Investor Newsletter
Period to 28 February 2025

PURE Income and Growth Fund

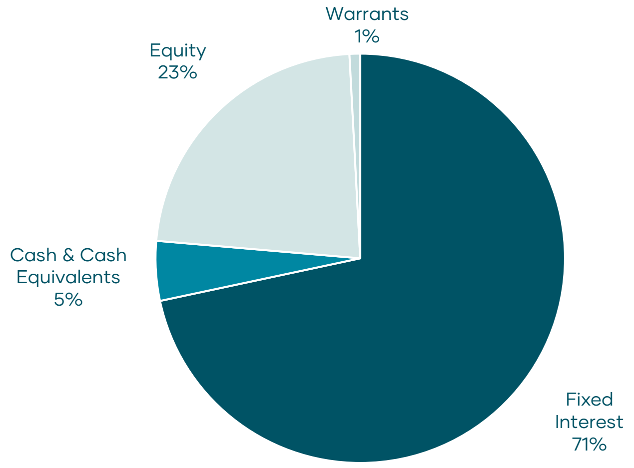
FundMonitors.com Approved | ★★★★ Favourable SQM Research

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%	-2.4%	-2.1%	+3.0%	+0.5%	+9.2%
Standard Deviation (Annualised %)				3.7%	4.6%	10.5%
Sortino Ratio						1.1
Sharpe Ratio						0.5

** Fund inception 21 December 2018*

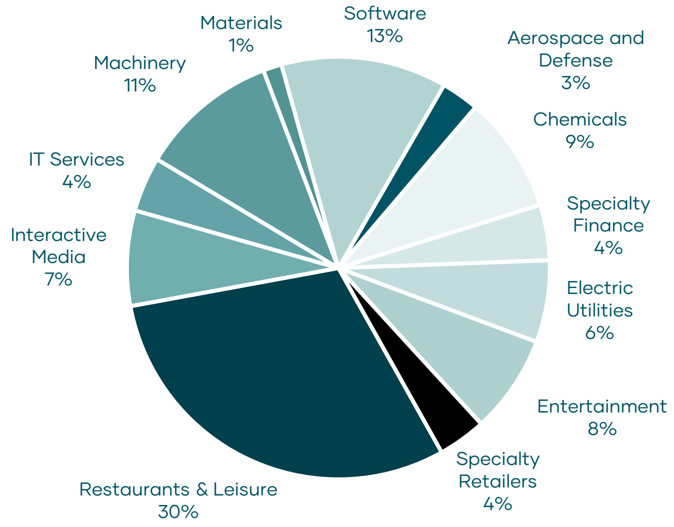
Portfolio Asset Allocation



Fund Overview

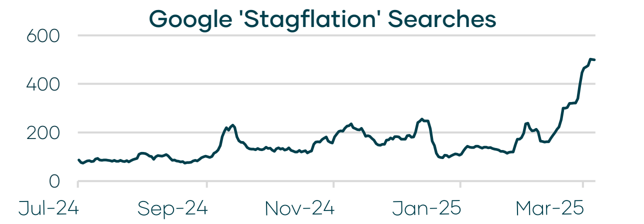
Fund Size (CUM Dist.)	$103.0m
Foundation Class Unit Price	$1.1379
Number of Investments	13
Average Loan Size	$5.5m
Weighted Average Interest Rate	10.9%
Arrangement Fees Paid to Investors	$4.7m
Trailing Fund Yield (12m) Est.	4.4%

Fixed Interest Sector Allocation



Monthly Commentary

Equities retreated in February. The RBAs first rate cut since 2020 failed to appease markets, as trade tensions, tariffs and inflation concerns prompted widespread selling. Stagflation is front of mind.



The All-Ords Accumulation Index fell 4.0% for month, with selling continuing in recent weeks. At the time of writing, the Index is down a further 2.8% in March.

The Fund was down -0.5% in February There were only two investments that made any meaningful impact: Spacetalk (+65%); and DXN Limited (-26%). The latter, which fell on no news, had a bigger impact than the former. We have high expectations for both companies, which have made significant operational and balance sheet progress in the last 12 months. Both are extraordinarily cheap, and we have significant leverage via shares and warrants.

