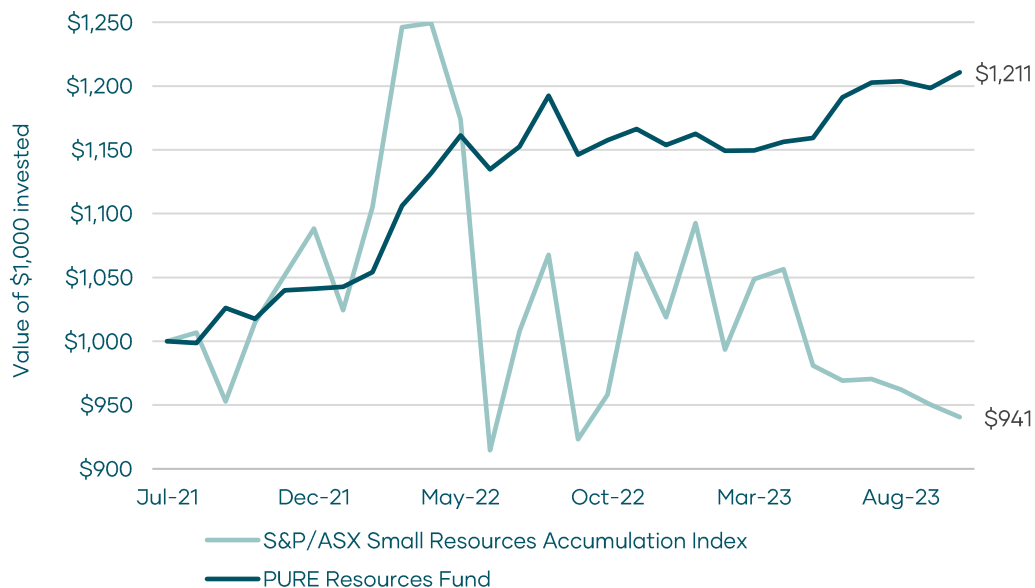
## Fund Review

What a turbulent month in the resources space. With the small cap sector closing down -1.0%, equities were again hit hard as global macro uncertainties scared off investors. The one bright spot was the unwavering adoration of the Lithium sector. Despite the commodity price falling -c50% (Battery grade) since July 2023, small cap stock demand has been frenzied.

In our view, there are genuine signs of bubble territory emerging as stocks lift exponentially on little news flow; indeed 'nearology' appears to have taken over. We don't have any exposure in the Fund, given our focus on development assets (not exploration). However, in light of weakening prices for the commodity and the share prices, even if the assets were suitable, we would be unlikely to find opportunities that were attractive.

Our lower risk offering continues to deliver in overall weaker markets. Pleasingly, the Fund is up 21.1% since our first investment was made, versus the Index which is down 5.9%.

### Monthly performance vs Small Resources Accumulation Index



Source: PURE Asset Management. Performance since first investment in July 2021.

Of particular note this month, oil prices staged a sharp pull back following a rise due to the conflict in Gaza. Since the beginning of October, the Brent Oil Price has fallen 18% to US\$77/bbl, as supply fears appear unfounded.

Increased efficiency has kept U.S. production on an upward trend even as Saudi Arabia and its allies in OPEC+ have trimmed their own output to support prices.

We continue to read a plethora of commentary about inflation and interest rates, which continue to impact commodity markets and resources names more than most other sectors. These markets are particularly susceptible to changing macro sentiment, public policy moves, geo-political events and as always, the motivations of China.

We consider this cyclical turbulence against the backdrop of long-term structural growth in commodity prices.

## Chart of the Month

Mean reversion ahead?

