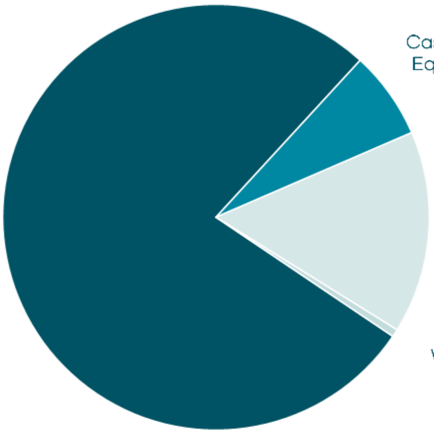
PURE Income and Growth Fund

Foundation Class Portfolio Returns (After Fees)

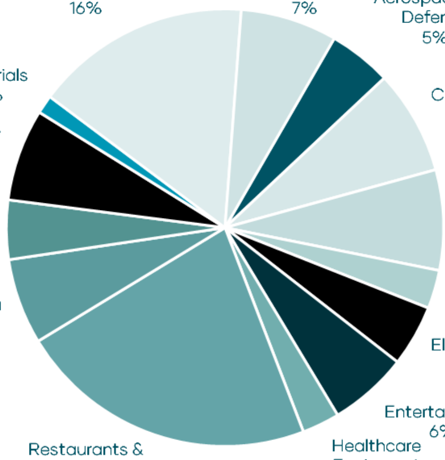
	1 month %	3 Months %	6 Months %	1 Year %	3 Years % p.a.	Since inception* % p.a.
PURE Income and Growth Fund	-0.1%	+1.7%	+2.9%	+4.7%	-1.1%	+10.6%
Standard Deviation (Annualised %)				1.1%	5.9%	11.4%
Sortino Ratio						1.4
Sharpe Ratio						0.6

** Fund inception 21 December 2018*

Portfolio Asset Allocation



Fixed Interest Sector Allocation



PURE online application form

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Fund Overview

Fund Size	$118.6m
Foundation Class Unit Price	$1.1502
Number of Investments	18
Average Loan Size	$5.3m
Weighted Average Interest Rate	10.2%
Arrangement Fees Paid to Investors	$4.0m
Trailing Fund Yield (12m)	6.4%

Monthly Commentary

An air of calm swept global markets in January, as seasonal holidays replaced the turbulent activity of 2023. Geopolitical conflict, rising interest rates, and a squeezed consumer have dominated the past 12 months, but the prospect of falling interest rates paves the way for optimism in 2024.

While we've spoken ad-nauseum about the underperformance of small/micro caps in recent times, the elastic band stretched further in January. The ASX/S&P All Ords Accum Index rose +1.1%, while the ASX/S&P Emerging Companies Index fell -5.5%. This 6.6% divergence represents the 5^{th} largest monthly underperformance since 2014.

The Fund returned -0.1% for the month. Carbonxt provided a positive contribution as EPA regulatory change approaches, predominantly offset by equity weakness in Decmil, which had largely recovered at the time of writing. Most warrants and shares were up marginally and there were no changes to the fixed income valuations.

January's muted Fund performance belies some exciting developments and based on imminent catalysts, we are expecting a continuation of the improving trend in annualised performance in the March quarter.

Going out on a limb

In our view, and going out a limb here, with the large caveat that the market has a way of making fools of us all, this is a good time to buy small-caps, especially smaller, small-caps.

Apologies for the repetition, but to recap, over the last three years, all companies but smaller companies particularly, have been under pressure, first from Covid, then from supply chain issues, then cost inflation. These headwinds have seen equity investor appetite wither and as a result, the bottom has fallen out of equity prices for small-caps generally, and smaller, small-caps especially (covered in last month's newsletter).

There has been a swath of ASX small-caps whose business plans have suffered material set-backs and they have had limited access to equity capital to help remediate their challenges; and what capital has been available has been painfully expensive (from a dilution perspective), which has compounded the share price pressure.

So far, so bad.