PURE online application form

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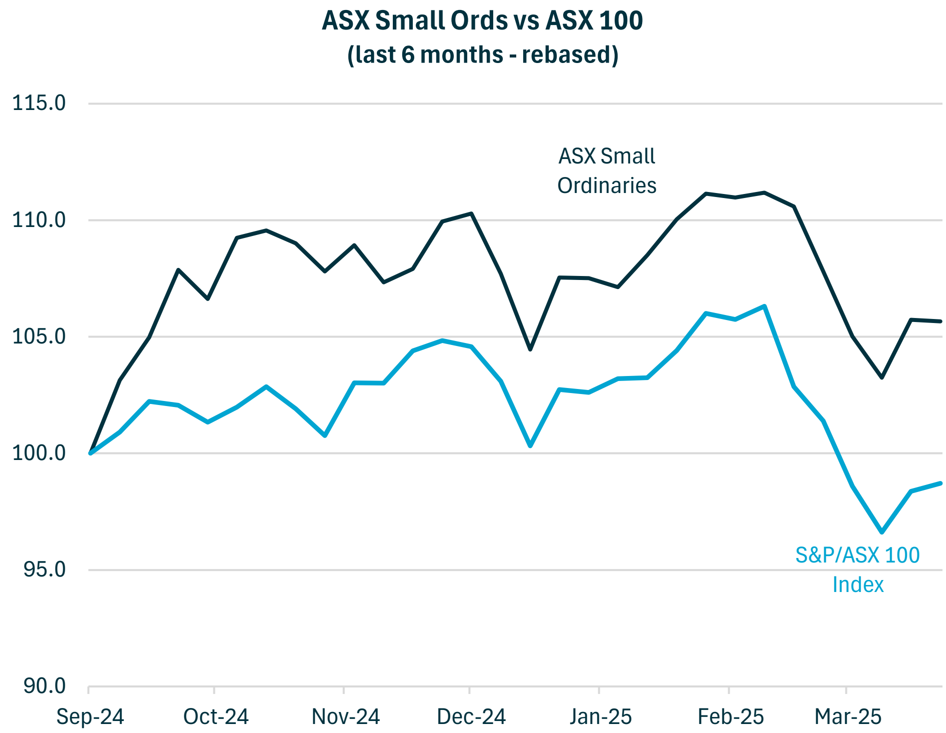
Investor interest in small caps, especially smaller small caps, faces cyclical but also structural headwinds. In terms of the former, there is evidence to support the idea that a rotation out of highly priced large caps into undervalued small caps is occurring. As we have said, we believe the cycle has turned, but it still has a long way to go after a sustained and unprecedented period of large cap outperformance.



This growing improvement in relative performance is in-part due to M&A activity in small caps, the waning confidence in large cap exceptionalism and the expectations of lower interest rates.

We wrote in an earlier newsletter about the fact that interest rate cuts tend to have a disproportionate impact on small caps, albeit it typically takes at least three cuts before any material outperformance can be observed.

The RBA cut the cash rate by 0.25% in February and bond markets have priced in at least two cuts in 2025. Based on our analysis of the last four rate cutting cycles, going back to 2012, this will be sufficient for both strong absolute and relative returns in the small cap indices.

