

## PURE Income and Growth Fund

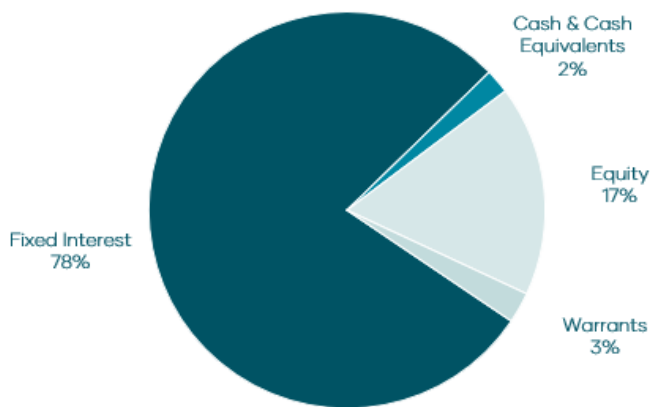


### Foundation Class Portfolio Returns (After Fees)

	1 month %	3 Months %	6 Months %	1 Year %	3 Years % p.a.	Since inception* % p.a.
PURE Income and Growth Fund	+0.9%	+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

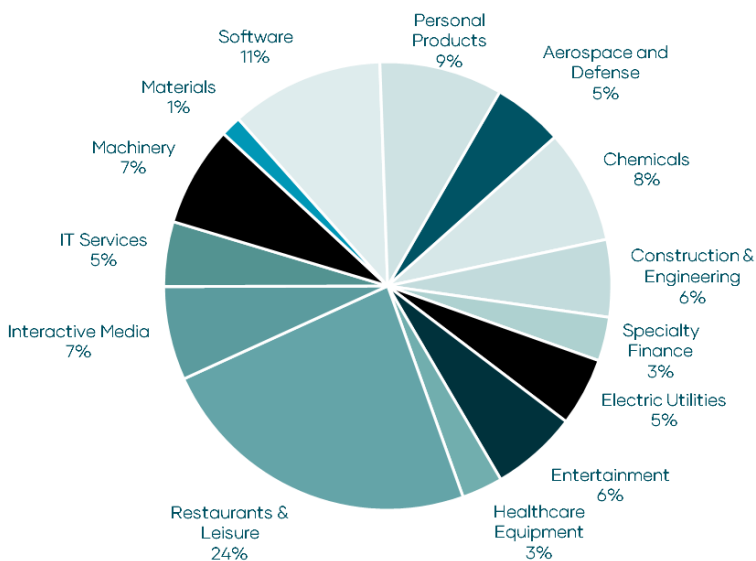
### Portfolio Asset Allocation



### 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%

### Fixed Interest Sector Allocation



### PURE online application form



### 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.

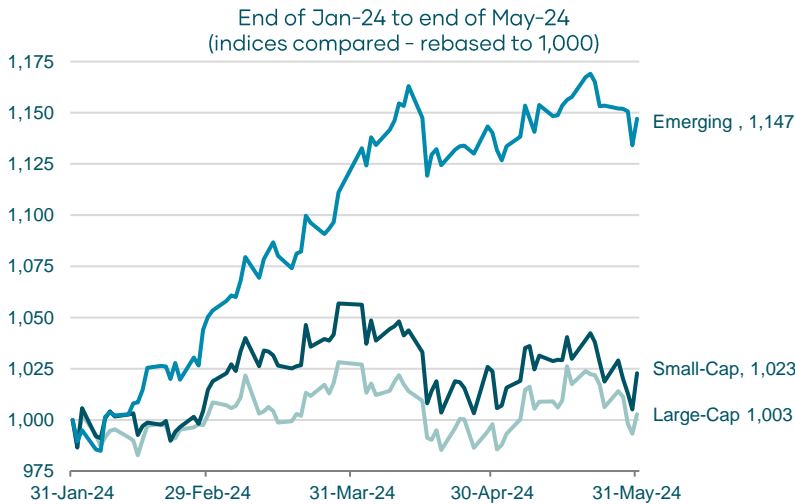
In the last year the Fund is up +8.4%; in the last 6 months annualised it is up +11.2%; and, in the last quarter annualised it is up +17.3%.