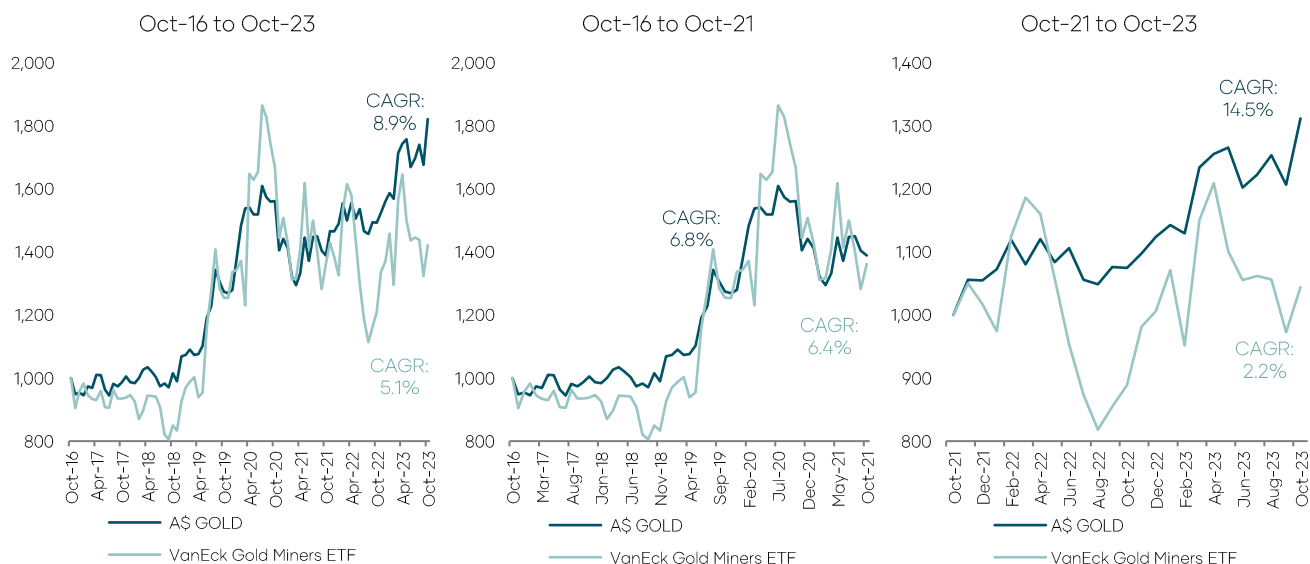
Gold mining stocks are inextricably connected to the underlying price of gold bullion. In our view, a bullish outlook for the metal outweighs any other rationale for owning them. As we have seen in recent years, the response of gold mining equities to the bull market in physical bullion has been disappointing.

Gold bullion has been a great performer over the past six years, with prices in A\$ terms up a staggering 80% (Lefthand chart).

In the years from 2016 through to October 2021 there was a very high correlation between the performance of the gold price and the small-cap gold miners, which grew at compound rates of 6.8% and 6.4% respectively (Middle chart).

Over the last two years however, due to the selloff in small-caps, this relationship has broken down, but with many gold miners printing money, this cannot last. Either the gold price must fall, or the share price must rise. (Righthand chart).

### Physical Gold Price vs Gold Miners ETF (rebased)



Source: Refinitiv

What appears to be lacking now is a decisive price breakout that leaves the psychological US\$2,000/oz threshold behind. Of the several reasons for underperformance, the most significant impediment to higher gold stock valuations is, in our view, the implicit consensus that gold priced at or around US\$2,000/oz is not sustainable.

There are of course other factors at play in the price of junior miners which may account for their underperformance.

These include:

- Dilution for investors (from equity raisings) and lack of focus on per-share metrics.
- Margin erosion, as most miners will tell you the supply chain is so concentrated that gold price rallies also signal price increases for key inputs.
- Jurisdictional risk, as the majority of the major discoveries have been uncovered in developed regions, new discoveries are being made in high-risk regions with these attracting higher discovery and production costs.

- Timeline stretching, due to ever increasing regulation.
- The emergence of Gold Exchange Traded Funds (ETF's) as a way for retail investors to play the gold trade in preference to owning the mining companies.

Acknowledging all of this, we see the case for mean reversion building if gold prices continue to hold.

## **Thank you**

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



## PURE online application form



## Monthly Returns – After Fees

PURE Resources Fund – Foundation Class													
Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Fin YTD
FY21											0.0%	0.0%	0.0%
FY22	0.2%	-0.1%	2.8%	-0.8%	2.2%	0.1%	0.1%	1.1%	4.9%	2.3%	2.6%	-2.3%	13.7%
FY23	1.6%	3.5%	-3.9%	1.0%	0.8%	-1.1%	0.8%	-1.1%	0.0	0.6%	0.3%	+2.7%	5.0%
FY24	1.0%	0.1%	-0.5%	1.0%									1.6%

PURE Resources Fund – Platform Class (APIR: PUA1097AU)													
Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Fin YTD
FY22		-0.1%	2.7%	-0.8%	2.2%	0.1%	0.2%	1.1%	4.9%	2.3%	2.6%	-2.3%	13.4%
FY23	1.6%	3.5%	-3.9%	1.0%	0.8%	-1.1%	0.8%	-1.1%	0.0	0.6%	0.3%	+2.8%	4.9%
FY24	1.0%	0.1%	-0.5%	1.0%									1.6%

## Unit Price Data Download

Please click on the link below to download the updated unit price data for each unit class.

[PURE Resources Fund – unit price data to 31 October 2023](#)

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