SOLARIS
investment management

Solaris Core Australian Equity Fund (Performance Fee Option)

(APIR: WHT0017AU)

Monthly Investment Report

as at 31 July 2023

Market and Fund Performance[1]

The S&P/ASX 200 Accumulation index delivered 2.9% for July, underperforming global markets as the MSCI World returned 3.3% and in the US, the S&P500 returned 3.1% in USD.

Equity markets were supported by improving commodity prices, with Energy names outperforming on the back of stronger prices with Brent Crude Oil up 14.2%. Further, Iron Ore prices were stable over the month while Gold rebounded from its decline in June, up 2.4% for the month Meanwhile, despite strong employment data, the Reserve Bank of Australia (RBA) left cash rates unchanged at 4.10% but noted further increases may be required.

The top-performing sector for the month was Energy (+8.8%) aided by oil prices, followed by Financials (+4.9%) and Information Technology (+4.5%). The worst-performing sectors were Healthcare (-1.5%), Consumer Staples (-1.0%) and Materials (+1.4%)

The top three performers included Megaport (41.3%), after company management for the networking service business delivered the FY23 result and continued to provide positive guidance for future years. Flight Centre Travel (+22.7%), as the travel company upgraded profit guidance, noting better demand from corporate clients and Costa Group Holdings (+21.7%), the share price of the fresh produce company surged after receiving a bid from a Private Equity firm.

The worst performers were Core Lithium (-28.9%), the most shorted stock in the ASX200, underperformed following an operational update that downgraded production guidance for future years. Lake Resources (-25.0%) continued to underperform following a disappointing management update in June, and further announcement of increased capital expenditure. Syrah Resources (-22.7%) underperformed as the graphite producer keeps production paused due to oversupply and low prices for graphite.

A portfolio holding in focus is ANZ, one of our preferred holdings in the financial sector.

ANZ has the largest exposure to Institutional banking representing approx. 35% of group revenues compared to peers with less than 20%, and unlike Consumer and Business banking, ANZ’s Institutional division has been a tailwind for group profitability in recent halves. This has not only been driven by cyclical factors such as BBB corporate spreads (generally correlated to institutional lending), but from more structural factors. ANZ have focused on returns over growth by successfully shrinking client numbers to a more profitable set of core customers, and shifting transaction banking revenues to higher returning Payments and Cash Management.

This is a stark contrast to the current headwind’s Consumer banking is facing with fierce competition in both mortgages and deposit weighing on returns. ANZ has the smallest exposure to domestic Consumer and Business banking which collectively represents less than 50% of group revenues compared to peers at approx. 70%.

Solaris believes ANZ are well positioned to continue delivering on their Institutional ambitions, providing an offset to some of the cyclical headwinds faced by other banks, which is not yet fully reflected in the valuation.