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.

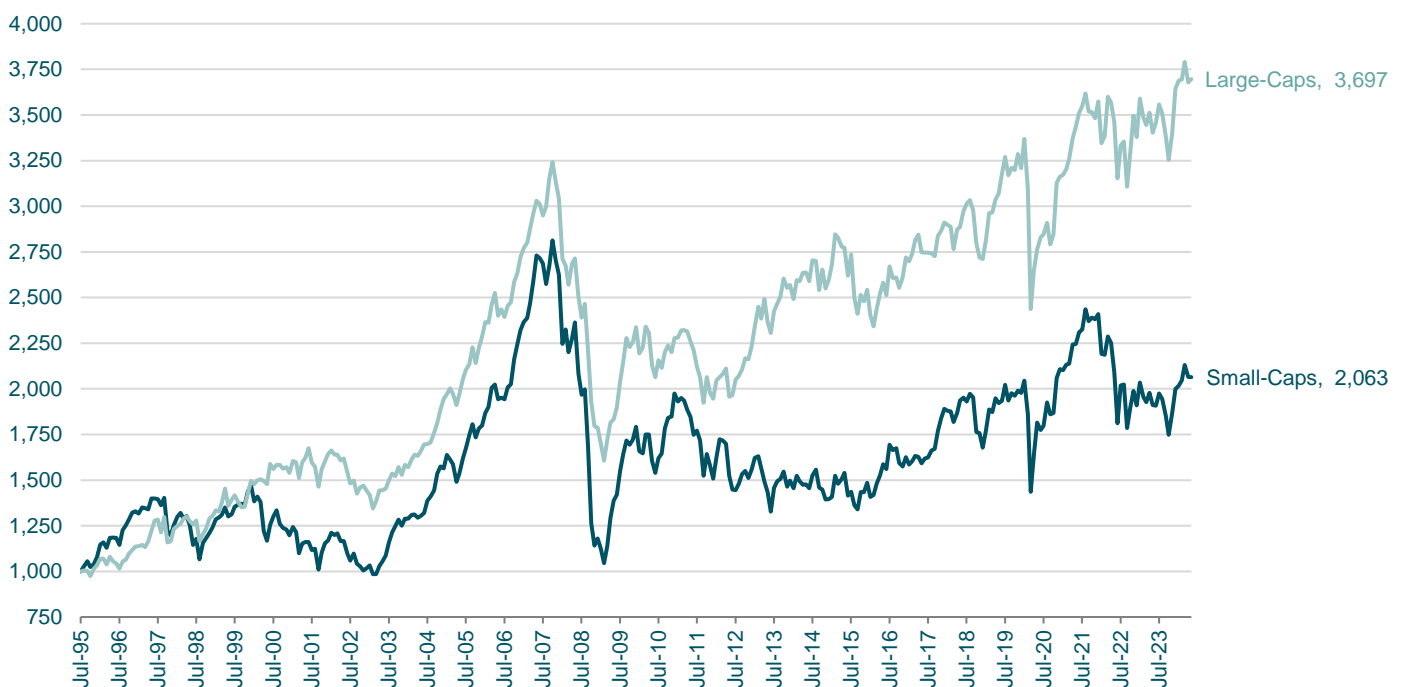


It's way too early to be soliciting plaudits, but after such a long period of underperformance, we have highlighted this improvement as we think many investors have become so accustomed to the large-cap pre-eminence they may have discounted that smaller companies can actually outperform.

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.

S&P/ASX Small Caps vs. S&P/ASX 200



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.

