

Solaris Core Australian Equity Fund

(APIR: WHT0012AU)

Quarterly Investment Report as at 31 December 2022

Market and Fund Performance¹

After two months of strong performance, equity markets pulled back in December, and the S&P/ASX 200 Accumulation index finished the quarter up 9.4%.

Inflation and central bank's reactions drove sentiment in equity markets. A lower-than-expected US CPI print provided relief for equity markets early in the quarter and the market seized on any dovish rhetoric. However, by quarter end, the RBA had raised rates by 0.25% each month, bringing the cash rate to 3.1%. The ECB and FOMC both raised rates by 1.25% in December quarter, while the Bank of Japan paused their long-standing yield curve control leading the market to conclude that the hiking cycle will continue until inflation is under control.

Despite the sell-off in December, all sectors delivered positive returns for the quarter with Utilities (+28.0%) the strongest supported by the bid for Origin, and Materials (+15.2%) benefitting from strong performance of mining stocks with improved commodity prices and potential relaxation of China's restrictive covid policies. Meanwhile, Consumer Staples (+1.84%) and Health Care (+1.86%) were the worst performing sectors for the quarter.

Within the ASX200 index for the quarter, the top 3 performers were Chalice Mining (+60.3%) which performed well on the back of positive drilling results, Virgin Money UK (+56.9%) outperformed after a strong FY22 result benefitting from rising rate environment and Telix Pharmaceutical (+53.7%) which outperformed noting a significant increase in sales of their Illuccix product in the United States as well as positive results on new kidney imaging process.

The bottom three performers included Star Group Star Group (-31.4%), after confirmation of fines and suspended license in Qld and a NSW announcement regarding proposed increased taxes on poker machines, Magellan Financial Group (-20.6%) underperformed following continued outflows and decline in funds under management and Imugene (-19.4%) as high growth stocks derated with rising bond yields.

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.

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

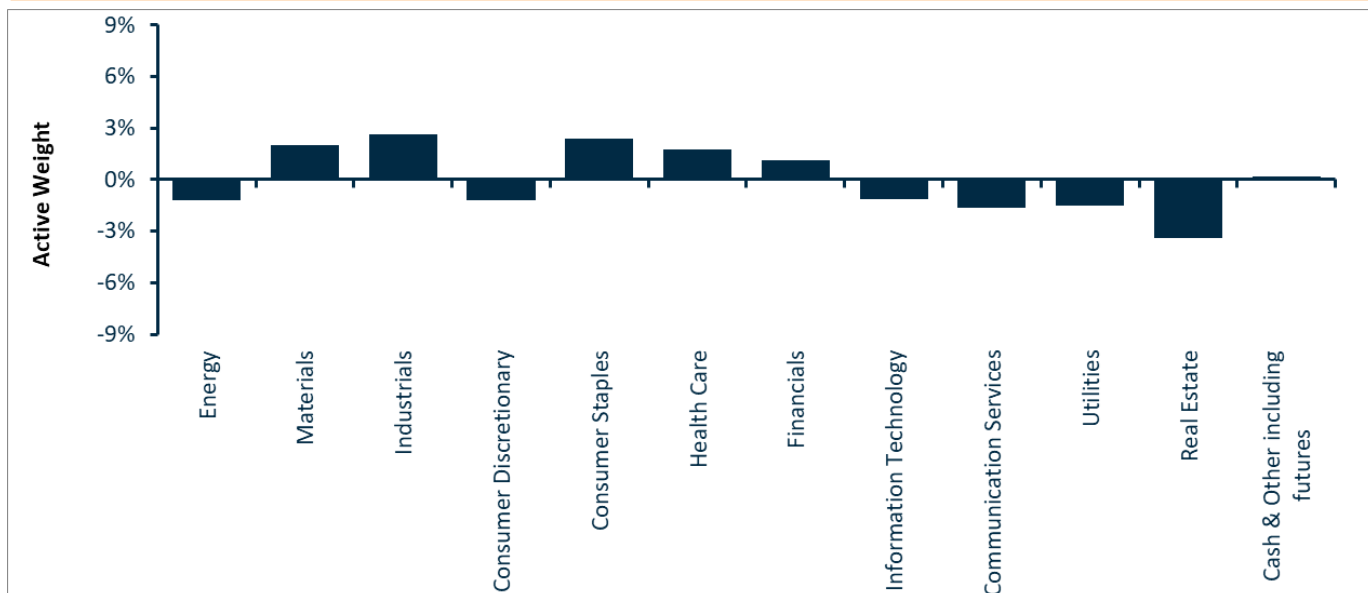
Returns	Month	Rolling Quarter	FYTD	1 Year	3 Years p.a.	5 Years p.a.	7 Years p.a.	10 Years p.a.	Inception p.a. (17/09/2008)
Fund Gross Return [^]	-3.71%	9.30%	10.36%	0.68%	4.33%	6.77%	8.67%	9.89%	8.37%
Benchmark Return [*]	-3.21%	9.40%	9.82%	-1.08%	5.55%	7.11%	8.43%	8.66%	7.31%
Active Return	-0.50%	-0.10%	0.54%	1.76%	-1.22%	-0.34%	0.24%	1.23%	1.06%
Fund Net Return [^]	-3.79%	9.04%	9.83%	-0.29%	3.33%	5.75%	7.63%	8.83%	7.35%
Benchmark Return [*]	-3.21%	9.40%	9.82%	-1.08%	5.55%	7.11%	8.43%	8.66%	7.31%
Active Return (After fees)	-0.58%	-0.36%	0.01%	0.79%	-2.22%	-1.36%	-0.80%	0.17%	0.04%