We think of companies akin to living organisms, that is, it is in their DNA to survive. So, when confronted with challenges, they adapt. This doesn't happen overnight, but we are three years in, and most have adapted.

Consequently, at the practical level what have we have seen in many companies in the portfolio and in the wider market, is the implementation of the following changes:

- Cost cutting - first discretionary costs, then non-discretionary costs, then everything but the kitchen-sink.
- They have raised equity capital at prices previously unimaginable.
- They have sold non-core assets.

Not all are back to rude health, but across the board what we have witnessed is the stabilisation of many businesses, and they are now growing again off their lowered business plans. Share prices, however, are still lagging and not reflective of this improved position, both individually and in aggregate.

Going back to our analogy, what is also apparent is that the survival of the fittest is playing out in real time. Some companies have been ahead of the curve in raising money and adapting their plans and these are now the predators, looking to use their competitive capital advantage to bulk up materially, or pick off smaller rivals.

An example, in the Fund is Ordermentum, which recently acquired Foodbomb for a fraction of the valuation previously ascribed to the company.

Those most affected, or those slower to adjust, or those struggling to regain share price traction (nearly all of them!), are now the prey.

Many companies have weathered the worst of the storm, and in doing so have reduced the risk to the acquirers. But having not enjoyed the share price rebound, are now defenceless to a premium bid. We expect takeover activity to increase meaningfully after this reporting season, and anecdotal feedback suggests this will be the case.

The evidence for the defence

There are structural reasons for the change in investor behaviour towards smaller companies on the ASX (e.g. ETFs and the consolidation of the superannuation funds), but the bulk of the impact is cyclical.

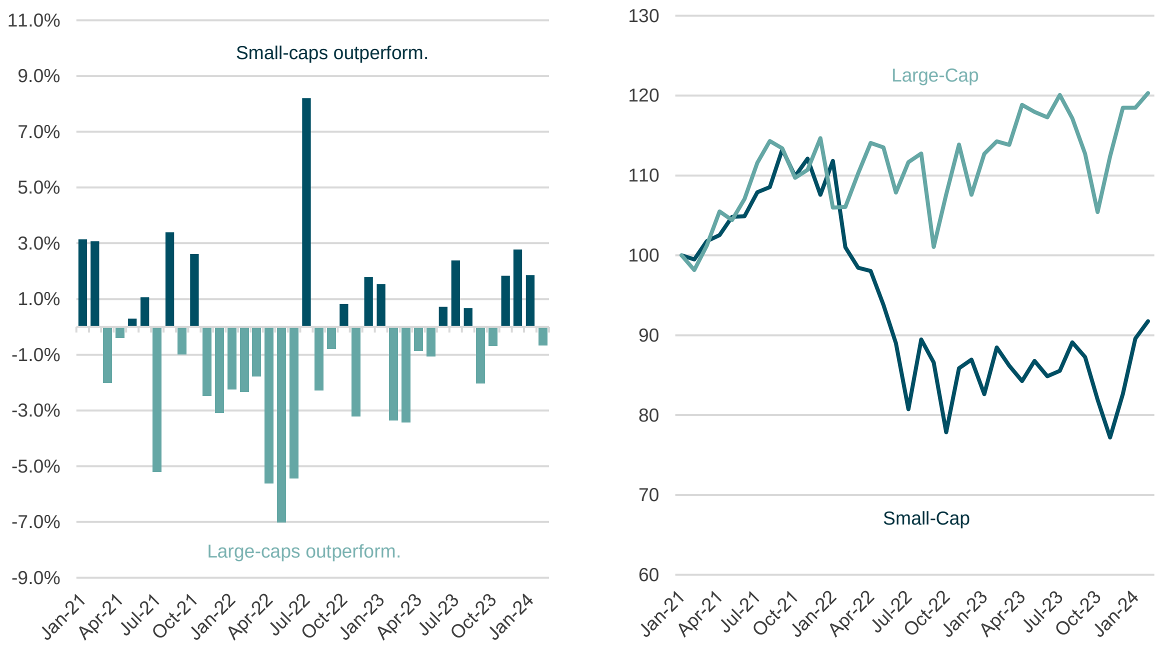
If you are willing to accept this assertion, then you must also accept that, as a cycle, the downturn is temporary and that it will inevitably be followed by an upturn. The question is when? Sadly, there is never a starters gun for an upswing and predictably there will be a host of compelling reasons not to invest when we are at the bottom. However, if you are willing to look beyond the headlines, there is evidence that the bottom is in.

