

# Solaris Core Australian Equity Fund (Performance Fee Option)

(APIR: WHT0017AU)

## Monthly Investment Report

as at 30 April 2023

### Market and Fund Performance<sup>1</sup>

The S&P/ASX 200 Accumulation Index returned 1.85% in April. The Reserve Bank of Australia paused rate hikes as they sought time to assess the lagged impact of the previous ten hikes, despite the strong domestic labour market. Investors viewed the pause as supportive for equities and aided the delivery of a positive return for the market for the month.

Throughout the month, mining companies provided quarterly trading updates, with many proving disappointing, citing challenges on production, weather and costs. Materials was the only sector to deliver a negative return, driven by the quarterly updates. The exception was gold companies that outperformed as gold prices continued to rally.

Real Estate (+5.3%) was the top performing sector for the month as the relief in rate hikes was positive, specifically for companies with residential exposure. Information Technology (+4.7%) and Industrials (+4.5%) were also strong performers. Conversely, the challenging quarterly updates from miners led Materials (-2.6%) to be the worst-performing sector for the month, followed by Utilities (+1.4%) and Energy (+1.7%).

The top three performers included Telix Pharmaceutical (+47.1%), the biotech firm provided a positive quarterly update with increased revenue and increased demand for their diagnostic imaging agent. Megaport (+36.7%) after company management announced significant upgrades to earnings for the next two financial years, and Blackmores (+35.0%) received a takeover bid at a substantial premium, \$95, from Japanese company Kirin Holdings.

The worst performers were Syrah Resources (-37.1%), whose share price fell following a disappointing quarterly update and subsequent capital raising through a convertible note; Brainchip (-14.7%), the semiconductor company continues to underperform with full-year results showing another loss. Star Entertainment Group (-11.2%) also underperformed after announcing a downgrade to earnings from challenging operating conditions resulting in a reduction of staff.

A portfolio holding in focus is Pilbara Minerals, a hard rock lithium miner producing spodumene in the Pilbara regions of Western Australia. Lithium is seen as a critical mineral for the energy transition, required for batteries and electronic vehicles. Lithium pricing has been volatile due to supply and demand imbalances but we expect demand to remain strong and for pricing to stabilize.

Within our resources exposure, we predominately invest in companies with tier one assets. By tier one we preference assets that are low cost, high grade, low risk jurisdictions, long life and can generate cash flow through the inevitable commodities cycle. Pilbara ticks all the boxes and with a competent management team who are doing well operationally. Lithium assets are technically difficult to bring on new supply as we have seen recently. Supply is taking longer to come to market. This is currently to the benefit of Pilbara as they are already in production. Pilbara have close to A\$3 billion net cash on their balance sheet and we are excited by their growth ambitions in downstream production

Solaris expects continued production growth and cash flow generation from Pilbara Minerals. Pilbara is producing minerals vital for the energy transition.

<sup>1</sup>Illustrative only and not a recommendation to buy or sell any particular security.

