PURE ASSET MANAGEMENT

PURE Income and Growth Fund

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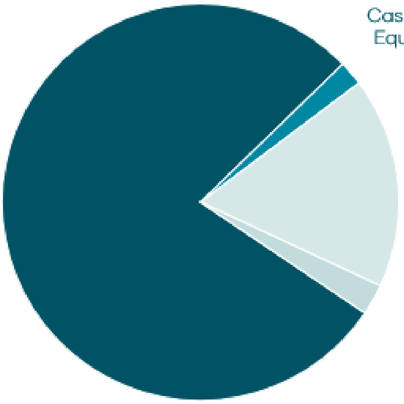
Foundation Class Portfolio Returns (After Fees)

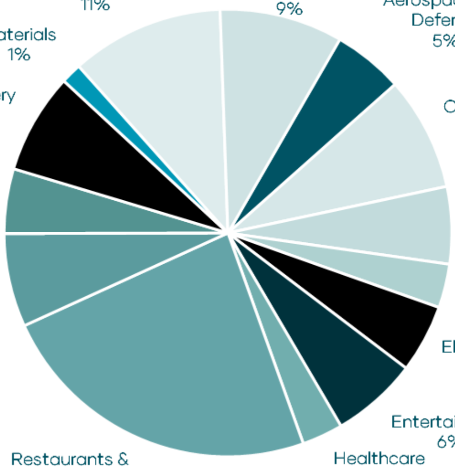
	1 month %	3 Months %	6 Months %	1 Year %	3 Years % p.a.	Since inception* % p.a.
PURE Income and Growth Fund	+0.9%	+4.3%	+5.6%	+8.4%	+1.2%	+10.8%
Standard Deviation (Annualised %)				2.5%	5.7%	11.1%
Sortino Ratio						1.3
Sharpe Ratio						0.6

** Fund inception 21 December 2018*

Portfolio Asset Allocation



Fixed Interest Sector Allocation



PURE online application form

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Fund Overview

Fund Size	$111.5m
Foundation Class Unit Price	$1.1902
Number of Investments	18
Average Loan Size	$5.3m
Weighted Average Interest Rate	10.4%
Arrangement Fees Paid to Investors	$4.0m
Trailing Fund Yield (12m)	5.7%

Monthly Commentary

The S&P/ASX Small Ords was down 0.9% for the month meaning that since we launched the Fund five and half years ago this Index has delivered a miserly 2.8% CAGR. With the S&P/ASX 200 delivering a 6.5% CAGR over the same period, small-caps have a lot of catching up to do, and we think they will. More on this later.

The Fund was up 0.9% in May and has delivered CAGR since inception of 10.8%. More importantly since our *annus horribilis* in 2022 (-8.4%), we have slowly emerged with consistent but low returns, and during FY24 have been building into something closer to our target return level.

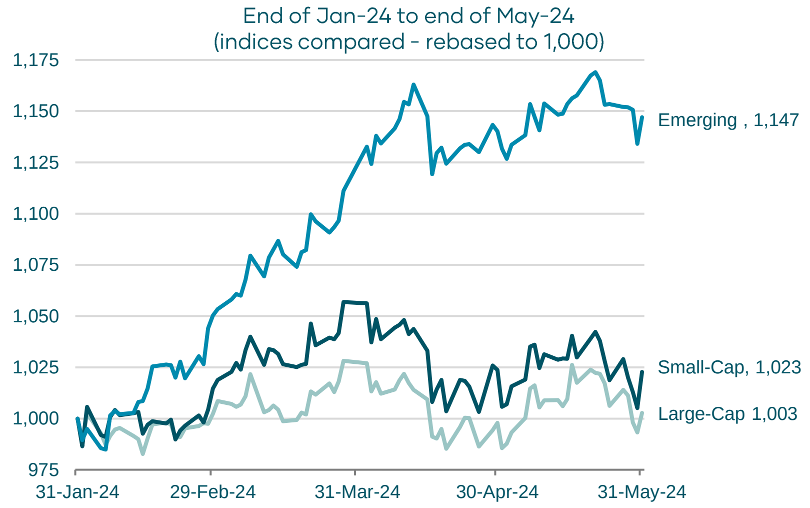
In the last year the Fund is up +8.4%; in the last 6 months annualised it is up +11.2%; and, in the last quarter annualised it is up +17.3%.

We enjoyed some modest equity and warrant gains during the month, despite the negative market, and this supplemented the consistent income return, with no changes in the value of the loan book.

We are not macro-economic forecasters but we are keen market observers and for the last nine months we have been flagging data points that might portend a small-cap recovery. In our January newsletter we called it and said:

"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."

