

Solaris Core Australian Equity Fund

(APIR: WHT0012AU)

Quarterly Investment Report as at 30 June 2023

Fund Performance

The fund underperformed its benchmark for the quarter by 0.88% (after fees). Overweight holdings in Suncorp Group Limited, Worley Limited, James Hardie Industries PLC, Pilbara Minerals Limited and Life360 Inc made a positive contribution to relative performance. The main detractors were overweight holdings in Treasury Wine Estates Limited, South32 Limited, Ramsay Health Care Limited and The Star Entertainment Group Limited together with an underweight position in Xero Limited.

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 [^]	1.08%	0.37%	14.20%	14.20%	10.48%	6.13%	9.11%	9.57%	8.33%
Benchmark Return [*]	1.76%	1.01%	14.78%	14.78%	11.12%	7.16%	8.95%	8.56%	7.37%
Active Return	-0.68%	-0.64%	-0.58%	-0.58%	-0.64%	-1.03%	0.16%	1.01%	0.96%
Fund Net Return [^]	-1.00%	0.13%	13.10%	13.10%	9.42%	5.11%	8.06%	8.52%	7.30%
Benchmark Return [*]	1.76%	1.01%	14.78%	14.78%	11.12%	7.16%	8.95%	8.56%	7.37%
Active Return (After fees)	-0.76%	-0.88%	-1.68%	-1.68%	-1.70%	-2.05%	-0.89%	-0.04%	-0.07%

[^] 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.

Significant Contributors

Pilbara Minerals – Overweight (+24.1%)

The West Australian lithium producer delivered a strong quarter. Despite volatility in lithium prices, the company continues to generate consistently strong free cash flow as they are a low-cost producer with a high-grade asset in Tier 1 jurisdiction.

Suncorp – Overweight (+11.4%)

Insurance and banking provider, Suncorp, performed strongly over the quarter, with their insurance business gaining market share and benefitting from higher pricing and volumes in premiums written. Additionally, Suncorp continues to benefit from higher investment yields for its general reserves portfolio.

Life360 – Overweight (+53.8%)

Life360, provider of technology safety and tracking devices, outperformed during the quarter as an update from company management confirmed the company was on track to be cash flow positive as well as noting that they had been effective in increasing prices. News was well received by the market with earnings expectations upgraded.

Significant Detractors

Xero - Underweight (+33.0%)

Accounting software company Xero outperformed over the quarter. In May, the company held an investor day, where management highlighted the focus on accelerating profitability which was well received by the market.

Ramsay Health Care – Overweight (-15.4%)

Ramsay underperformed following a management update indicating that a strong final quarter would be required to meet earlier guidance. Additionally, despite growing revenue, the company continues to be challenged by high inflation and labour availability across the business.

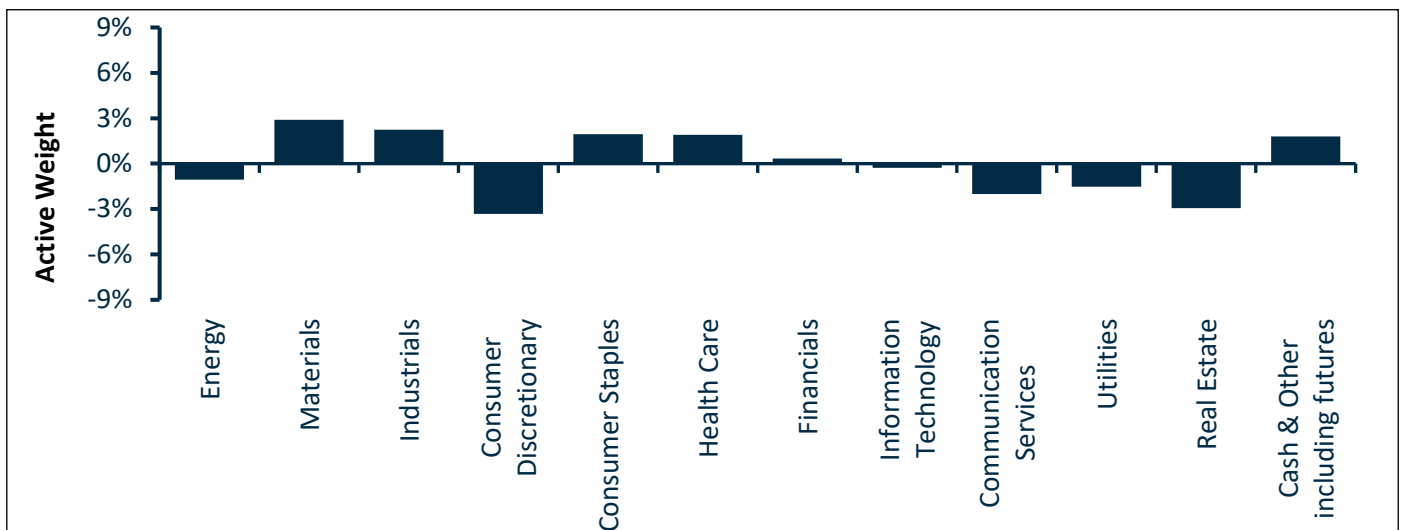
Treasury Wine Estates – Overweight (-14.1%)

