SOLARIS
investment management

Solaris Core Australian Equity Fund

(APIR: WHT0012AU)

Monthly Investment Report
as at 31 May 2023

Market and Fund Performance[1]

The S&P/ASX 200 Accumulation index experienced a decline of -2.5% in May, underperforming global equities as the S&P500 delivered +0.2% and the MSCI World delivered -1.25% in local currency. The strength of technology stocks buoyed US equity markets as concerns regarding the US banking sector faded, and focus shifted to artificial intelligence (AI). Notably, NVIDIA, a US tech company, upgraded earnings from AI, and its share price surged over 50%.

The rate-hiking cycle of global central banks continues, with the Reserve Bank of Australia (RBA) increasing by 25 basis points to bring the cash rate to 3.85%. The US Federal Reserve also increased rates by 25 basis points. Meanwhile, commodity prices were under pressure during the month, with Iron Ore down over 4.5%, Oil (WTI) down over 11% and Gold down 1.4%.

Australian technology stocks performed well alongside their US peers, with Information Technology (+11.6%) the clear top-performing sector for the month, followed by Utilities (1.1%) and Energy (+0.2%). Conversely, the worst-performing sectors were Consumer Discretionary (-6.1%), Consumer Staples (-4.6%) and Materials (-4.4%).

The top three performers included Life360 (+34.1%), which provided a positive Q1 update indicating the growing technology safety company is on track to be cash-flow positive this financial year. Lithium miners Lake Resources (+26.2%) and Allkem (+21.2%) also outperformed, with Allkem announcing a merger with US manufacturer, Livent.

The worst performers were Syrah Resources (-26.0%), who continues to underperform following April's quarterly update and subsequent capital raising through a convertible note; Lovisa (-22.5%), as local and international peers downgraded, impacting the fast fashion jewellery chain and IDP Education (-22.5%) sold off post announcement that their stranglehold in the Canadian market will be opened to competitors, impacting future earnings.

A portfolio holding in focus is Worley, a global provider of project delivery and consulting services to the Energy and Resources industries. Historically, Worley's business primarily involved consulting services for carbon-intensive industries such as Oil & Gas, Resources, and Chemicals, resulting in earnings that were closely tied to the capex cycles of these companies, making them cyclical in nature. However, as the world undergoes a significant transition toward achieving net-zero emissions, Worley has strategically positioned itself as a leader in sustainability. They are poised to benefit from the increasing investment in energy transition and decarbonization initiatives.

Worley offers a diverse range of services in key areas including Carbon Capture and Storage, Hydrogen, and Wind. Currently, approximately 35% of their revenues are derived from sustainability projects, and they have set an ambitious target of reaching 75% by 2026. This commitment was reaffirmed by management during a recent investor day, where they highlighted the strong outlook and margins for sustainability projects.

Solaris expects continued earnings growth, that is less cyclical in nature given the future investment in decarbonisation by energy and resources companies and given Worley's position as market and technical leader in this space.

[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^	-2.18%	-1.71%	12.98%	3.16%	10.74%	6.70%	8.40%	9.22%	8.30%
Benchmark Return*	-2.53%	-0.89%	12.80%	2.90%	11.43%	7.47%	8.29%	8.12%	7.29%
Active Return	**0.35%**	**-0.82%**	**0.18%**	**0.26%**	**-0.69%**	**-0.77%**	**0.11%**	**1.10%**	**1.01%**
Fund Net Return^	-2.26%	-1.95%	11.98%	2.17%	9.67%	5.67%	7.36%	8.17%	7.27%
Benchmark Return*	-2.53%	-0.89%	12.80%	2.90%	11.43%	7.47%	8.29%	8.12%	7.29%
Active Return (After fees)	**0.27%**	**-1.06%**	**-0.82%**	**-0.73%**	**-1.76%**	**-1.80%**	**-0.93%**	**0.05%**	**-0.02%**

^ 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.