[^] 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
Australia and New Zealand Banking Group Limited	Financials
BHP Group Limited	Materials
Coles Group Limited	Consumer Staples
Commonwealth Bank of Australia	Financials
CSL Limited	Health Care
Fortescue Metals Group Ltd	Materials
Goodman Group	Real Estate
Macquarie Group Limited	Financials
National Australia Bank Limited	Financials
Suncorp Group Limited	Financials

Sector Allocation



Source: Solaris Investment Management, December 2022

Market Valuation & Earnings Estimates:

	Market & Sector EPS Growth			Market & Sector PEs			Market & Sector Dividend Yield		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Pro-rated to June									
All Companies	18.2%	-0.8%	4.8%	14.4x	14.4x	13.7x	4.5%	4.3%	4.5%
Banks	15.7%	13.9%	3.8%	14.5x	12.7x	12.3x	4.7%	5.3%	5.5%
Listed Property Trusts	10.4%	1.0%	3.5%	14.7x	14.5x	14.0x	5.0%	5.0%	5.1%
Resources	26.5%	-18.6%	1.1%	7.9x	9.5x	9.4x	7.7%	6.0%	6.1%
Industrials ex-Banks	10.5%	13.3%	9.1%	22.7x	20.1x	18.5x	2.9%	3.1%	3.4%

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

Market Outlook

What a year 2022 was. With markets dominated by the trajectory of inflation and the associated moves in interest rates to combat this, the investment team was presented with heightened volatility and an elevated investment opportunity set throughout the year.

Entering 2022 the portfolio opportunities were tilted towards companies with cyclical earnings and value characteristics. Throughout the year strong performance in these areas of the market, particularly in the resources sector and companies with COVID recovery exposure provided an opportunity to lock in profits and redeploy in investments offering higher future expected returns. As we have highlighted throughout the year, a range of high-quality companies with strong earnings growth profiles have de-rated materially on movements in discount rates, providing an opportunity to enter new or increase existing positions in high-quality franchises that are now trading at attractive valuations. The portfolio enters 2023 tilted towards companies with quality and sustainable earnings and displays a modest 'growth' bias.

As we move into 2023, we expect that macroeconomic headlines will continue to drive market sentiment and the global economy faces several challenges – namely global policy tightening, the risk of recession, the energy crisis with no clear endpoint in the devastating Russia-Ukraine war, weak consumer confidence and geopolitical concerns. Our investment process, driven by bottom-up company analysis, allows us to focus on which companies will have robust earnings and be able to weather the changing operating conditions which continue to evolve rapidly in this complicated investment backdrop. As we assess which companies are positioned to outperform in this environment, we are focusing on the following themes:

➤ Cost and availability of capital

There are many unknowns heading into 2023, but one certainty is that the access to cheap and readily available debt and equity capital has diminished. The combination of rising cash rates, higher bond yields, widening credit spreads and lower liquidity in capital markets makes us cautious sections of the market that have relied on cheap capital to fund future growth. In this environment we are focused on companies that are generating free cash flow with accounting earnings backed by cash earnings, that are not reliant on access to capital markets to grow.

➤ Strong and appropriate balance sheets

We remain laser focused on the strength of our portfolio companies balance sheets. A strong and appropriately structured balance sheet enables management teams the ability to manage through any periods of uncertainty. Whether we have a 'soft landing' or a 'hard landing' companies with conservatively managed balance sheets are best placed to perform. Companies with leveraged balance sheets in this higher cost of capital environment are putting shareholder returns at risk, as it leaves little margin of safety in the event of an unexpected shock.

➤ Pricing power

With the pressures on corporate margins into 2023, pricing power and a company's ability to increase prices to maintain or grow margin remains a key focus. An example is Suncorp Group which has several strong re-pricing tailwinds in hardening premium rates and higher re-investment yields. Combined with the anticipated sale of the bank franchise to ANZ in 2023, Suncorp is a great example of the pricing power we look for, combined with embedded value yet to be released through the sale of the bank and future capital management expected in 2023.

