

Solaris Core Australian Equity Fund (Performance Fee Option)

(APIR: WHT0017AU)

Monthly Investment Report as at 31 January 2023

Market and Fund Performance¹

The January effect was in full force as markets bounced back strongly to start 2023. The S&P/ASX 200 Accumulation index delivered 6.2%, underperforming global markets slightly as the MSCI World Developed Markets delivered 6.5% and MSCI Emerging Markets returned 7.7%.

Markets adopted a risk-on sentiment as recession fears subsided on weaker wage data and inflation prints in the US, as equities rose and bond yields fell. The Australian 10yr and US 10yr yields were both at 3.5% at month end, falling 50bps and 30bps respectively over the month.

All sectors, excluding Utilities, delivered positive returns for January led by Consumer Discretionary (+9.9%), supported by better than expected Christmas retail data, followed by Materials (+8.9%) and Property (+8.1%). All underlying constituents in the Utilities sector were negative for the month, leading to a -3% return for the sector.

Within the ASX200 index for January, the top 3 performers were Sayona Mining (+36.8%) on announcement of their North American Lithium operation targeting production of locally sourced lithium in Q1, Pilbara Minerals (+26.7%) outperformed after a strong quarterly update prompting earning upgrades and Corporate Travel Management (+24.6%) performed well on optimism for the travel sector. The bottom three performers include Brainchip Holdings (-15.4%) that underperformed post a disappointing quarterly update and capital raising, Whitehaven Coal (-10.8%) impacted by thermal coal prices and a NSW government announcement regarding regulation of coal prices and Computershare Limited (-9.4%) whose earnings are leveraged to the rate cycle and potential pausing of rate hikes has tempered investors expectations for future earnings growth.

A portfolio holding in focus is Macquarie Group. Macquarie Group provided a third-quarter 2023 financial year trading update early in February, highlighting another "good quarter for the group", with FY23 year-to-date earnings up on a record FY22 year-to-date. The driver of the improved result was their growing Commodities and Global Markets (CGM) division, which is now expected to be "substantially up" versus FY22. CGM reported strong results across commodities, particularly gas and power, driven by trading, physical execution, logistics and client risk management opportunities from volatile market conditions. What is often underappreciated by the market is the growing scale of this division and management's canny ability to report 'peak earnings' year after year. We believe the increasing frequency of 'peak earnings' alludes to a sustainably higher level of CGM earnings than the market may expect, driven by both structural and cyclical factors. CGM has quietly positioned itself as the fifth largest physical gas marketer in North America, continues to grow the business across Europe and sees opportunities to further expand in adjacent markets like Asia. CGM is in a unique position with an ability to leverage off the Macquarie Group excess capital position (>\$12b) providing management and the board optionality for continued organic and inorganic growth for the foreseeable future.

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

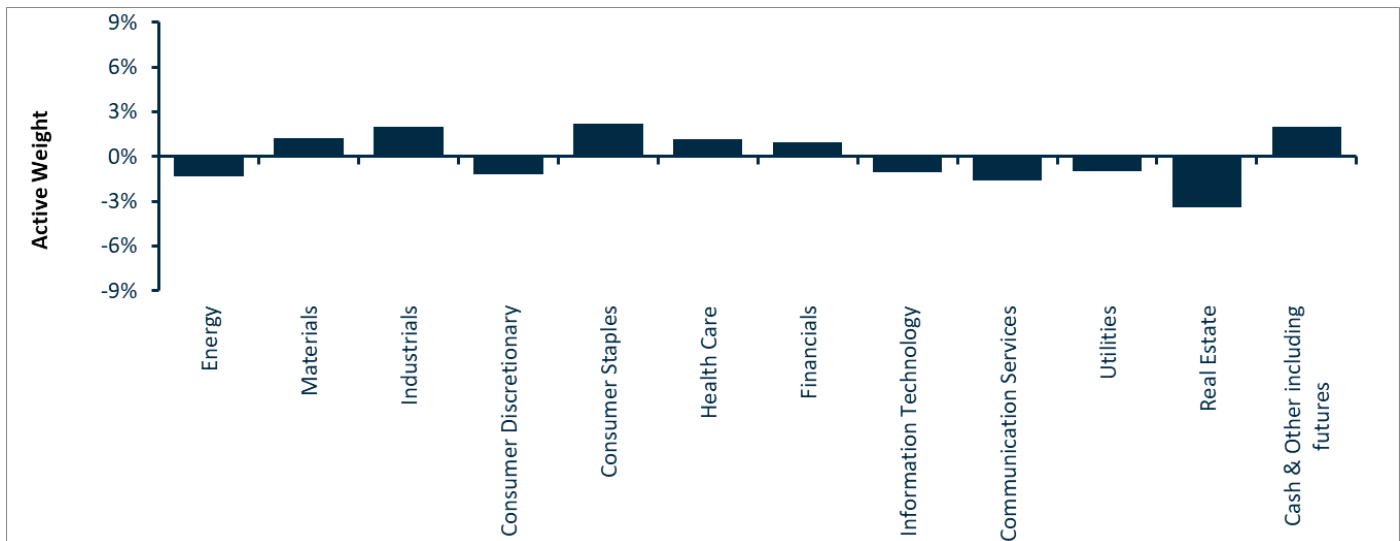
| Returns | Month | Rolling Quarter | FYTD | 1 Year | 3 Years p.a. | 5 Years p.a. | 7 Years p.a. | 10 Years p.a. | Inception p.a. (20/03/2009) |
|-----------------------------------|--------------|-----------------|--------------|--------------|---------------|---------------|---------------|---------------|-----------------------------|
| Fund Gross Return [^] | 7.06% | 9.98% | 18.03% | 14.17% | 5.03% | 8.32% | 10.78% | 10.09% | 10.91% |
| Benchmark Return [*] | 6.23% | 9.59% | 16.66% | 12.21% | 5.96% | 8.51% | 10.25% | 8.79% | 10.21% |
| Active Return | 0.83% | 0.39% | 1.37% | 1.96% | -0.93% | -0.19% | 0.53% | 1.30% | 0.70% |
| Fund Net Return [^] | 6.97% | 9.71% | 17.36% | 13.07% | 4.02% | 7.28% | 9.72% | 9.07% | 10.13% |
| Benchmark Return [*] | 6.23% | 9.59% | 16.66% | 12.21% | 5.96% | 8.51% | 10.25% | 8.79% | 10.21% |
| Active Return (After fees) | 0.74% | 0.12% | 0.70% | 0.86% | -1.94% | -1.23% | -0.53% | 0.28% | -0.08% |