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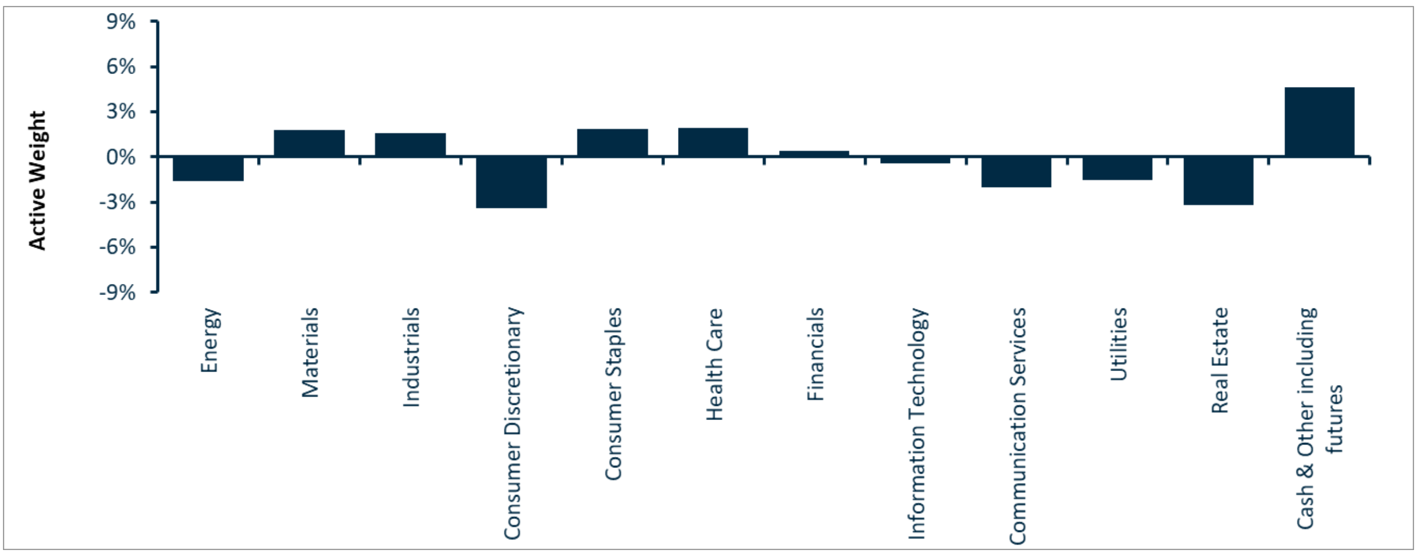
Top 10 Stocks (Alphabetical Order)

Name	Sector
ANZ Group Holdings Limited	Financials
BHP Group Limited	Materials
Coles Group Limited	Consumer Staples
Commonwealth Bank of Australia	Financials
CSL Limited	Health Care
Goodman Group	Real Estate
Macquarie Group Limited	Financials
National Australia Bank Limited	Financials
QBE Insurance Group Limited	Financials
Suncorp Group Limited	Financials

Sector Allocation



Source: Solaris Investment Management, May 2023

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	-0.1%	1.1%	1.1%	15.1x	15.0x	14.8x	3.5%	3.5%	3.6%
Banks	11.4%	-2.6%	0.9%	11.8x	12.1x	12.1x	5.7%	5.9%	6.0%
Listed Property Trusts	0.4%	0.2%	4.8%	14.5x	14.5x	13.8x	4.8%	4.9%	5.1%
Resources	-11.0%	-2.7%	-5.4%	12.2x	12.6x	13.3x	3.2%	2.9%	2.7%
Industrials ex-Banks	12.4%	8.9%	9.7%	21.3x	19.6x	17.9x	3.0%	3.3%	3.5%

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

The macro environment continues to present challenges and uncertainties. Inflation has not yet subsided, prompting central banks, including the RBA and globally to resume increasing interest rates. This leaves investors and corporations uncertain about when peak terminal rates will be reached.

The challenging and uncertain conditions are reflected in the market's expectations for modest earnings growth, indicating a negative earnings growth forecast for FY 2024. Currently, the market is trading at 14.8x on a one-year forward price to earnings multiple, aligning with the long-run average. However, we anticipate opportunities at the company level and expect to observe a divergence in earnings growth.

These difficult conditions are conducive for our investment process at Solaris. With the end of the era of easy money, capital allocation is expected to become more rational. We anticipate that this will lead to diverging outcomes for sectors and companies, providing us with opportunities to seek alpha.

At Solaris, we remain committed to our longstanding investment process, which involves comprehensive qualitative and quantitative research on each company. A factor we believe is critical in the high inflationary environment is that of industry structure. We seek out companies that demonstrate stable or improving industry structure. For instance, within the insurance industry, challenger brands are struggling while major players are gaining market share, while also demonstrating pricing power. In our portfolio, we have an overweight position in Suncorp, which has been trading at cyclical lows. Additionally, other portfolio holdings benefiting from rational industry structure include Qantas and Coles.

The portfolio is constructed from the 'bottom-up' fundamental analysis but we remain mindful of the overarching macro risks. The Portfolio remains underweight consumer discretionary names, given rising inventories and margin pressures in this space, evidenced by the recent run of downgrades by retailers. The Portfolio maintains its overweight to Growth, driven by holdings in quality growth names that we expect to deliver on earnings growth expectations.

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

Source: Solaris Investment Management, May 2023

Contact Details

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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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