➤ Inventory positions

While supply chains are showing signs of easing, many companies are now caught with excess inventory positions. We highlighted in June and September the increasing risks that elevated inventory positions pose and have avoided companies where we have seen the building risk. It's only more recently that this story is beginning to play out in the earnings for many retailers and a factor we expect to continue as a key risk into 2023.

➤ Governance

Corporate governance has always been an important consideration but becomes elevated under more challenging operating environments. In 2022, we have seen companies without clear succession planning for executives or lack of alignment between remuneration and outcomes been punished by the market. We will continue to focus and ensure portfolio companies have quality management, appropriate governance controls as well as strong alignment between management and shareholder outcomes.

Market Outlook continued

➤ Energy transition

In 2023 we expect continued focus on the goal of decarbonizing the global economy. Companies involved in the production of critical metals and minerals for the energy transition are well positioned to benefit from this mega-trend. As more companies set Net Zero targets, the opportunity set for investment as well as speculative capital grows. Our focus, to avoid areas of speculation, is to invest in companies that are in production and generating free cash flows, with experienced and proven management teams operating in low-risk jurisdictions (Australia).

Where to from here?

Despite all the uncertainty and volatility of 2022, the S&P/ASX200 Accumulation Index impressively only finished the year down 1.1%, defying many market commentators and once again reminding us that trying to time the market is fraught with danger and something we never advocate. From a valuation perspective the current one year forward P/E is 14.1x, slightly below the 10-year average of 15.4x. We believe the deteriorating backdrop is not yet reflected in earnings forecasts, implying there could be further downgrades to come, particularly in the areas we highlighted above. Despite this we are seeing compelling investment opportunities across other areas of the market and overall believe this environment is well suited to the Solaris investment process.

Elevated market volatility and dispersion between companies provides the setting for increased alpha opportunities as the investment team welcomes the return to a "stock pickers market" and we strongly believe that having a robust, flexible, and forward-looking investment framework that is not constrained by owning the entire index, positions the portfolio extremely well. Through our portfolio construction and robust risk management, which is embedded in our +20-year process, we are confident in our objective and seek to offer higher potential returns across all market conditions.

As always, thank you for your support and allowing us the privilege of managing your investments.

Source: Solaris Investment Management, December 2022

Contact Details

For further information, please contact Solaris' distribution partner:

Pinnacle Investment Management Limited on 1300 010 311,
alternatively, please email: distribution@pinnacleinvestment.com

This communication is prepared by Solaris Investment Management Limited ('Solaris') (ABN 72 128 512 621, AFSL 330505) as the investment manager of the Solaris Core Australian Equity Fund (ARSN 128 859 898) ('the Fund'). Pinnacle Fund Services Limited ('PFSL') (ABN 29 082 494 362, AFSL 238371) is the product issuer of the Fund. PFSL is not licensed to provide financial product advice. PFSL is a wholly-owned subsidiary of the Pinnacle Investment Management Group Limited ('Pinnacle') (ABN 22 100 325 184). The Product Disclosure Statement ('PDS') and Target Market Determination ('TMD') of the Fund are available via the links below. Any potential investor should consider the PDS and TMD before deciding whether to acquire, or continue to hold units in, the Fund.

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

This communication is for general information only. It is not intended as a securities recommendation or statement of opinion intended to influence a person or persons in making a decision in relation to investment. It has been prepared without taking account of any person's objectives, financial situation or needs. Any persons relying on this information should obtain professional advice before doing so. Past performance is for illustrative purposes only and is not indicative of future performance.

Whilst Solaris, PFSL and Pinnacle believe the information contained in this communication is reliable, no warranty is given as to its accuracy, reliability or completeness and persons relying on this information do so at their own risk. Subject to any liability which cannot be excluded under the relevant laws, Solaris, PFSL and Pinnacle disclaim all liability to any person relying on the information contained in this communication in respect of any loss or damage (including consequential loss or damage), however caused, which may be suffered or arise directly or indirectly in respect of such information. This disclaimer extends to any entity that may distribute this communication.

Any opinions and forecasts reflect the judgment and assumptions of Solaris and its representatives on the basis of information available as at the date of publication and may later change without notice. Any projections contained in this presentation are estimates only and may not be realised in the future.

Unauthorised use, copying, distribution, replication, posting, transmitting, publication, display, or reproduction in whole or in part of the information contained in this communication is prohibited without obtaining prior written permission from Solaris. Pinnacle and its associates may have interests in financial products and may receive fees from companies referred to during this communication.