[^] Performance is for the Solaris Core Australian Equity Fund (APIR: WHT0017AU), also referred to as Class C 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 |
|---------------------------------|------------------|
| ANZ Group Holdings 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, January 2023

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% | 1.5% | 3.7% | 15.8x | 15.5x | 14.9x | 4.3% | 3.9% | 4.2% |
| Banks | 16.3% | 13.8% | 3.0% | 15.3x | 13.4x | 13.1x | 4.7% | 5.0% | 5.3% |
| Listed Property Trusts | 15.3% | 0.2% | 0.4% | 15.2x | 15.1x | 15.1x | 4.9% | 4.6% | 4.7% |
| Resources | 26.1% | -16.1% | 0.9% | 9.0x | 10.6x | 10.5x | 7.1% | 5.3% | 5.4% |
| Industrials ex-Banks | 10.8% | 15.7% | 6.7% | 24.4x | 21.3x | 20.0x | 2.8% | 2.9% | 3.2% |

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

After a strong start to 2023, the one year forward price to consensus earnings multiple for the ASX 200 Index is now at 14.4x, which is in line with the long-run average of 14.8x. Expectations for earnings growth at the index level are close to zero for the 2023 financial year, with softer earnings in the resources sector as it cycles a super earnings period in 2022 offset by stronger earnings from the banking and broader industrial sectors.

February will see nearly 300 Australian companies report and this will be the first set of results with companies reporting under a full period of higher inflation and higher interest rates. We expect a change in emphasis from guidance on margins to the actual impact on earnings and margins from the higher input costs and higher interest rates. With the potential for further cash rate hikes from the Reserve Bank of Australia, we expect that companies with stronger balance sheets and prudent capital management will be well regarded by the market.

Throughout 2022, we have highlighted the mounting challenges on the Australian consumer which has proven resilient to date, as seen by the strength retail sales data supported by high household savings and the propensity to spend. As we look forward, around 35% or \$740 billion of household credit in Australia which is currently set at fixed interest rates begins to expire and reset to higher variable rates. Combined with the rundown in savings, we see this as a key risk and pressure on companies exposed to a weaker consumer. As a result we are seeing opportunities in companies including Coles for example, as very well positioned in this environment, and providing defensive exposure to the portfolio.

"Market prices for stocks fluctuate at great amplitudes around intrinsic value but, over the long term, intrinsic value is virtually always reflected at some point in market price." - Warren Buffet

We continue to expect to see volatility in the market, providing us with opportunities as companies are likely to be overbought and oversold, resulting in their share price diverging from the valuation based on their future earnings. We believe our investment process is well suited to this environment, driven by bottom-up company analysis, allowing us to focus on which companies will have sustainable earnings. While the market has traded on macro sentiment and comments from central banks, we look through the noise and invest in companies with reasonable valuations that we expect to outperform.

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

Solaris Team.

Source: Solaris Investment Management, January 2023

Contact Details

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