

# Solaris Core Australian Equity Fund (Performance Fee Option)

(APIR: WHT0017AU)

## Monthly Investment Report as at 31 August 2023

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

The S&P/ASX 200 Accumulation index delivered -0.7% in August outperforming global markets which also delivered negative absolute returns with the S&P500 returning -1.8% and the MSCI World down -1.7%.

August reporting season saw 162 companies deliver results and brought a marked increase in intraday volatility and dispersion between winners and losers. The broader economy has demonstrated resilience as revenue has marginally exceeded expectations however there has been margin compression resulting from headwinds such as labour costs, interest costs, and higher inflation throughout businesses.

The Reserve Bank of Australia (RBA) elected to keep rates on pause and so the cash rate remains at 4.1%

Against a backdrop where earnings downgrades outnumbered upgrades, 8 out of 11 sectors posted negative returns for the month. Consumer Discretionary (+5.7%), Property (+1.6%) and Energy (+0.5%) were the best performers. Utilities (-3.8%), Consumer Staples (-3.2%) and Information Technology (-2.1%), were the worst performing sectors.

The top three performers included Altium (+26.7%) as the company delivered a strong FY23 result and reiterated aspirational 2026 targets, demonstrating that their strategy is working; Inghams Group (+24.3%) as the poultry farmer's FY23 and future guidance exceeded the market's expectations and G.U.D Holdings (+24.0%) as the car product distributor reported results showing a 32% increase in Net Profit after Tax and Amortisation.

The worst performers were Chalice Mining (-39.6%) as the share price of the mineral explorer reacted to the announcement of a disappointing mine scoping study; Iress (-38.3%), the financial services software provider delivered a disappointing result and cut their dividend and Core Lithium (-38.3%) as the Lithium explorer reached 12 months lows after undertaking a capital raising during the month.

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.

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

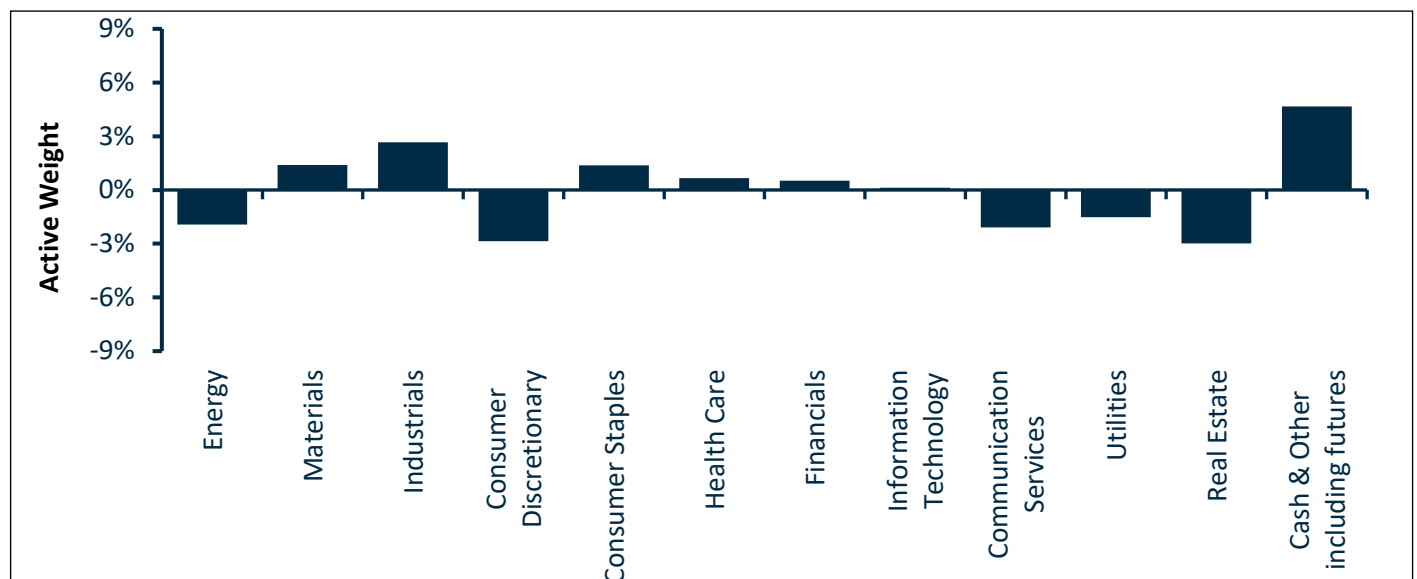
Returns	Month	Rolling Quarter	FYTD	1 Year	3 Years p.a.	5 Years p.a.	7 Years p.a.	10 Years p.a.	Inception p.a. (20/03/2009)
Fund Gross Return <sup>^</sup>	0.30%	4.22%	3.10%	9.65%	10.63%	6.25%	8.76%	9.02%	10.43%
Benchmark Return <sup>*</sup>	-0.73%	3.92%	2.13%	9.56%	10.68%	7.01%	8.57%	7.97%	9.82%
<b>Active Return</b>	<b>1.03%</b>	<b>0.30%</b>	<b>0.97%</b>	<b>0.09%</b>	<b>-0.05%</b>	<b>-0.76%</b>	<b>0.19%</b>	<b>1.05%</b>	<b>0.61%</b>
Fund Net Return <sup>^</sup>	0.21%	3.97%	2.93%	8.59%	9.57%	5.23%	7.72%	7.98%	9.64%
Benchmark Return <sup>*</sup>	-0.73%	3.92%	2.13%	9.56%	10.68%	7.01%	8.57%	7.97%	9.82%
<b>Active Return (After fees)</b>	<b>0.94%</b>	<b>0.05%</b>	<b>0.80%</b>	<b>-0.97%</b>	<b>-1.11%</b>	<b>-1.78%</b>	<b>-0.85%</b>	<b>0.01%</b>	<b>-0.18%</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
QBE Insurance Group Limited	Financials
Suncorp Group Limited	Financials