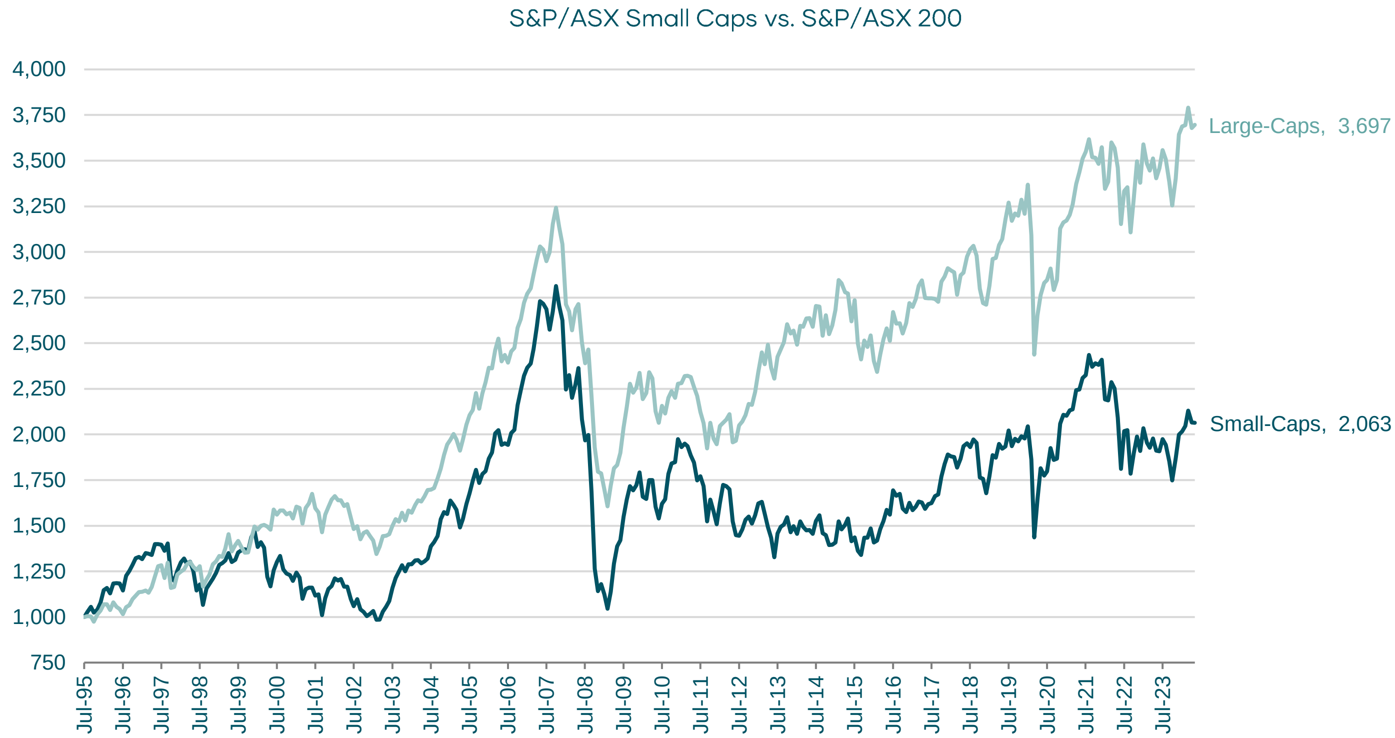
The chart below shows what has happened since. Small-Caps have marginally outperformed Large-Caps, but Emerging Companies, the Index for companies that are smaller than those in the Small-Cap index, have materially outperformed.



It's way too early to be soliciting plaudits, but after such a long period of underperformance, we have highlighted this improvement as we think many investors have become so accustomed to the large-cap pre-eminence they may have discounted that smaller companies can actually outperform.

We discuss this more later in the newsletter, but in the meantime below, we have illustrated the incredible 13-year outperformance of Large-Cap over Small-Cap, which has induced this false impression.

In our view, many of the reasons for Large-Cap ascendancy have dissipated (*see Sept-23 newsletter*), and so we would argue that Small-Cap rally has legs relative terms to Large-Caps, but also, if our own experience is indicative, it will perform in real terms.



The world seems awash with risk right now, but without wishing to sound glib, similar arguments could have been made on many occasions since the GFC (e.g. Brexit, EU sovereign debt, the oil price collapse, Covid and lockdowns, the mortgage cliff etc, etc, etc), and yet ASX Large-Caps have doubled and the S&P500 is up six-fold.

So does the market look in high risk territory, and will a fall in Large-Caps stall any recover in Small-Caps?

The former question can only be looked at in two parts – Large Cap and Small Cap. Again we don't judge markets by economics, but rather market data-points, the answer is that despite their precipitous ascent, Large-Cap market indicators are not unambiguously signalling euphoria, nor despair.