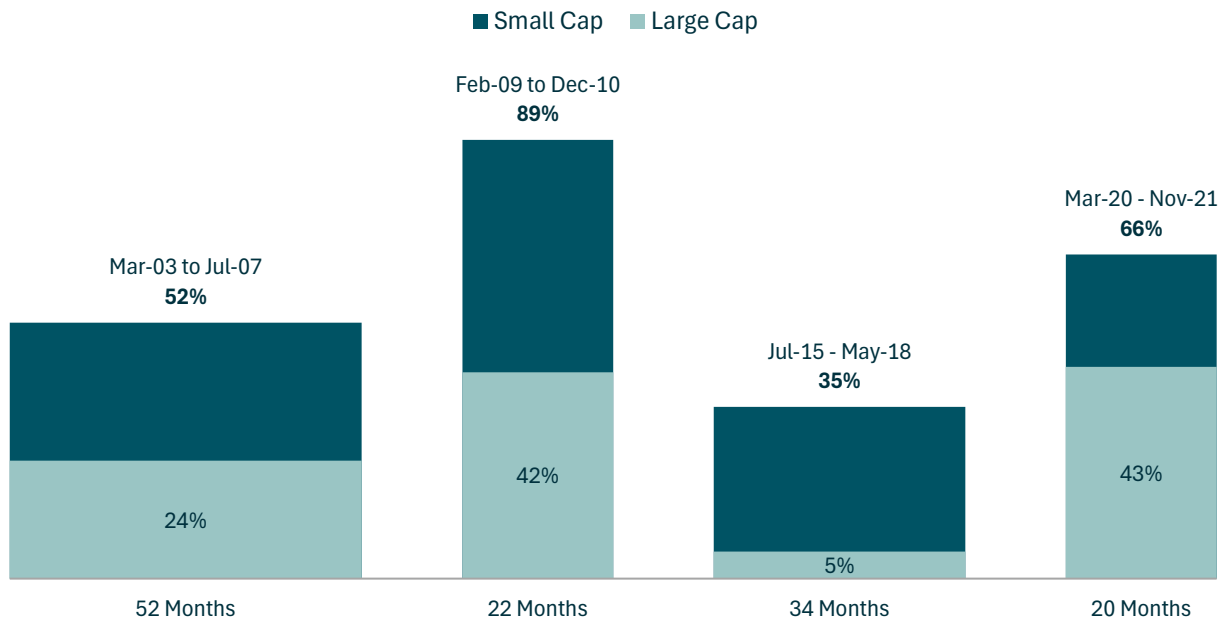
So, what about Small-Caps? Here the market signals are unmistakable. We are NOT in a Bull market, and we ARE in a Bear Market.

Are we in a bull market? - SMALL CAP		Are we in a bear market? - SMALL CAP	
Market Valuation Higher than long run	NO	Consistent Downward Trend	YES
Rapid Price Increases	NO	Lower Highs and Lower Lows	YES
Low Dividend Yields	Maybe	Increased Volatility	YES
Increased IPO Activity	NO	Exceptionally Low Trading Volume	YES
High Valuation of Unprofitable Companies	NO	Bearish Investor Sentiment	YES
Speculative Investment Vehicles	NO	High VIX Index	YES
Euphoric Investor Sentiment	NO	High Put/Call Ratio	Maybe
Investor Margin Loans	NO	Defensive Sector Outperformance	YES
Bullish Media Coverage	NO	Small-cap underperforming large-cap	YES
Low Volatility	NO	Declining Breadth	YES
Low Short Interest	NO	Falling 200-Day Moving Average	YES
Exceptionally High Trading Volumes	NO	Declining Earnings Growth	YES
Retail Investor Frenzy	NO	Majority Negative Analyst Revisions	NO
High Upward Correlation Across Stocks	NO	High Downward Correlation Among Stocks	YES
Negative Earnings Revisions	NO	Rising flight to safety	YES
Stretched valuation of High-Growth	NO	Weak IPO Market	YES
Macro-economic Disconnection	NO	Widening High Yield Spreads	Maybe
Bubble-like Behaviour in Specific Sectors	NO	Increased Bankruptcy Filings	YES
High Price-to-Sales Ratios	NO	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.

### Periods of Small-Cap Outperformance vs. Large Cap



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%.