### Sector Allocation



Source: Solaris Investment Management, August 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	-4.1%	-2.4%	5.1%	15.4x	15.8x	15.0x	4.1%	4.0%	4.2%
Banks	10.8%	-3.4%	0.8%	12.8x	13.3x	13.2x	5.3x	5.5x	5.5x
Listed Property Trusts	-0.1%	-1.4%	4.9%	14.5x	14.7x	14.0x	4.8%	4.8%	4.9%
Resources	-23.5%	-12.3%	3.8%	10.7x	12.2x	11.7x	5.5%	4.4%	4.6%
Industrials ex-Banks	10.7%	7.2%	8.5%	21.3x	19.9x	18.4x	3.1%	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. Illustrative only and not a recommendation to buy or sell any particular security.

**Market Outlook**

August reporting season where over 162 Australian companies delivered their full or half year 2023 results has shown that the broader economy has demonstrated resilience with revenue marginally exceeding expectations. As expected, we have seen some margin compression, resulting from headwinds such as labour costs, interest costs, and higher inflation throughout businesses.

As we look forward, the key takeaways from reporting season provided great insight into the challenges and opportunities facing companies. One of the key takeaways was higher interest costs that was cited regularly. On average, interest costs for 2024 for the market are up nearly 10% based on consensus numbers. Forward looking statements by some companies are indicating further increases in FY24. 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. This work has provided early insight into earnings headwinds for certain companies in the future.

Another recurring theme that will impact earnings in the future is the catch-up capex required by a number of companies to maintain earnings and payout ratios. This was prevalent across many sectors of the market but particularly in the Resources sector where many companies guided to higher capex to support both existing operations as well as growth. This was evidenced by downgrades to EPS growth for the Resources sector in 2024.

We remain cautious the consumer as the lagged impact of interest rates, continued pressure from higher utilities and rent limits the disposable income of consumers. This will impact both top line and margins. We are beginning to observe sales and earnings declining and a resetting of earnings.

The portfolio is constructed from bottom-up fundamental analysis, but we remain mindful of the overarching macro risks. The Portfolio maintains its modest 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, August 2023

## Contact Details

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