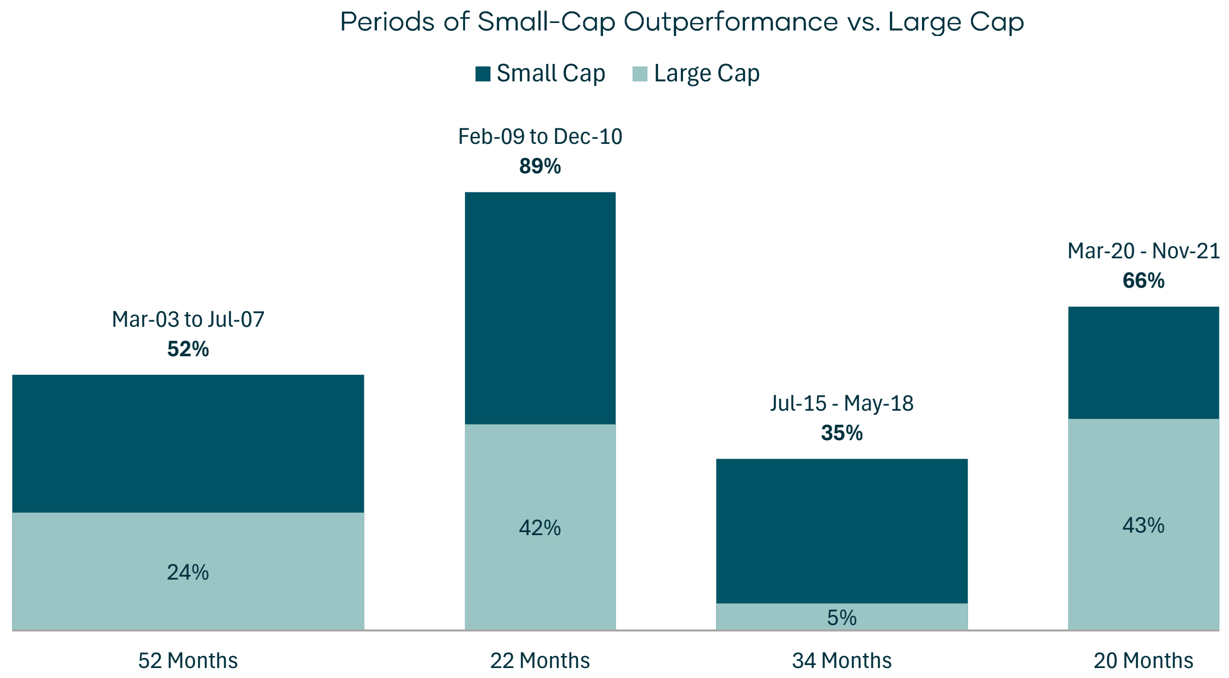
So, what about Small-Caps? Here the market signals are unmistakable. We are NOT in a Bull market, and we ARE in a Bear Market.

Are we in a bull market? - SMALL CAP	
Market Valuation Higher than long run	NO
Rapid Price Increases	NO
Low Dividend Yields	Maybe
Increased IPO Activity	NO
High Valuation of Unprofitable Companies	NO
Speculative Investment Vehicles	NO
Euphoric Investor Sentiment	NO
Investor Margin Loans	NO
Bullish Media Coverage	NO
Low Volatility	NO
Low Short Interest	NO
Exceptionally High Trading Volumes	NO
Retail Investor Frenzy	NO
High Upward Correlation Across Stocks	NO
Negative Earnings Revisions	NO
Stretched valuation of High-Growth	NO
Macro-economic Disconnection	NO
Bubble-like Behaviour in Specific Sectors	NO
High Price-to-Sales Ratios	NO

Are we in a bear market? - SMALL CAP	
Consistent Downward Trend	YES
Lower Highs and Lower Lows	YES
Increased Volatility	YES
Exceptionally Low Trading Volume	YES
Bearish Investor Sentiment	YES
High VIX Index	YES
High Put/Call Ratio	Maybe
Defensive Sector Outperformance	YES
Small-cap underperforming large-cap	YES
Declining Breadth	YES
Falling 200-Day Moving Average	YES
Declining Earnings Growth	YES
Majority Negative Analyst Revisions	NO
High Downward Correlation Among Stocks	YES
Rising flight to safety	YES
Weak IPO Market	YES
Widening High Yield Spreads	Maybe
Increased Bankruptcy Filings	YES
Government Stimulus Measures	YES

So, pulling this together, Small-Caps (especially smaller Small-Caps) have materially underperformed, have/are certainly in a bear-market from which (there is evidence) they are emerging, and the risk that Large-Caps will stall this emergence is not compelling. We believe that the cognitive impediment to our thesis is *recency bias* i.e. the more recent overall data of last 13 years is makes our argument seem less compelling.

But Small-Caps can, and in our view, will, outperform, history tells us that this is not as unusual as investors may currently believe.



Perhaps the best example, most apposite to the current situation, is to look at the long-term data from the US. In the five years prior to the dotcom crash US Small-caps (Russell 2000) had meaningfully underperformed Large Caps (S&P 500). When the dotcom bust happened, it took 13 years before Large Caps surpassed their previous high, during which time the Small Cap index rose 76%.

Thank you

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

PURE ASSET MANAGEMENT

Investor Newsletter
Period to 31 May 2024

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%	0.2%	0.6%	2.8%	0.9%		8.1%

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%	0.2%	0.6%	2.8%	0.9%		8.0%

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 30 April 2024