SOLARIS
investment management

Solaris Core Australian Equity Fund (Performance Fee Option)

(APIR: WHT0017AU)

Monthly Investment Report

as at 28 February 2023

Market and Fund Performance[1]

After a solid start to the year, equity markets pulled back in February as the S&P/ASX 200 Accumulation index returned -2.5%, in line with global markets as the S&P500 returned -2.6% and MSCI World ex Australia -2.4%.

Central banks remained hawkish, and bond markets priced higher rates, with the yield on the U.S. 1yr bond reaching over 5% for the first time in 20 years. The Reserve Bank of Australia raised rates again in February, bringing the Australian cash rate to 3.35%. While the macro environment continues to prove a headwind to equities, the Australian reporting season provided an opportunity for further volatility at the sector and company level, as over 300 companies reported during the month.

At a sector level, the best performers were Utilities (+3.4%), Information Technology (+2.7%) and Industrials (+1.5%). The worst performers were Materials (-6.6%), Financials ex property (-3.2%) and Energy (-0.8%).

At a company level, two of the top three performers were automobile related, including G.U.D. Holdings (+25.3%) on positive half-year results showing auto sales momentum improving, and Eagers Automotive (+19.9%) delivering strong FY22 results and positive guidance for FY23. Link Administration Holdings (+19.3%) outperformed from news flow on a possible resolution to pending FCA regulatory issues and associated fines.

Conversely, Domino's Pizza (-33.1%) underperformed after delivering a disappointing result and concerns regarding margin pressure. Mining was one of the worst-performing sectors, led by Lake Resources (-23.3%), impacted by a fall in lithium price and Silver Lake Resources (-22.7%) as gold stocks were impacted by rising real yields.

A portfolio holding in focus is Orica, a global Ammonium Nitrate (AN) manufacturer and technology provider operating across Australasia, the Americas, Europe, and Africa. Disruption in the ammonia market from European curtailments has resulted in higher AN prices globally and on the East Coast of Australia. Orica are positioned to benefit, given the favorable industry structure as Orica is generally one of two main players and will be able to pass on higher AN prices to customers. We expect to see a subsequent uptick in sales and profits, and this is further supported by the cost advantage Orica has with supply of low-cost gas on the East Coast of Australia (gas is a feedstock in making AN). Orica's technology offering is also notable. They are well advanced compared to competitors in their higher margin technology offer. Management have been investing time and capital into broadening their offer which utilizes digital and automated technologies to create safer and more productive blast outcomes for customers. We expect strong earnings growth over the next few years as the benefit of higher AN prices, and a superior technology offering is realized by the focused management team.