Global wine company, Treasury Wine Estates, underperformed following management updates to the market, noting some brands performing below expectations and forthcoming cost pressures, resulting in earning downgrades for future years.

Contributors and detractors are based on the portfolio weight relative to the benchmark. Illustrative only and not a recommendation to buy or sell any particular security.

Top 10 Stocks

Name	Sector	Fund
BHP Group Limited	Materials	9.6%
CSL Limited	Health Care	7.7%
National Australia Bank Limited	Financials	6.2%
Commonwealth Bank of Australia	Financials	5.2%
ANZ Group Holdings Limited	Financials	4.6%
Macquarie Group Limited	Financials	4.5%
Coles Group Limited	Consumer Staples	3.6%
Goodman Group	Real Estate	3.1%
Suncorp Group Limited	Financials	2.6%
Fortescue Metals Group Ltd	Materials	2.4%



Source: Solaris Investment Management, June 2023

Market Valuation & Earnings Estimates:

	Market & Sector EPS Growth			Market & Sector PEs			Market & Sector Yield			Dividend
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	
Pro-rated to June										
All Companies	-1.1%	0.3%	1.0%	15.1x	15.1x	14.9x	3.5%	3.5%	3.6%	
Banks	11.1%	-3.3%	0.7%	12.2x	12.6x	12.6x	5.6%	5.7%	5.8%	
Listed Property Trusts	-0.8%	1.8%	5.4%	14.3x	14.1x	13.4x	4.9%	4.9%	5.2%	
Resources	-12.2%	-3.4%	-4.5%	12.3x	12.8x	13.4x	3.1%	2.8%	2.6%	
Industrials ex-Banks	11.7%	7.9%	8.6%	21.0x	19.5x	18.0x	3.1%	3.4%	3.7%	

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 review S&P/ASX 200 Accumulation Index

The S&P/ASX 200 Accumulation index delivered 1.0% for the June quarter bringing the index return to 14.8% for the 2023 Financial Year. The local market underperformed the US equity market, as the S&P 500 returned 8.3% in the June quarter and 15.9% for the financial year, driven by ongoing outperformance by technology stocks in the latter half of the period.

The Reserve Bank of Australia (RBA) raised interest rates by 50 basis points during the quarter, bringing the cash rate to 4.10%, and with hawkish commentary and economic data prints not yet indicating a broad economic slowdown, expectations are for further rate hikes to continue.

In terms of commodities, the month of June witnessed a reversal of the 12-month trend; Iron Ore up +8.1% for the month vs -7.1% for the year, Brent Crude Oil up +3.1% but down -34.8% for the year whereas Gold retreated -2.2% for the month but returned +6.2% for the year.

The top-performing sector for the quarter was Information Technology (+21.1%) buoyed by the strong performance of global technology stocks, followed by Utilities (+5.5%) and Energy (+3.8%). Conversely, the worst-performing sectors were for the quarter were Healthcare (-3.2%), Materials (-2.5%), and Consumer Discretionary (-1.7%).

The top three performers included Megaport (+75.2%) after company management for the networking service business announced significant upgrades to earnings for the next two financial years, Telix Pharmaceutical (62.6%) the biotech firm provided a positive quarterly update with increased revenue and demand for their diagnostic imaging agent and Life 360 (+53.8%) which provided a positive Q1 update indicating the growing technology safety company is on track to be cash-flow positive this financial year.