## Company Updates

### DXN Limited (DXN.ASX)

After a lot of work last year resolving legacy issues, DXN is now rapidly recovering both due to a lowered cost base and a significant increase in customer demand.

The Company's main operation is the manufacturing of modular data centres, these are small scale data centres (about the size of a shipping container), which are deployed for a variety of reasons:

- A remote location - where demand is insufficient, and the supply of telecoms and power is prohibitive to building a traditional data centre.
- Cable Landing Stations - to connect a subsea cable to the domestic network.
- Edge data - bringing compute capacity closer to the customer.

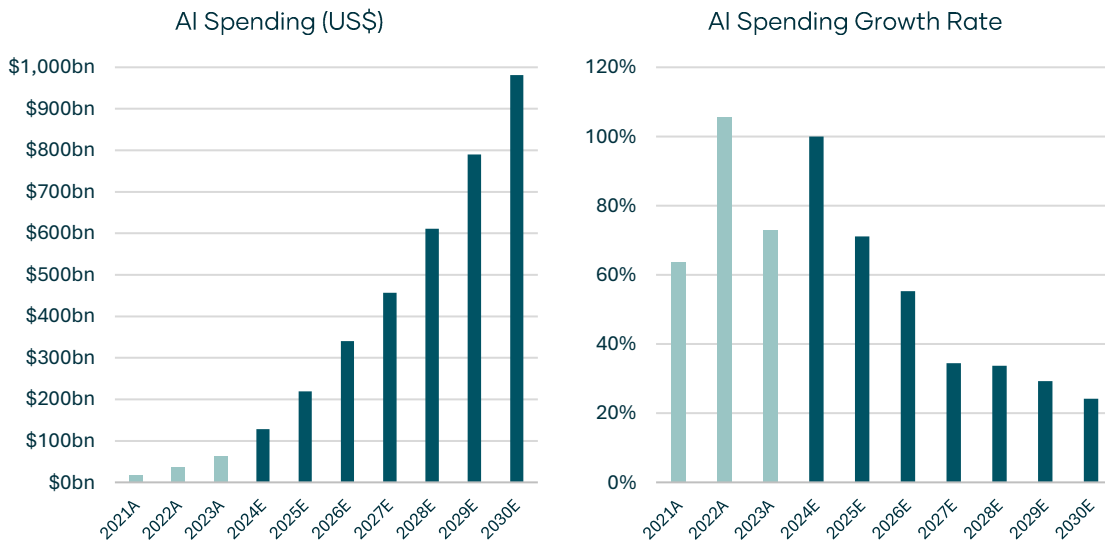
Each of these requirements are enjoying structural growth and despite its small size, DXN is a well-regarded producer in the Asia Pacific region having supply +40 modules over the last five years, including to governments and enterprise customers.

DXN attracted a takeover bid in 2022 at a 140% premium to the current market cap. This was aborted after it was blocked by the Foreign Investment Review Board, however, the impact on the Company's financials, was significant. New contracts have long lead times and during the takeover discussions potential customers put orders on ice, leaving a significant hole in the group's revenue in FY23 and 1H24.

DXN spent most of 2023 rebuilding demand and over the last six months its labours began to bear fruit. Earlier this year the Company won the largest contract in its history (\$5.7m) and more recently announced that revenue for FY24 will be up at least 52% on FY23.

The Fund's loan has always been underwritten by the group's two profitable regional data centres (its smaller division), but we invested for the potential of the Modular Division. The shares rallied 40% in May, but in our view, this is the beginning of a what could be a remarkable, Lazarus-like, growth story.

Demand for traditional modular datacentres is likely to underpin revenue growth for the foreseeable future. However, requirements for Artificial Intelligence compute capacity could add an extraordinary amount of additional demand. A query on ChatGPT requires 5x the compute capacity of a Google search, meaning we are at the very start of gargantuan increase in compute demand; already this year two major datacentre companies in ANZ have each raised over \$1bn to fund upgrades and expansion.



Source: Bloomberg Intelligence, IDC, eMarketer, Statista

DXN is likely to be a key beneficiary of two trends. Globally, Asia Pacific is the fastest-growing region for data processing, and modular datacentre demand is expected to grow at a faster rate than traditional datacentres.