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

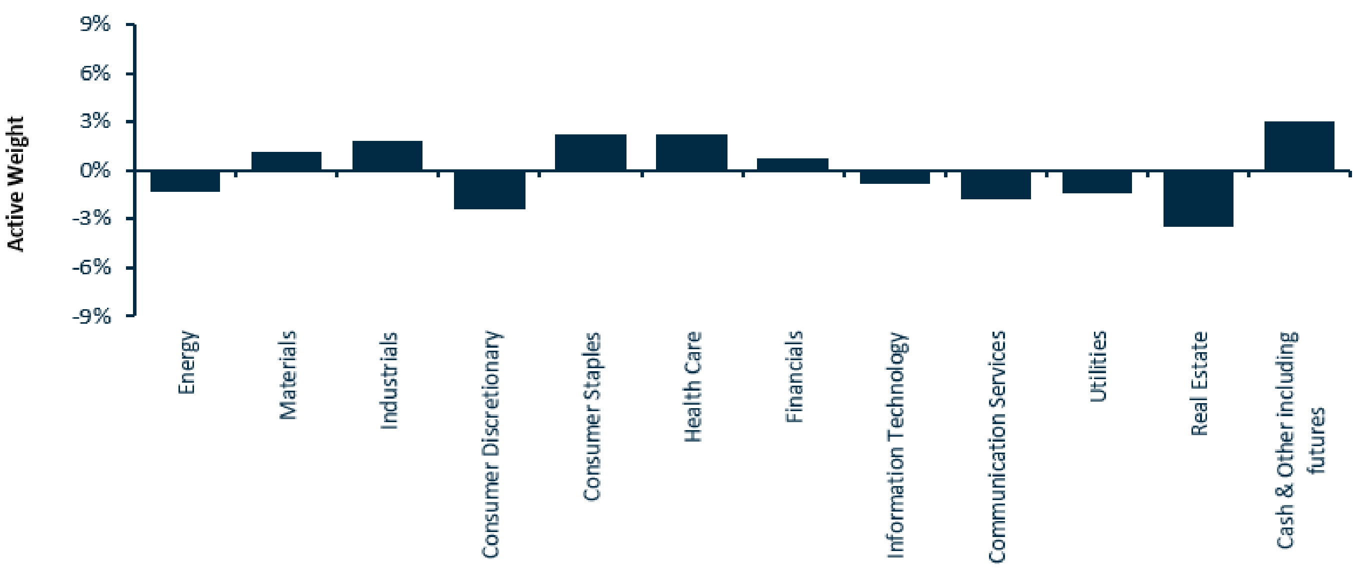
Returns	Month	Rolling Quarter	FYTD	1 Year	3 Years p.a.	5 Years p.a.	7 Years p.a.	10 Years p.a.	Inception p.a. (20/03/2009)
Fund Gross Return^	-2.72%	0.26%	14.82%	8.27%	6.96%	7.52%	10.63%	9.26%	10.62%
Benchmark Return*	-2.45%	0.30%	13.80%	7.16%	7.93%	7.90%	10.14%	7.95%	9.96%
Active Return	**-0.27%**	**-0.04%**	**1.02%**	**1.11%**	**-0.97%**	**-0.38%**	**0.49%**	**1.31%**	**0.66%**
Fund Net Return^	-2.79%	0.02%	14.08%	7.24%	5.93%	6.49%	9.57%	8.25%	9.85%
Benchmark Return*	-2.45%	0.30%	13.80%	7.16%	7.93%	7.90%	10.14%	7.95%	9.96%
Active Return (After fees)	**-0.34%**	**-0.28%**	**0.28%**	**0.08%**	**-2.00%**	**-1.41%**	**-0.57%**	**0.30%**	**-0.11%**

^ 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, February 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	18.3%	0.4%	3.5%	15.1x	14.9x	14.4x	4.3%	4.1%	4.3%
Banks	16.3%	13.7%	1.9%	14.4x	12.7x	12.4x	4.7%	5.3%	5.6%
Listed Property Trusts	15.3%	0.4%	0.3%	15.1x	15.1x	15.0x	4.9%	4.6%	4.7%
Resources	25.5%	-16.5%	-1.2%	8.2x	9.7x	9.8x	7.1%	5.8%	5.8%
Industrials ex-Banks	11.7%	13.7%	9.0%	24.3x	21.5x	19.7x	2.8%	2.9%	3.2%

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

Market Outlook

The risks have been mounting for Australian corporates, and February results season demonstrated that one can only keep the wolf at bay for so long in a disappointing results season where downgrades outnumbered upgrades by 2.6 times. Inflation has supported top-line numbers but has negatively impacted margins, resulting in approximately 40% of companies missing expectations from an earnings perspective.

The fallout of results season has seen volatility at the stock and sector levels. It allows us to focus on our bottom-up research and look for opportunities across sectors and companies in this volatile operating environment. The interest rate hiking cycle is not yet complete, and while this is a headwind for many, it's beneficial for insurance companies as they re-invest their float at higher investment yields. We have high conviction position in Suncorp group, which we believe is very well positioned in this space. The benefit of higher investment yields, the ability to increase premium rates materially and the pending divestment of its sub-scale banking operation positions Suncorp strongly. The banking sector has ridden the tailwind of increasing cash rates however reporting season has prompted investors to question if peak net interest margins have already passed. We are more cautious on the outlook for the banks and see heightened competitive intensity in the sector emerging on both mortgages (cash back offers and sharper rates) and deposits (higher deposit and term deposit rates).

The resilience of the consumer continued to be evident with many retailers delivering strong results. However, the outlook and guidance statements have turned more cautious as the impacts of higher rates and cost of living pressures appears to be slowing demand in the consumer discretionary space, an area we continue to remain underweight and prefer consumer staples. We believe Coles is well positioned in this volatile environment and is yet to yield the margin benefits from a significant investment in its supply chain over recent years that has yet to come online.

The portfolio is constructed from 'bottom-up' fundamental analysis and portfolio positioning is driven by stock level decisions. We are seeing compelling investment opportunities across many areas of the market and believe this is the environment that suits our investment process as a style agnostic fundamental manager with a robust and flexible approach.

Thank you for your support and allowing us the privilege of managing your investments.

Solaris Team.

Source: Solaris Investment Management, February 2023

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