

# PURE MICROCAP

## VALUE FUND



### MONTHLY PERFORMANCE AS AT 30/09/2020

|                                      |   |                                |
|--------------------------------------|---|--------------------------------|
| latest unit price<br><b>\$1.0489</b> | return since inception (Oct 2017)<br><b>5.75%</b> | return 1 month<br><b>1.89%</b> |
|--------------------------------------|---|--------------------------------|



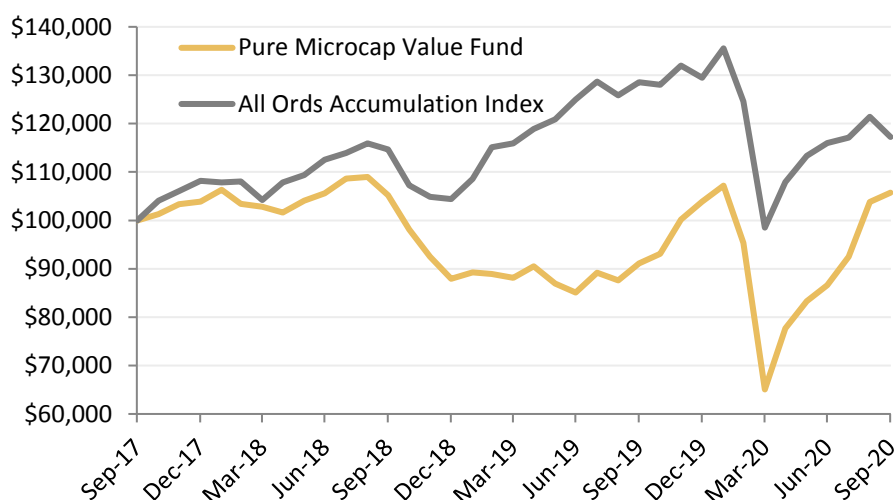
#### FUND OUTLINE

Fund Manager:

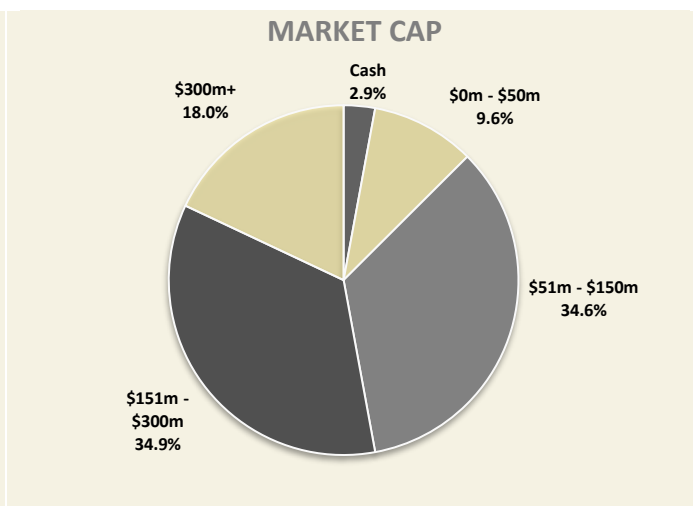
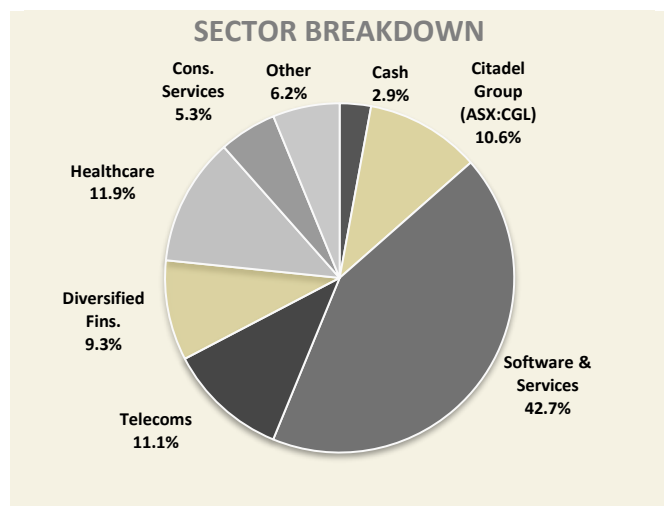
Carlos Gil (CIO)

The Pure Microcap Value Fund is a wholesale fund investing in a portfolio of undervalued, profitable and growing ASX microcap companies.

