

Solaris Core Australian Equity Fund (Performance Fee Option)

(APIR: WHT0017AU)

Quarterly Investment Report as at 30 September 2023

Market and Fund Performance¹

Equity markets across the globe retraced gains made at the start of the financial year and delivered negative absolute returns in the September quarter as moves higher in global bond yields prompted weakness in equity markets. The S&P/ASX 200 Accumulation index delivered returned -0.8%, outperforming global markets as the S&P 500 returned -3.7% and the MSCI World returned -2.5% in local currency.

Volatility returned during the quarter, firstly throughout August reporting season as companies' delivered results and then as the macro-outlook dominated headlines and drove uncertainty. Despite the Reserve Bank of Australia and Federal Open Market Committee electing to keep rates on hold during the September meetings the US 10 year yield reached a high of 4.6%, it's highest level since 2007 while the Australian 10 year yield hit 4.5% as timing for prospective rate cuts was pushed out.

Momentum in the oil price, WTI Oil up over 25% supported the Energy sector (+11.2%), the best performing sector for the quarter, followed by Consumer Discretionary (+5.3) and Financials (+2.4%). The worst performing sectors were Healthcare (-8.6%), Consumer Staples (-5.9%) and Information Technology (-5.8%).

The top 3 performing stocks in the index for the quarter included Megaport (+63.0%) after company management for the networking service business delivered the FY23 result and subsequently provided strong guidance for FY24, Paladin Energy (+50.7%), the uranium miner benefitted from ongoing strength in uranium pricing and G.U.D Holdings (+35.9%) as the car product distributor reported results showing a 32% increase in Net Profit after Tax and Amortisation.

The bottom three performers included Chalice Mining (-62.9%) as the mineral explorer released a disappointing mine scoping study. Core Lithium (-55.0%), underperformed following an operational update that downgraded production guidance for future years and subsequently undertook a capital raising during the month and Sayona Mining (-46.9%), mineral explorer, despite first shipment of spodumene, the company share price continued to underperform due to lower spodumene prices.

A portfolio holding in focus is Altium, which is of one of our preferred holdings in the Software & Services sector.

Altium is a global provider of software for Electronic Computer Aided Design, in addition to Parts listing platform, Octopart. Altium delivered a solid FY23 result showing the broader business is performing well. The management team have been successful in executing on their strategy of converting customers from Standalone to Term and SAS based licensing and breaking into the Enterprise customer segment due to their Cloud platform offering.

Solaris continues to see opportunity and growth in Altium, supported by the announcement of multiple Enterprise customers including a significant exclusive deal with Japanese Semiconductor company Renesas.

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

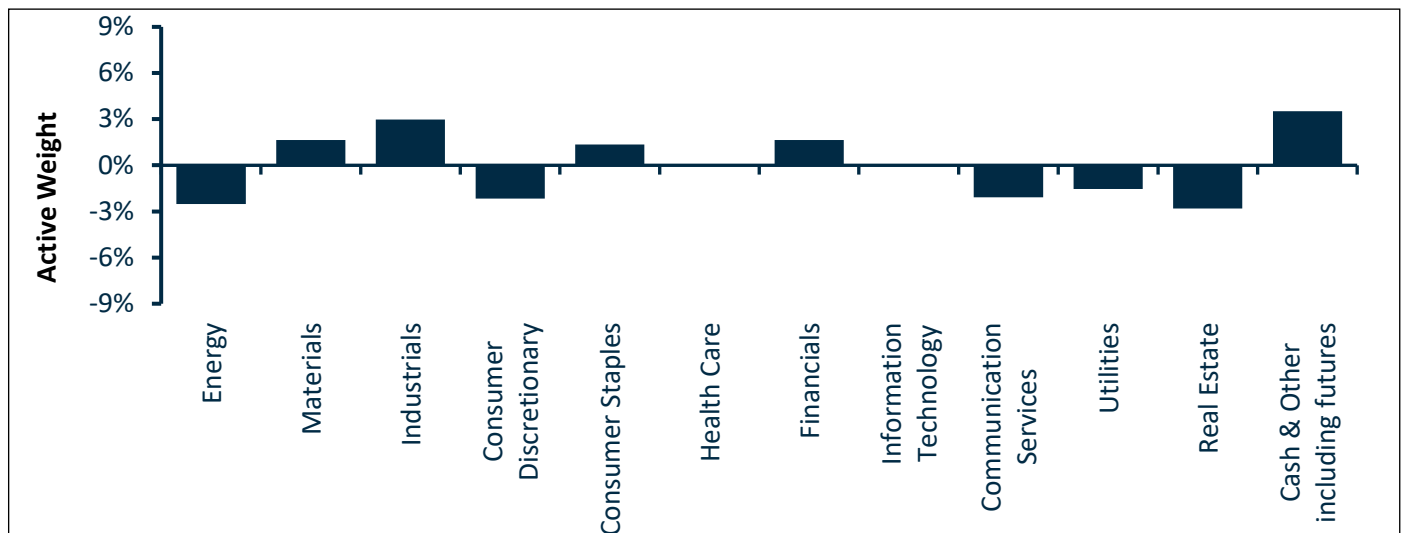
Returns	Month	Rolling Quarter	FYTD	1 Year	2 Years p.a.	3 Years p.a.	5 Years p.a.	7 Years p.a.	10 Years p.a.	Inception p.a. (20/03/2009)
Fund Gross Return [^]	-2.62%	0.40%	0.40%	13.61%	3.12%	10.99%	5.95%	8.28%	8.44%	10.16%
Benchmark Return [*]	-2.84%	-0.77%	-0.77%	13.46%	2.34%	11.00%	6.67%	8.05%	7.43%	9.55%
Active Return	0.22%	1.17%	1.17%	0.15%	0.78%	-0.01%	-0.72%	0.23%	1.01%	0.61%
Fund Net Return [^]	-2.70%	0.16%	0.16%	12.52%	2.13%	9.92%	4.94%	7.24%	7.40%	9.38%
Benchmark Return [*]	-2.84%	-0.77%	-0.77%	13.46%	2.34%	11.00%	6.67%	8.05%	7.43%	9.55%
Active Return (After fees)	0.14%	0.93%	0.93%	-0.94%	-0.21%	-1.08%	-1.73%	-0.81%	-0.03%	-0.17%