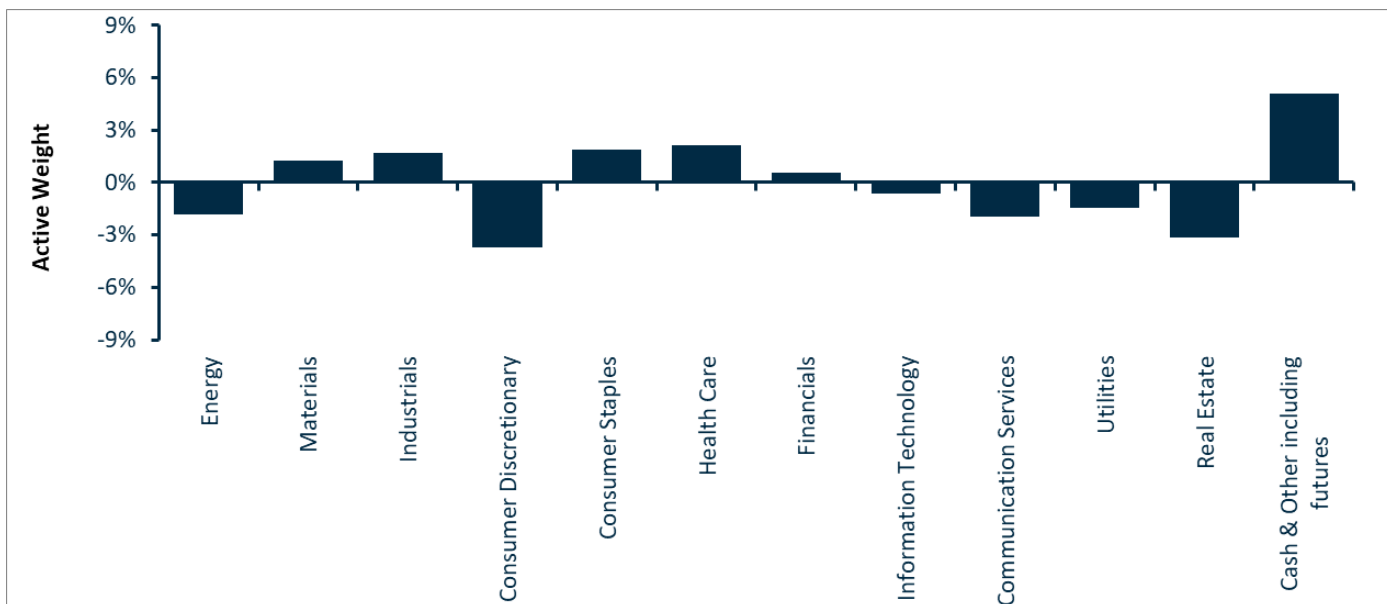
Returns	Month	Rolling Quarter	FYTD	1 Year	3 Years p.a.	5 Years p.a.	7 Years p.a.	10 Years p.a.	Inception p.a. (20/03/2009)
Fund Gross Return <sup>^</sup>	1.61%	-2.16%	15.47%	2.44%	13.10%	7.38%	9.39%	9.05%	10.54%
Benchmark Return <sup>*</sup>	1.85%	-0.80%	15.73%	2.83%	13.99%	8.26%	9.16%	7.90%	9.97%
<b>Active Return</b>	<b>-0.24%</b>	<b>-1.36%</b>	<b>-0.26%</b>	<b>-0.39%</b>	<b>-0.89%</b>	<b>-0.88%</b>	<b>0.23%</b>	<b>1.15%</b>	<b>0.57%</b>
Fund Net Return <sup>^</sup>	1.53%	-2.39%	14.55%	1.45%	12.01%	6.35%	8.33%	8.02%	9.76%
Benchmark Return <sup>*</sup>	1.85%	-0.80%	15.73%	2.83%	13.99%	8.26%	9.16%	7.90%	9.97%
<b>Active Return (After fees)</b>	<b>-0.32%</b>	<b>-1.59%</b>	<b>-1.18%</b>	<b>-1.38%</b>	<b>-1.98%</b>	<b>-1.91%</b>	<b>-0.83%</b>	<b>0.12%</b>	<b>-0.21%</b>

<sup>^</sup> 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. <sup>\*</sup> 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
Goodman Group	Real Estate
Macquarie Group Limited	Financials
National Australia Bank Limited	Financials
Suncorp Group Limited	Financials
Westpac Banking Corporation	Financials

## Sector Allocation



Source: Solaris Investment Management, April 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	0.8%	1.4%	1.4%	15.0x	14.8x	14.6x	4.2%	4.3%	4.3%
Banks	13.0%	1.3%	0.7%	12.5x	12.3x	12.2x	5.4%	5.6%	5.8%
Listed Property Trusts	0.3%	-0.4%	3.7%	14.5x	14.6x	14.1x	4.8%	4.9%	5.1%
Resources	-15.2%	-6.4%	-6.9%	9.6x	10.3x	11.1x	6.1%	5.7%	5.2%
Industrials ex-Banks	12.9%	8.9%	8.7%	21.6x	19.9x	18.3x	2.9%	3.2%	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. Illustrative only and not a recommendation to buy or sell any particular security.

## Market Outlook

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For the last 18 months, the narrative regarding inflation has been a broad driver of sentiment and markets. Globally, central banks reacted, including the RBA, which first raised rates in May 2022. Since then, macroeconomic themes have dominated with reactions to economic data seemingly overwhelming company fundamentals and earnings.

While uncertainty remains around when interest rates will peak, and inflation will abate, we believe we are closer to the end than the beginning of the rate hike cycle. The questions are being reframed; how long rates will remain elevated, and if the era of cheap money is over, which companies are well positioned to survive and succeed in the new higher rate environment? We believe companies with solid balance sheets, pricing power and a rational industry structure are set to benefit. The portfolio is constructed with companies focusing on these characteristics. The portfolio should perform well despite ongoing macroeconomic risks as we expect a return to an increased focus on company fundamentals.

We are cautious about the banking sector as it is evident that Net Interest Margin has peaked for all banks, bringing a significantly competitive environment for mortgages and deposits across the retail banking landscape. The portfolio is underweight Australian banks, with a preference for the more diversified banks, NAB and ANZ, who are not as exposed to the residential mortgage market.

With one quarter left in the 2023 Financial year, the Australian Equity market trades on a 12-month forward PE ratio of 15.7x, broadly in line with long-run averages. We continue to see areas of opportunity within growth names that have de-rated significantly from their highs in 2021 and remain overweight quality growth names, including Goodman Group, Cochlear and CSL.

The portfolio is constructed from 'bottom-up' fundamental analysis and stock-level decisions drive portfolio positioning. While the macro outlook is uncertain, we construct the portfolio with well-managed, well-capitalised businesses that we believe will deliver sustainable earnings throughout this challenging environment and seek to outperform the broader market.

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

Solaris Team.

Source: Solaris Investment Management, April 2023

## Contact Details

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