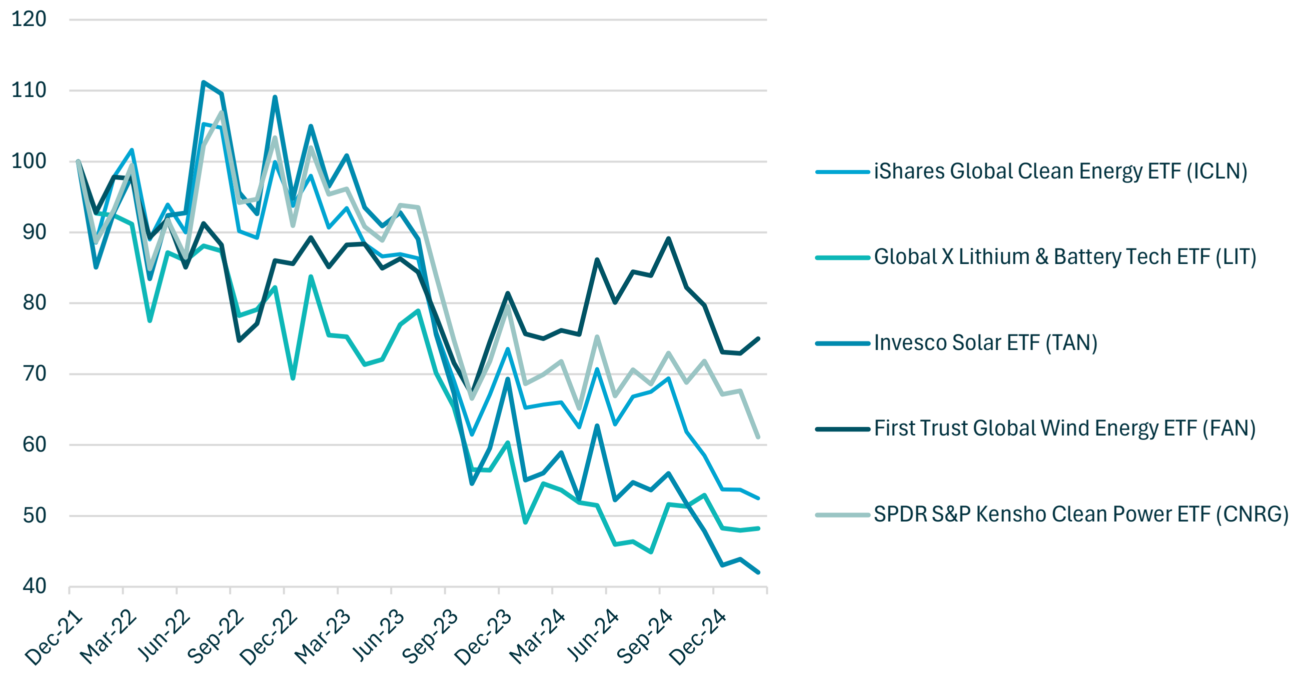
In our view, however, there is also a structural issue. The question we must ask is: who are the incremental buyers of small and micro caps?

The younger generation are typically more interested in ETF thematic investing. The two big beneficiaries of younger investor interest have been mega cap US tech and green/environmental technology ETFs.

Perhaps this interest will diminish as the two key thematics are reconsidered. The former as the AI race for global supremacy bites into the free cashflow of the tech behemoths, and the latter due to the underperformance of green tech funds (see chart below).

We doubt this will result in a material rotation into small caps, but historically the younger generations have had the highest propensity to invest in this part of the market.

Leading Clean Energy Tech ETFs



The older generation are naturally becoming more conservative as they age and the desire for safety and income inhibits risk appetite for the capital appreciation opportunities from small caps. Overall equity holdings of the baby boomers have fallen by about a third over the last 20 years. We can't find the data, but it seems safe to assume the exposure to small companies has seen a more significant decline.

Institutional investors have largely moved their investments to the larger companies (the top 300). This is in part a normal reaction to economic uncertainly, but also due to the Federal government's Your Future, Your Super legislation (2022), which made the S&P/ASX 300 the benchmark for MySuper's Australian equity market returns. For a superfund this means making investments outside the benchmark would suffer from unwanted negative scrutiny, especially if the decision generated a negative return. We understand from anecdotical discussions that this approach is also increasingly being adopted by financial advisors.

Those that are still focusing in on *real* small caps (i.e. the other c.1,700 companies on the ASX) have had significant capital outflows. Two stalwart managers in this part of the market are believed to have suffered a decline of more than 70% in funds under management in their primary small-caps funds in recent years.

The pool of investors is getting smaller and smaller.

