

PURE Income and Growth Fund

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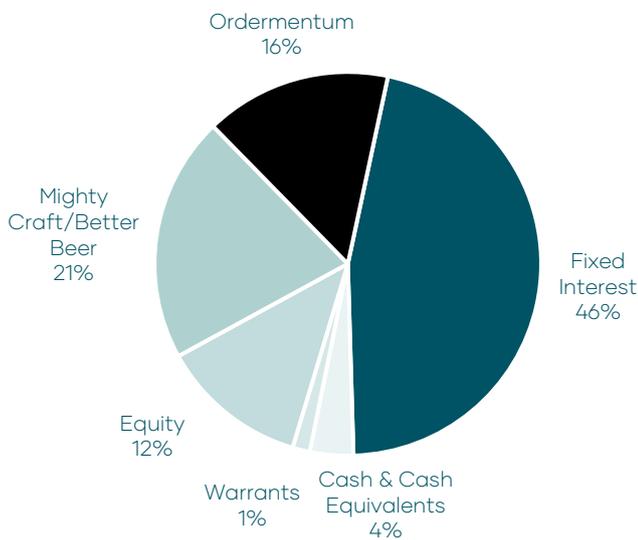


Foundation Class Portfolio Returns (After Fees)

	1 month %	3 Months %	6 Months %	1 Year %	3 Years % p.a.	Since inception* % p.a.
PURE Income and Growth Fund	3.4%	0.3%	0.7%	-2.4%	1.1%	+8.4%
Standard Deviation (Annualised %)				4.9%	4.8%	10.2%
Sortino Ratio						0.9
Sharpe Ratio						0.4

* Fund inception 21 December 2018

Portfolio Asset Allocation



Fund Overview

Fund Size	\$96.7m
Foundation Class Unit Price	\$1.1111
Number of Investments	12
Average Loan Size	\$3.6m
Weighted Average Interest Rate	8.8%
Arrangement Fees Paid to Investors	\$4.7m
Trailing Fund Yield (12m) Est.	3.0%

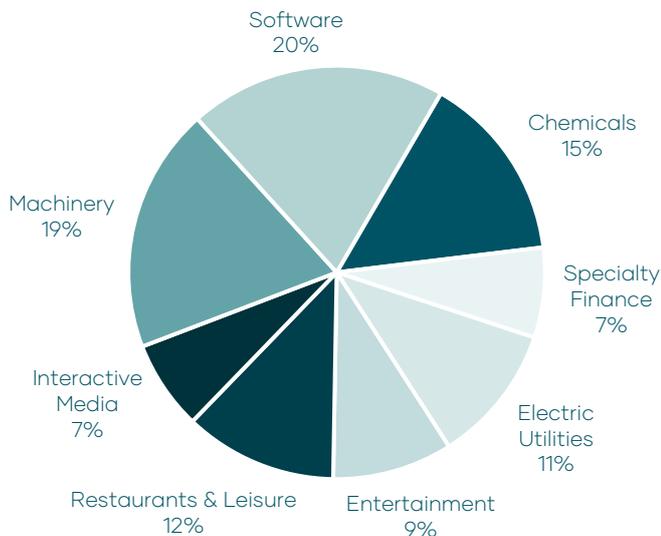
Monthly Commentary

The broader market was softer in September, with the S&P/ASX 200 Accumulation Index falling -1.4% for the month. This weakness was largely driven by large cap industrials and tech as valuation concerns and softer economic data caused investors to reassess their winners. The resources and small cap sectors bucked the trend, which we hope is a passing of the baton in terms of market leadership.

Following a range of stock specific catalysts, the PURE Income & Growth Fund rebounded 3.41% in September. On a broader level it was pleasing to see good company news rewarded with share price performance at the smaller end of the market. This has been a consistent theme across the space in recent periods, and a welcome divergence from what has been a challenging few years for smaller companies.

The key performance contributors in September were Carbonxt (+1.0%), Swift Networks (+1.2%), and DXN (+0.5%), while Spacetalk and Adneo detracted modestly.

Fixed Interest Sector Allocation



PURE online application form

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Can the rally in small caps be sustained?

The small cap index has been performing well for a while, and this has now, at last, filtered down to the micro end of the market (which we have previously dubbed the *real*/small caps). As a reminder, the S&P/ASX Small Cap Industrial Index has a median company market cap of \$1.8 billion, and includes companies such as News Corp, Alcoa, Harvey Norman and TPG Telecom.