[^] 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
Rio Tinto Limited	Materials
Suncorp Group Limited	Financials

Sector Allocation



Source: Solaris Investment Management, September 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	-4.0%	-3.3%	5.1%	14.8x	15.3x	14.6x	4.3%	4.2%	4.4%
Banks	11.2%	-4.5%	-0.6%	12.7x	13.3x	13.4x	5.4%	5.6%	5.6%
Listed Property Trusts	-0.5%	2.0%	3.5%	13.6x	13.4x	12.9x	5.1%	5.2%	5.3%
Resources	-23.8%	-13.2%	4.1%	10.3x	11.9x	11.5x	5.7%	4.5%	4.7%
Industrials ex-Banks	11.3%	6.6%	9.0%	20.1x	18.9x	17.4x	3.2%	3.5%	3.8%

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

The September quarter demonstrated the impact that both micro and macro news can have on equity markets. Throughout the August reporting season, the focus was on company fundamentals and results driving share prices. The focus then switched to macro sentiment influencing market moves. As we look forward from here, our approach as bottom-up active managers is to cut through the noise and focus on constructing a portfolio of companies with sustainable earnings growth while still managing the macro risks at play.

The interest rate cycle shows this interplay between the macro and micro. As the market embraces a "higher for longer" theme, our ongoing focus on Balance sheets remains prudent. One of the key takeaways of reporting season was higher interest costs. Interest costs for the market for 2024 have been revised up nearly 10% higher compared to what market expectations were for these costs prior to reporting season. Another area where we have seen increased costs to companies is through future capital expenditure expectations. Since reporting season these have been revised up materially, particularly across the resource sector, which over the last 5-7 years has been on a capex holiday. The increase in interest and capex will impact the earnings and dividends for resources companies over the coming years. Solaris has spent a lot of time analysing company balance sheets over the past 12-18 months to identify those companies at greatest risk of earnings disappointment from higher interest rates.

The Portfolio is constructed from bottom-up stock selection. It maintains its overweight to Growth names as the analysts see opportunities for outperformance from quality names across several sectors. The Portfolio is also currently overweight International Cyclical companies based on company fundamentals, noting that offshore earners may be further supported given pressure on the Australian dollar.

Currently, the market is trading at 14.8x on a one-year forward price-to-earnings multiple, aligning with the long-run average. However, EPS growth for Resources is negative in 2024, owing to higher capex expectations, and Bank's ESP growth is also negative for 2024. Industrials ex Banks maintain positive EPS growth, but we are wary of the lagged impact of interest rates on the consumer and potential downside risks.

We expect macro headlines and micro news to continue to drive market volatility and, as active managers, provide us with opportunities to seek outperformance.

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

Source: Solaris Investment Management, September 2023

Contact Details

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