SOLARIS
investment management

Solaris Core Australian Equity Fund

(APIR: WHT0012AU)

Monthly Investment Report

as at 30 November 2022

Market and Fund Performance[1]

Throughout November, equity markets continued to be driven by movements in bond markets. Having sold off early in the month with the US Federal Reserve raising cash rates by 0.75%, equity markets then soared on a lower-than-expected US inflation print and continued to edge higher for the rest of the month with further support from the Australian inflation print coming in below expectations at 6.9% year on year. The S&P/ASX 200 Accumulation index finished the month up +6.6%, while bonds yields were lower at month end with the Australian 10-year yield finishing the month at 3.5%, despite the RBA raising the cash rate by another 0.25% to 2.85% during November. All sectors in the index posted positive returns for the month, led by Utilities (+20.9%) powered by the bid for Origin, and Materials (+16.3%) supported by iron ore prices and potential relaxation of China's restrictive covid policies. Conversely, Financials ex Real Estate (+2.4%) and Communication Services (+2.1%) were the worst-performing sectors for the month.

During the month, two of the top three stocks, Sandfire Resources (+45.2%) and Champion Iron (+39.0%), were mining stocks that performed well on improvement in underlying commodity prices and further supported by optimism regarding the re-opening of China. Origin Energy (+41.1%) also outperformed in response to a $15.5 billion takeover proposal from a consortium led by Brookfield. The bottom three performers included Collins Food Ltd (-18.6%), which underperformed post half-year results indicating significant inflationary impacts on margins, Elders (-18.4%), whose share price fell following the announcement of the retirement of the CEO and Novonix (-16.4%) on concerns of a potential slowdown in electric vehicle demand.

A portfolio holding in focus is Northern Star Resources Limited, a West Australian based gold mining company. Northern Star is run by a high-quality management team, who have proven their operational skills, execution skills and shareholder focused capital management approach. Northern Star owns and operates three gold production centers, and the flagship asset is the super pit located at Kalgoorlie, which we view as very high quality and will benefit from expandable production in future years. Additionally, the risk profile is low compared to peers whose production growth is reliant on a higher risk overseas assets. Company management have demonstrated capital management discipline across both internal growth projects and acquisitions. Prudent capital allocation has resulted in a strong balance sheet, which is in a net cash position, and the company is currently buying back shares on market. In regard to acquisitions, their most recent acquisition was the Pogo Mine in Alaska which controls over 17,000 hectares of mining and exploration leases that contain significant embedded value. Management have had success in improving the recent operational performance at this asset and remain disciplined with respect to future capital expenditure. Northern Star are focused on improving ESG outcomes and have committed to decarbonising their gold production with a target of reducing emissions by 35% by 2030.

[1]Illustrative only and not a recommendation to buy or sell any particular security.

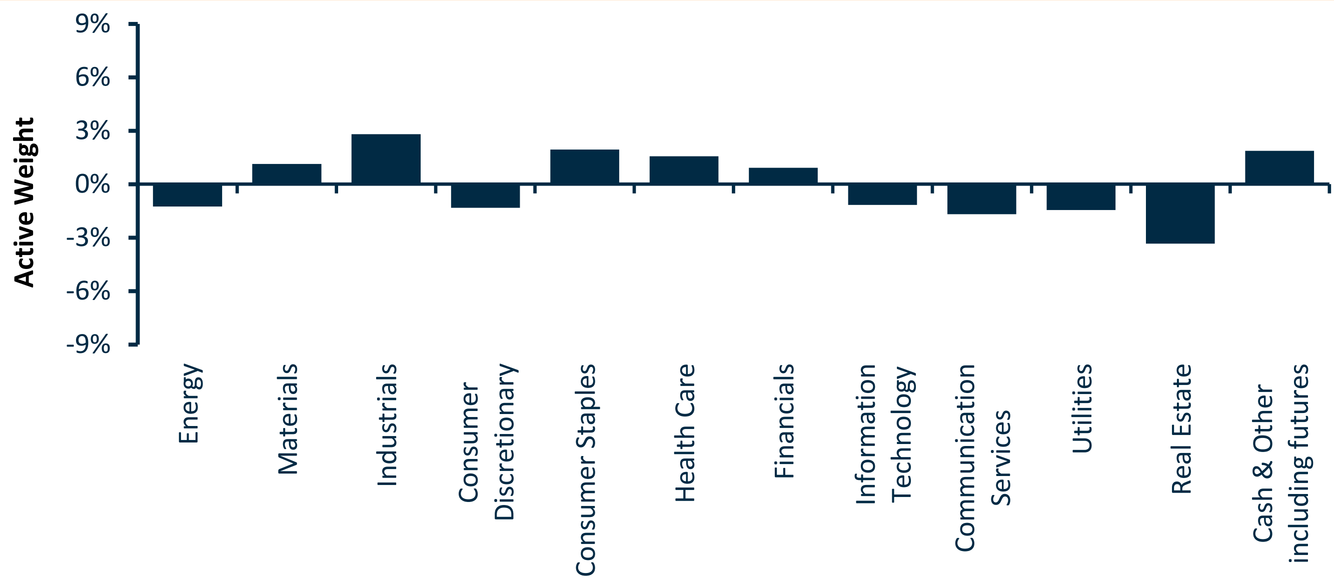
Returns	Month	Rolling Quarter	FYTD	1 Year	3 Years p.a.	5 Years p.a.	7 Years p.a.	10 Years p.a.	Inception p.a. (17/09/2008)
Fund Gross Return^	6.72%	6.70%	14.61%	7.15%	4.94%	8.05%	9.56%	10.68%	8.71%
Benchmark Return*	6.58%	6.04%	13.46%	5.00%	5.93%	8.20%	9.35%	9.37%	7.60%
Active Return	**0.14%**	**0.66%**	**1.15%**	**2.15%**	**-0.99%**	**-0.15%**	**0.21%**	**1.31%**	**1.11%**
Fund Net Return^	6.64%	6.44%	14.15%	6.12%	3.94%	7.01%	8.50%	9.61%	7.68%
Benchmark Return*	6.58%	6.04%	13.46%	5.00%	5.93%	8.20%	9.35%	9.37%	7.60%
Active Return (After fees)	**0.06%**	**0.40%**	**0.69%**	**1.12%**	**-1.99%**	**-1.19%**	**-0.85%**	**0.24%**	**0.08%**