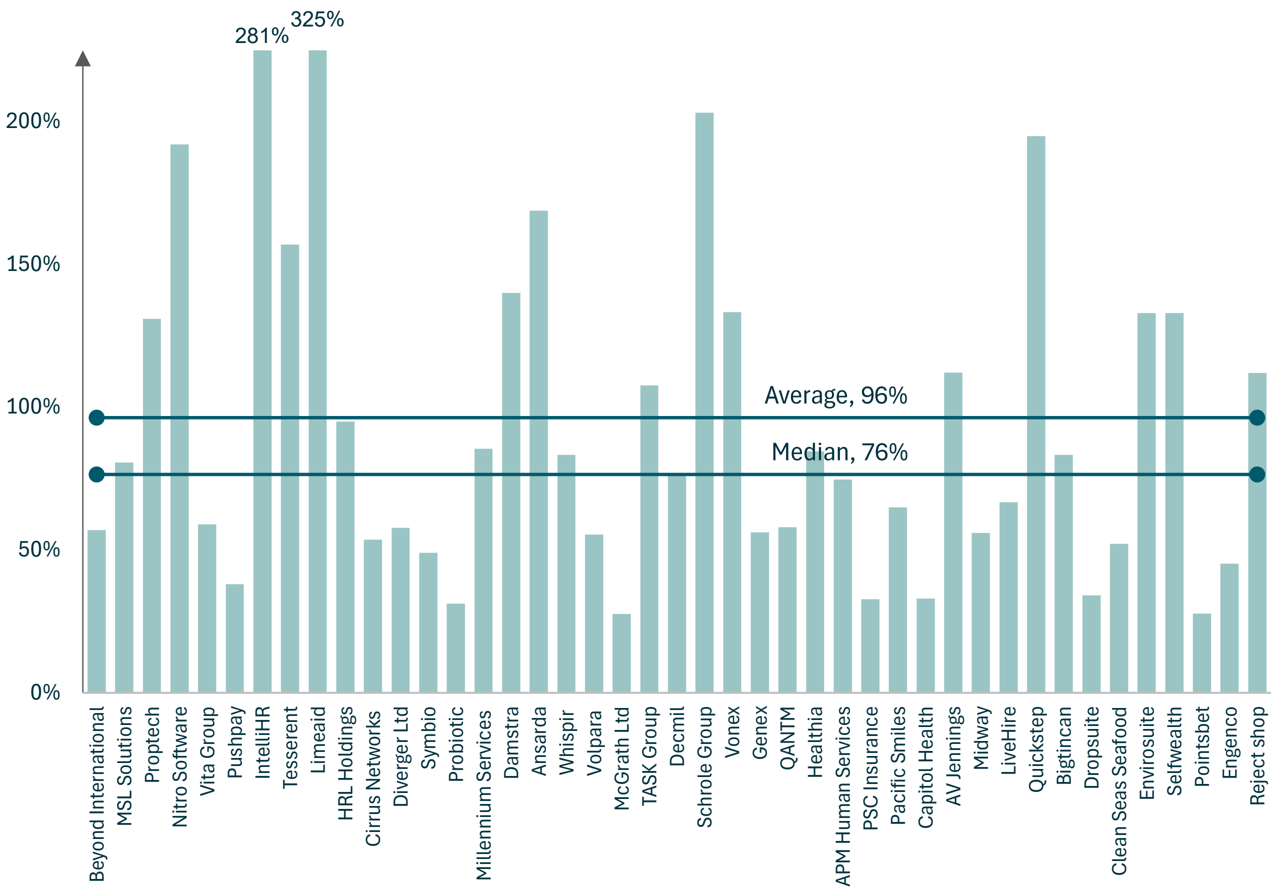
Right now, small caps are seeing improved relative performance, but it is patchy and on miniscule volume, hence the extreme volatility of individual shares. The two biggest movers in our portfolio this month, DXN and Spacetalk, which fell 26% and rose 65% respectively, did so on less than $0.5m of shares traded during the month.

So, where are we going to find the next generation of the buyers of <$200m million market cap companies?

The answer today is other corporates.

We have tracked 43 takeovers of smaller small caps since the beginning of 2023. This does not include mining or property companies. The average takeover premium has been 96%, compared to the long run average of ~35%.

Small Cap takeover premiums 2023 - 2025
(ASX Industrials)



Thank you

Nick, Mike, Tim, Dan, Jonathan and Sibghat.

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%	0.6%	8.7%
FY25	0.4%	-0.2%	0.6%	0.0%	-0.2%	0.2%	-2.1%	-0.5%					-1.8%*

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%	0.6%	8.7%
FY25	0.4%	-0.2%	0.6%	0.0%	-0.2%	0.2%	-2.1%	-0.5%					-1.8%*

** Please note in the February Newsletter contained an error in this table, which miscalculated the FY25 aggregate. Individual month returns were correctly represented.*

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 28 February 2025

Distribution Re-Investment Plan (DRP)

If you are interested in electing to have DRP for your portfolio, please click here

View our YouTube investor update below

PURE AM February 2025 Fund Update