Excluding legacy payments, which roll off in 2024, the Company turned profitable in the first half, and is valued at 1x current revenue. The Fund holds ~15% of DXN's equity and has a material number of warrants.

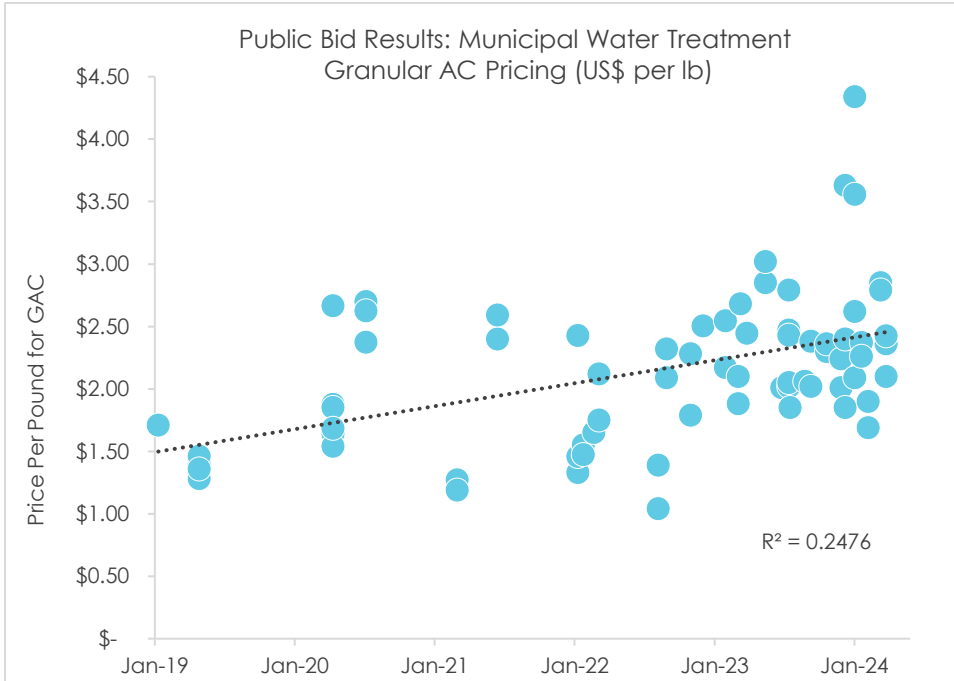
### Carbonxt Group Limited (CGI.ASX)

Carbonxt continues to progress towards finalisation of its new JV production facility in Inez, Kentucky, which is being built to supply activated carbon to US utilities to remove PFAS from water supplies.

PFAS (per- and polyfluoroalkyl substances) are gaining increasing attention and notoriety due to the health and environmental problems caused by these chemicals. Major producers 3M and Dupont have already paid vast sums to settle litigation, and the US Environmental Protection Agency has implemented stringent regulations for their removal. Activated carbon is the most widely used method for remediating water supplies.

Supply chains have impeded the Company's initial project development timeline in Kentucky, but good progress has been made towards commercial launch this year. We understand two key bottlenecks have challenged the construction team, with one of these (a control panel) now resolved and onsite. We consider this a major step and look forward to the facility's highly anticipated commissioning later this year.

Importantly, based on data from public tenders, market pricing for activated carbon products continues to strengthen and frequency of tenders is increasing. Structural drivers underpin a compelling demand story, and we anticipate strong interest for initial product from the Kentucky site.



Source: Carbonxt

It is expected that the new facility will be highly profitable but, in the meantime, Carbonxt has also negotiated a \$4.3m forward payment from Wisconsin Public Service, its largest pellet activated carbon customer. This provides the Company with financial flexibility ahead of Kentucky coming online. The group's other operations, in powdered activated carbon, are enjoying steady production, but demand here is also increasing and expansion opportunities continue to be progressed with customers.

## 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%	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](#)

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