^ Performance is for the Solaris Core Australian Equity Fund (APIR: WHT0012AU), also referred to as Class B units, and is based on month end prices before tax. Net performance is calculated after management fees and operating costs, excluding taxation. Gross performance is stated excluding all fees, costs and taxation. This is historical performance data. It should be noted the value of an investment can rise and fall and past performance is not indicative of future performance. All p.a. returns are annualised. * Benchmark refers to the S&P/ASX 200 Accumulation Index.

Top 10 Stocks (Alphabetical Order)

Name	Sector
BHP Group Limited	Financials
CSL Limited	Materials
Commonwealth Bank of Australia	Financials
National Australia Bank Limited	Health Care
Australia and New Zealand Banking Group Limited	Materials
Macquarie Group Limited	Real Estate
Goodman Group	Financials
Fortescue Metals Group Ltd	Financials
Suncorp Group Limited	Financials
Woodside Energy Group Limited	Energy

Sector Allocation



Source: Solaris Investment Management, November 2022

Market Valuation & Earnings Estimates:

	Market & Sector EPS Growth			Market & Sector PEs			Market & Sector Dividend Yield		
Pro-rated to June	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
All Companies	19.4%	-1.4%	4.2%	14.9x	14.9x	14.3x	4.3%	4.2%	4.4%
Banks	15.9%	14.5%	3.2%	15.2x	13.3x	12.9x	4.5%	5.0%	5.3%
Listed Property Trusts	10.7%	1.6%	3.2%	15.5x	15.2x	14.7x	4.8%	4.8%	4.9%
Resources	27.1%	-20.0%	-0.2%	7.9x	9.7x	9.7x	7.7%	5.9%	6.0%
Industrials ex-Banks	13.0%	13.0%	9.0%	23.7x	21.1x	19.4x	2.8%	3.1%	3.3%

Estimate only, which may not be realised in the future.

The securities presented on this slide are for illustrative purposes only and are not the complete holdings of the fund.
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Market Outlook

As we approach the end of the 2022 calendar year, the Australian equity market has delivered two consecutive months of over 6% returns. While the market has not recovered to the 2022 calendar year high, the sharp rally has prompted investors to ask if this is the start of a new bull market or simply a short-term rally in a consolidating market.

Corporate trading updates during the annual general meeting season in October and November provided an insight into the outlook for corporate earnings. With seven consecutive cash rate rises seen in the year to November, profit margins for a range of Australian corporates are feeling the impact from rising interest costs, ongoing labour shortages, surplus inventory and normalizing demand patterns following COVID-19. Throughout the month companies downgrading 2023 earnings expectations outnumbered upgrades by ~60%. A broad gauge of corporate Australia is the ASX 200 Industrials ex-Banks Index, where expectations for constituent earnings growth in the 2023 financial year have been revised down from +16.9% earlier in the year to +12.7%. The positive year on year growth is moderating due to the pressures noted above.

From a valuation perspective, the market one-year forward price to earnings multiple has expanded over the past two months from 13.1x to 14.6x. This has been driven by multiple expansion across the three main segments of the Australian market; Resources, Banks and Industrials. The Industrials ex-banks sector has re-rated from 18.7x to 20.0x and remains elevated versus the long run average of 17.1x and appears expensive given the recent rally in prices alongside concurrent earnings downgrades across the market.

The portfolio is built from the bottom-up and while recession fears are mounting, the portfolio aims to ensure the majority of the risk is generated from bottom-up stock selection rather than allowing macroeconomic views or events to dictate performance. Portfolio companies have strong and appropriately structured balance sheets, display pricing power and are well positioned to navigate this volatile environment. We have used market volatility over the year to add to several of our high-conviction positions at compelling prices and to reduce / exit positions in companies that have performed strongly and display low excess returns looking forward. In addition, we continue to see investment opportunities being presented in high quality companies that have de-rated materially on movements in discount rates. We remain cautious of companies that are trading on the combination of high valuation multiples and cyclically high earnings, with several companies that were material beneficiaries of the COVID-19 trading environment remaining in this category.

Business trading conditions are evolving rapidly which when combined with volatile macroeconomic conditions provide an elevated opportunity set for alpha generation. Earnings estimates are often stale and the outlook for individual company earnings can evolve quickly, providing both short term mis-pricings and attractive long term investment opportunities. The significant increase in the cost of capital and restricted access to capital markets, means a thorough understanding of each company’s operations, pricing power, balance sheet and earnings capability remains key. We see clear investment opportunities across the market, believe the portfolio is well positioned and view this investment environment as very well suited to the Solaris investment process.

Source: Solaris Investment Management, November 2022

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Link to the Product Disclosure Statement

Link to the Target Market Determination

For historic TMD's please contact Pinnacle client service Phone 1300 010 311 or Email service@pinnacleinvestment.com

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