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

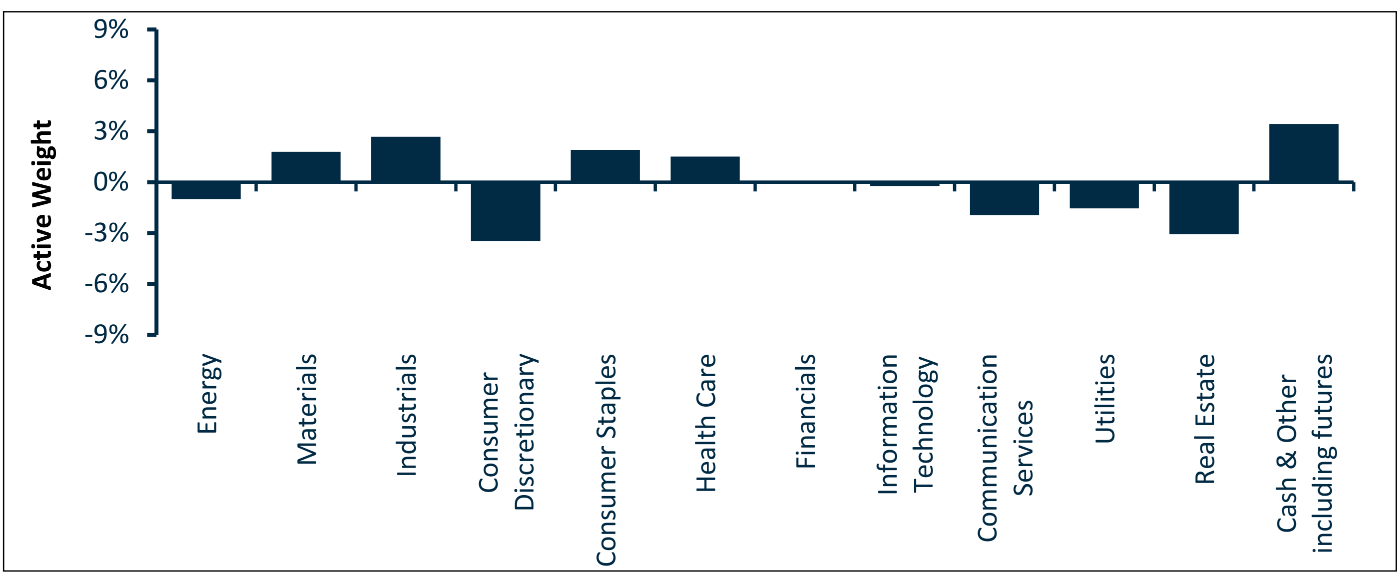
Returns	Month	Rolling Quarter	FYTD	1 Year	3 Years p.a.	5 Years p.a.	7 Years p.a.	10 Years p.a.	Inception p.a. (20/03/2009)
Fund Gross Return^	2.80%	1.66%	2.80%	11.08%	11.40%	6.51%	8.60%	9.25%	10.47%
Benchmark Return*	2.88%	2.04%	2.88%	11.67%	11.99%	7.47%	8.44%	8.32%	9.94%
Active Return	**-0.08%**	**-0.38%**	**-0.08%**	**-0.59%**	**-0.59%**	**-0.96**	**0.16%**	**0.93%**	**0.53%**
Fund Net Return^	2.71%	1.41%	2.71%	10.01%	10.33%	5.49%	7.55%	8.20%	9.69%
Benchmark Return*	2.88%	2.04%	2.88%	11.67%	11.99%	7.47%	8.44%	8.32%	9.94%
Active Return (After fees)	**-0.17%**	**-0.63%**	**-0.17%**	**-1.66%**	**-1.66%%**	**-1.98%**	**-0.89%**	**-0.12%**	**-0.25%**

^ 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
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, July 2023

Market Valuation & Earnings Estimates:

	Market & Sector EPS Growth			Market & Sector PEs			Market & Sector Dividend Yield		
Pro-rated to June	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
All Companies	-2.5%	1.2%	1.5%	16.0x	15.8x	15.6x	3.4%	3.4%	3.6%
Banks	11.1%	-3.4%	0.6%	13.0x	13.4x	13.4x	5.2%	5.4%	5.4%
Listed Property Trusts	-0.6%	0.8%	5.2%	14.9x	14.8x	14.1x	4.7%	4.7%	4.9%
Resources	-15.8%	-1.5%	-4.2%	13.1x	13.3x	13.9x	3.1%	2.7%	2.7%
Industrials ex-Banks	11.0%	7.6%	8.9%	21.5x	20.1x	18.4x	3.0%	3.3%	3.6%

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 start of the 2024 Financial Year has seen inflation prints begin to recede and a pause to the RBA hiking cycle. However, given strong employment data there is still potential for further increases to the cash rate. While it is uncertain when the terminal rate will be reached, the market pricing for any potential rate cuts continue to be postponed and the prevailing consensus sentiment points toward a “higher for longer” environment.

As we approach the upcoming August reporting season, where over 250 companies are set to release their results, we anticipate gaining insight into how entities have navigated the evolving cash rate landscape. Consensus expectations are for marginal market earnings growth, with Resources demonstrating no growth, Banks experiencing a negative trajectory, and non-Bank Industrials indicating an approximate 8% uptick in earnings. However, while fears of hard landing and recession are subsiding, Australian corporates will continue to operate under higher interest costs, and for a potentially longer duration. In addition, with potential constraints to consumer spending, we see potential risks to market profit growth numbers as margins come under pressure.

This is reflected through the portfolio where we are underweight consumer discretionary, expecting to see continued discounting to drive sales and manage inventory. We also remain underweight REITs, as we avoid stocks with high levels of gearing. Both of these positions are driven from bottom-up stock selection.

Our preferred areas of the market remain in companies that can deliver sustainable earnings despite the challenging environment. One of the key themes that is driving portfolio positioning across sectors, is companies that demonstrate pricing power, companies that have been successful in passing on higher input costs while protecting their margins. Examples include some key positions in the defensive part of the portfolio, including Atlas Arteria, Cochlear and Coles.

The portfolio is constructed from 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, July 2023

Contact Details

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