Over the long run small caps and large caps have historically delivered similar performance; they both have weakness and attributes that determine this.

In the period from when the first market sell-off started as sub-prime contagion infiltrated the psyche of Australian investors in October 2007, until two years ago (Sept-23), large caps had delivered double the return of small-caps (60% vs 30%).

In September 2023 we wrote:

“..we think the small caps will meaningfully outperform in the years ahead for valuation reasons.”

Since then, small caps have matched the performance of large caps, with both indices up 50%. Most of the heavy lifting for small caps has occurred since March, with 10%pt of outperformance. The entrenched thesis of large cap pre-eminence, that scale, stability and quality ensure enduring outperformance, has been decisively challenged by a surge in gains from many smaller companies and sectors.

This is welcome relief to small cap investors, particularly those who focus on the micro end, where the underperformance of the small cap index belies the true picture of share price carnage. The recovery of share prices within this smaller cohort has only just begun.

This resurgence has opened up opportunities for companies to raise capital to repair balance sheets and fund growth initiatives. 100% of the listed companies in our portfolio have raised money in the last 12 months.

Will it continue?

In our view, attempting to forecast the small cap market through macroeconomic data is a fruitless endeavour. While sentiment naturally oscillates between optimism and pessimism in response to such data, the record of successfully predicting markets from these indicators is poor. Accordingly, we do not rely on macro data to shape our outlook.

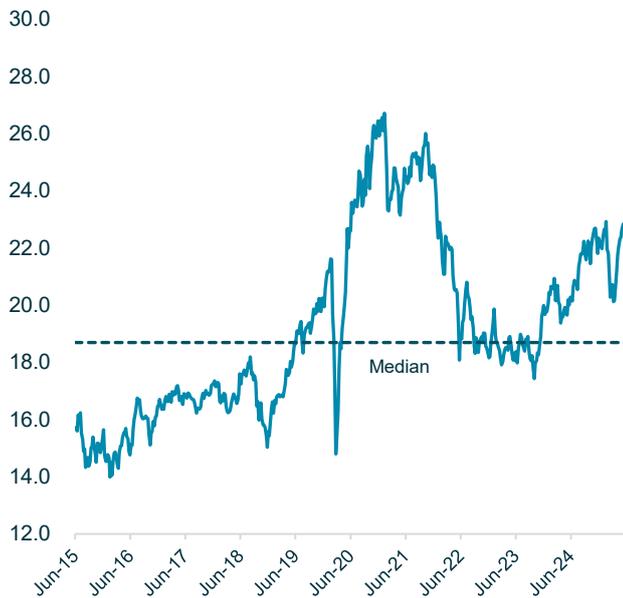
Our approach is grounded in market signals and functional insights. These continue to reinforce the expectation of continued small cap outperformance. Although a meaningful minority of stocks have enjoyed remarkable performance, the broader small cap market shows no signs of speculative excess.

Signs of exuberance in small caps

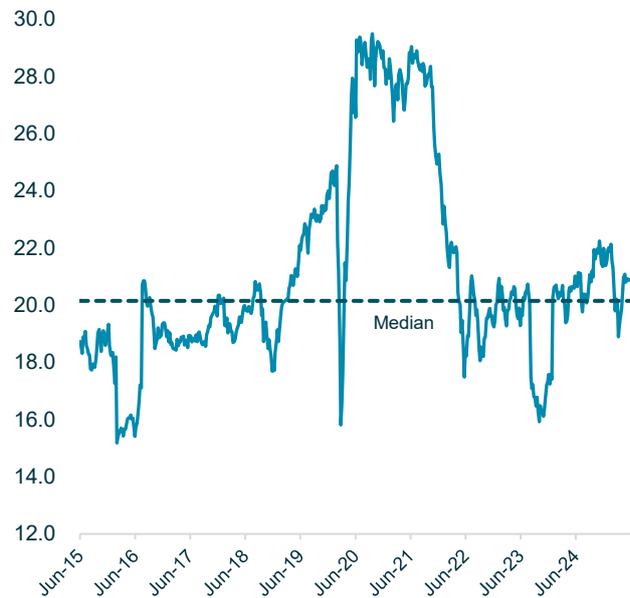
Hot IPO market	No	Very weak. Source: Small Caps
Takeovers using Scrip	No	Mainly cash (see below).
Equity raising at narrow discounts	No	17% average for transactions under \$50m. Source: The Herbert Smith Freehills ECM review
Margin lending	No	No evidence reported.
High retail participation	No	No growth in small cap ETF fund flows over last two years.
Insider selling/buying	No	More buying than selling. Source: Market Index
Narrowing market breadth	No	Broadening market depth.
Relative Valuation	No	Small Industrials 9% discount to large vs historical premium of 8% Source: Refinitiv (see below)
Valuations Stretched	No	Small Industrials P/E 20.9x vs 10-year median 20.2x Source: Refinitiv
Weak earnings growth	No	Three-year CAGR forecast of 12.8% (vs 5.5% for large cap) - Source: Wilson Advisory
Media hype	No	Limited reporting of small cap performance this year, albeit more articles recently.