The worst performers were Syrah Resources (-50.7%), who continues to underperform following April's quarterly business update and subsequent capital raising through a convertible note; Lake Resources (-32.6%) whose share price fell post management update that disappointed due to timing delays and Perseus Mining (-30.7%) following an escalation of armed conflict near their goldmine in Sudan and deferral of their final investment decision.

S&P/ASX 200 Top & Bottom performing sectors for the month ending 30 June:

The best performing sectors in the S&P/ASX200 Accumulation Index for the quarter were Household & Personal Products (+34.0%), Software & Services (+21.1%), Insurance (+10.7%), Capital Goods (+7.0%) and Commercial & Professional Serv (+5.7%). The worst performing sectors included Food & Beverage (-13.8%), Automobiles & Components (-9.1%), Health Care Equip & Serv (-3.2%), Pharma & Biotech (-3.1%) and Consumer Discretionary Distrib (-2.8%).

S&P/ASX200 Top & Bottom performing stocks for the month ending 30 June:

The top 5 performing stocks in the S&P/ASX200 Accumulation Index for the quarter were Megaport Ltd (+75.2%), Telix Pharmaceuticals Ltd (+62.6%), Life360 Inc (+53.8%), HMC Capital Limited (+40.9%) and Allkem Limited (+34.8%). The bottom 5 performers included Syrah Resources Ltd (-50.7%), Lake Resources N.L. (-32.6%), Perseus Mining Ltd (-30.7%), Imugene Ltd (-30.0%) and BrainChip Holdings Ltd (-23.2%).

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Market Outlook

The macroeconomic environment dominated headlines during the 2023 financial year with inflation and central bank decisions driving market sentiment for much of the year. As we look forward to the new financial year, the period of extremely low-interest rates and easy money has ended and transitioned to the new normal of higher rates and economic uncertainty. After years of riding the tailwinds of low-interest rates, the current environment is challenging for corporates and the market's expectations are for negative earnings growth for FY2024.

The change to the environment, while challenging for corporates provides opportunities for active managers and we believe our process is well suited to construct a portfolio of companies that will deliver sustainable earnings growth and outperform.

We remain true to our process and are focused on interrogating company fundamentals and undertaking bottom-up research across the market. The portfolio is constructed on stock selection however we remain cognizant of broader risks and themes that may impact the portfolio, with relevant areas of current focus including –

- Australian Consumer: whilst Australian consumer spending has been robust to date, the infamous mortgage cliff was always expected to hit in mid-2023 when the peak of fixed loans ended. Coinciding with this transition from fixed to higher variable rates, is the broader increases in cost of living from electricity prices and insurance premiums.

Market Outlook continued

While the Australian consumer has been resilient to date, the headwinds are mounting and we have begun to see the beginning of a spending slowdown, also evidenced by several retailers downgrading during the recent period. We have been cautious of the consumer for a long time and remain underweight in the discretionary retailing sector.

- **Pricing power:** The inflationary environment has seen elevated headline numbers from higher sales, but the impact on margins has been a differentiator in determining which companies have been successful in passing on higher input costs while protecting their margins. A rational industry structure is key to this; allowing companies to implement price increases without losing market share. Overweight holdings in the portfolio that benefit from this theme include Suncorp, Qantas, and Coles.
- **Balance sheet:** We continue to focus on the health of the balance sheets of companies as some companies became highly leveraged during the years of low rates and this will provide a headwind as their fixed debt rolls off to higher rates. We are cautious of companies with excessively geared balance sheets, especially in companies with cyclical cash flows.
- **China:** our analyst recently undertook a research trip to China, providing insights into the priorities and policies of this key trading partner for many Australian corporates. The strong penetration of electric vehicles in the Chinese market is evident and ahead of our expectations, providing support for the critical minerals required to develop the associated batteries, i.e. Lithium, Rare Earths. We have positioned the portfolio accordingly to capture this theme, selecting companies that are producing and generating strong free cash flow.

The portfolio is constructed from the 'bottom-up' fundamental analysis but we remain mindful of the overarching macro risks. 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 for allowing us the privilege of managing your investments.

Source: Solaris Investment Management, June 2023

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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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