Keep in mind we are two years into a bear market in smaller companies, despite no Australian recession and a normal equity market in ASX large-caps (+7% p/a return).

The evidence we present for our bullish view of smaller, small-caps includes:

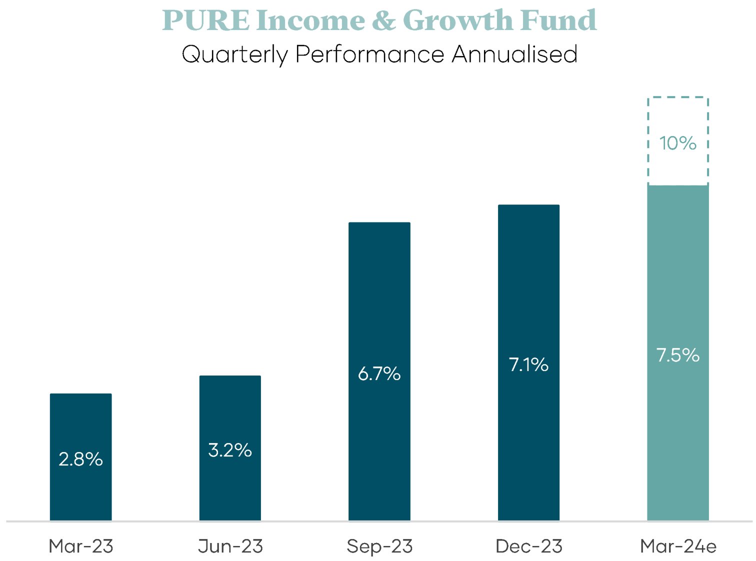
- The frequency of takeovers of small companies is increasing.
- Takeover premiums are much higher than typical. When we last reviewed small-cap M&A, the median takeover premium was 88%, versus 41% over the long-run.
- There is increasing IPO activity indicting a revival of animal spirits. In 2023, the ASX saw $1.1bn of IPO capital raised across 45 listings. Of this, 69% by number and 86% by capital raised, was in the December half. (FYI the five-year average is $5.4bn per annum).
- The outperformance of the Small-Cap index has already started, with Small Industrials outperforming Large Industrials in six of the last nine months.

ASX Small Industrials vs. ASX Large Industrials



The topic of last month's newsletter was that "Small-cap" on the ASX is a misnomer, the Index improvement has yet to reach those companies outside to top 300, but trend is encouraging, and, in our view, the smaller end is the better opportunity as it fell much further and remains at its lows - the S&P/ASX Emerging Companies is still down 29% since the start of the bear market in September 2021.

Like the wider small-cap market, we are seeing green shoots and performance catalysts in the portfolio and remain optimistic this translates to portfolio performance. No guarantees and black-swan risks abound, but based on what we can see today, we feel confident enough to share this with you.



In closing, the reason we are more of a *black box* than we would like is for 70% of the investments in the Fund, we are under NDA or wall-crossed, which prohibits us from commenting much at all. Examples in recent times include the takeovers of Tesserent, Tyroola, and Sitesoft, while a range of other market sensitive information currently exists within the portfolio.

Our intention is to update you with news and insights into the Fund at the earliest opportunity, but in the meantime our apologies.

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%	0.0%	0.7%	1.1%	-0.1%						3.3%

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%
FY24	0.5%	0.5%	0.7%	0.0%	0.7%	1.1%	-0.1%						3.3%

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 31 January 2024