Private Equity Exits No Almost non-existent.
Index making consistent new highs No The Small cap index closed above its Aug-21 high for the first time in July this year.

S&P/ASX 200 Industrials (fwd P/E ratio)

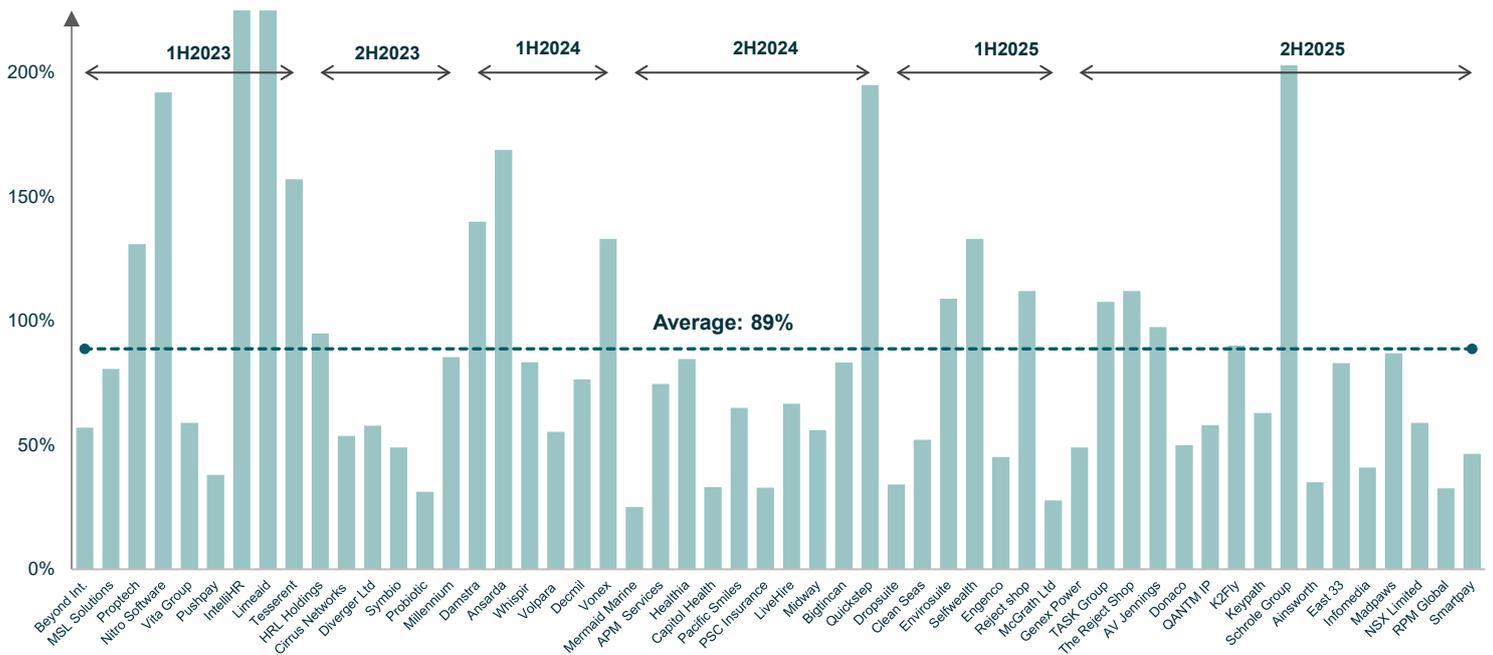


ASX Small Industrials (fwd P/E ratio)



Small industrial companies continue to see considerable corporate interest. Although valuations of this cohort have risen, the M&A activity has continued, and the frequency appears to be increasing. Premiums paid to acquire targets remain elevated at 89% on average (71% median), which is approximately 20%pt higher than the long-run average.