VALUE OF \$100,000 INVESTED AT INCEPTION > **\$105,749**



|      | Compound p.a. since inception | Total since inception | 3 Year | 2 Year | 1 Year | 6 Month | 1 Month |
|------|-------------------------------|-----------------------|--------|--------|--------|---------|---------|
| PMVF | 1.88%                         | 5.75%                 | 1.88%  | 0.26%  | 16.07% | 62.53%  | 1.89%   |



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## MARKET UPDATE AND COMMENTARY

Following on from our commentary last month, new data points out of China during September indicate continued evidence of its economic recovery. Electricity generation rose strongly during August and subway passenger volume is now just 10% off pre-Covid levels. The Chinese economy is likely to have expanded in the mid-single digits during the third quarter of 2020, leaving China as the only G20 member that is likely to post positive growth during 2020. However, the recovery mirrors the unbalanced Chinese economy which still has consumer consumption at 39% of GDP compared to +60% for most developed economies. The resurgence in Chinese consumer spending has been slow and it is industrial production and construction that have driven economic activity in recent months. There are however some green shoots opening in consumer consumption with retail figures rising +0.5% in August versus a year ago, the first register of growth in the Covid impacted 2020 year. Domestically, the Federal government will be placing fiscal discipline as a distance secondary consideration as it seeks to prioritise economic growth and boost economic spending by way of government spending and running large deficits. This is likely to have a positive impact for several of our investee companies.

**Microequities Pure Microcap Value Fund returned 1.89% in September; this brings the total return net of fees to 5.75% for the Fund since inception in October 2017.**

During the month our holding in **Citadel Group (ASX:CGL)** received a takeover offer from private equity outfit PEP. The cash offer of \$5.70 represented a 43% premium to the last closing price. The offer vindicates the inherent undervalued nature of Citadel shares prior to the offer and the transition of the business from a services to a predominantly software business over the past 12 months. The business is at the start of an inflection point of significant earnings growth and we understand they are tendering for a number of large scale UK healthcare software contracts. The takeover offer whilst at a large premium to the last price, fails to account for the significant growth inherent in the business and we are less than enthused by the offer. There is always the potential for a rival offer as speculated in various media outlets. Our holding in CGL represents 10.6% weighting at month end.

The Fund added a new investment in the consumer discretionary segment. This business has cleaned up its management team and board composition in the past 12 months, bringing in leadership with relevant experience. The product it sells has strong heritage, locally made and growth will be propelled with expanded distribution in retail channels. The business has recently reached profitability and we expect FY21 to be a significant inflection point as revenues are expected to double.

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|  |               |
|--|---------------|
| <b>Projected EPS Growth</b>              |               |
| 1 Year Forward<br>(on a weighted basis)  | <b>+18.7%</b> |
| <b>Projected EPS Growth</b>              |               |
| 2 Years Forward<br>(on a weighted basis) | <b>+20.6%</b> |

|                                    |              |
|------------------------------------|--------------|
| <b>Number of companies</b>         | <b>35</b>    |
| <b>Top 5 Holdings</b><br>% of NAV  | <b>43.4%</b> |
| <b>Top 10 Holdings</b><br>% of NAV | <b>64.5%</b> |
| <b>Top 20 Holdings</b><br>% of NAV | <b>84.1%</b> |
| <b>Cash Position</b><br>% of NAV   | <b>2.9%</b>  |

**Important information:** This information is not intended to be financial advice. Past performance is not indicative of future performance. Microequities Asset Management Pty Ltd is a corporate authorised representative, number 462438, as appointed by Microequities Asset Management Group Limited holder of AFSL number 287526. Application for units in the Fund is limited to investors that are wholesale or sophisticated investors within the meaning of Section 761G(7) and 761GA(7) of the Corporations Act 2001.