Small Cap takeover premiums 2023 - date
(ASX Industrials)

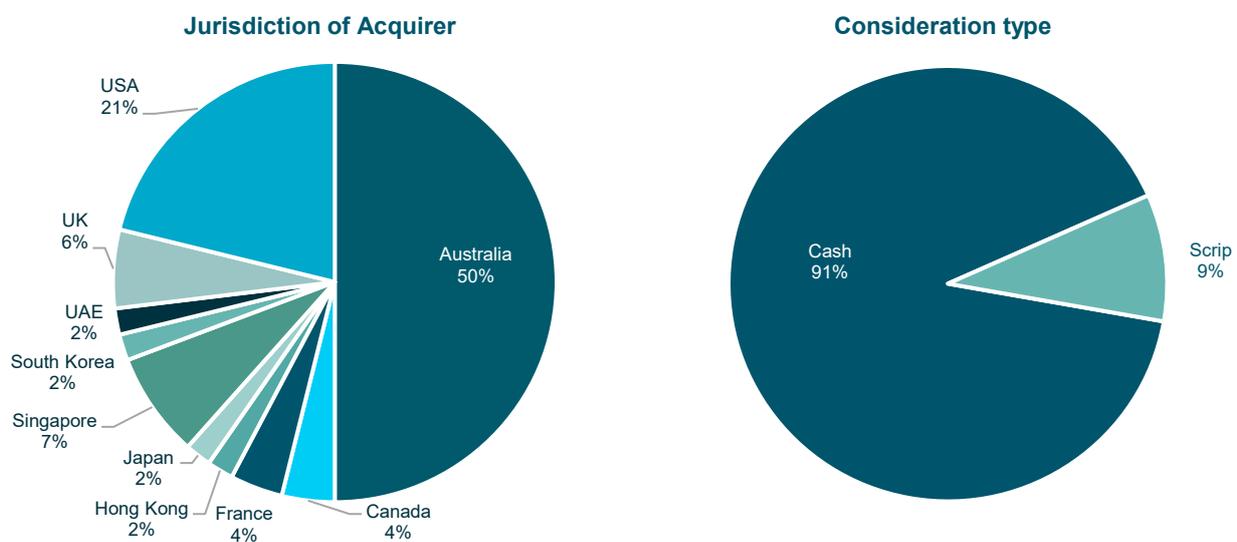


M&A activity often surges in both early cycle recoveries and periods of irrational exuberance, and so is not a useful market cycle indicator in its own right. However, the form of consideration, cash versus scrip, can provide insight into which dynamic is at play.

Cash Consideration: A preference for cash consideration is often a hallmark of early cycle recovery. Companies use cash reserves or borrow to fund acquisitions, signalling confidence in future cash flows and a belief that target companies are undervalued.

Scrip Consideration: A reliance on scrip consideration is more typical in periods of exuberance. Companies leverage their own highly valued stock as currency to fund acquisitions, especially when share prices of the target are also inflated.

As you can see below, the vast majority of acquisitions in the small industrial space have been for cash.



Although there has been a good rally in small cap industrials, the index is only 8% above its August 2021 high. Which compares with the S&P/ASX200 Industrial index, which has grown 46% over the same period.

This data includes income reinvested. Without dividends, the S&P/ASX Small Industrial index is still 6% lower than its pre-GFC peak, reached in May 2007.

Small cap rallies are not linear, so several pull-backs are likely, however, in our view, the outperformance of small caps (especially micro caps) over the medium term, has further to go.

Thank you,

Nick, Mike, Tim, 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%	-0.4%	-0.8%	0.5%	0.7%	-1.8%
FY26	-0.7%	-2.4%	3.4%										0.3%

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%	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%	-0.4%	-0.8%	0.5%	0.7%	-1.8%
FY26	-0.7%	-2.4%	3.4%										0.3%

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 30 September 2025](#)

Distribution Re-Investment Plan (DRP)

If you are interested in electing to have DRP for your portfolio, please [click here](#)

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