

Solaris Core Australian Equity Fund

(APIR: WHT0012AU)

Monthly Investment Report as at 31 July 2023

Market and Fund Performance¹

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.

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

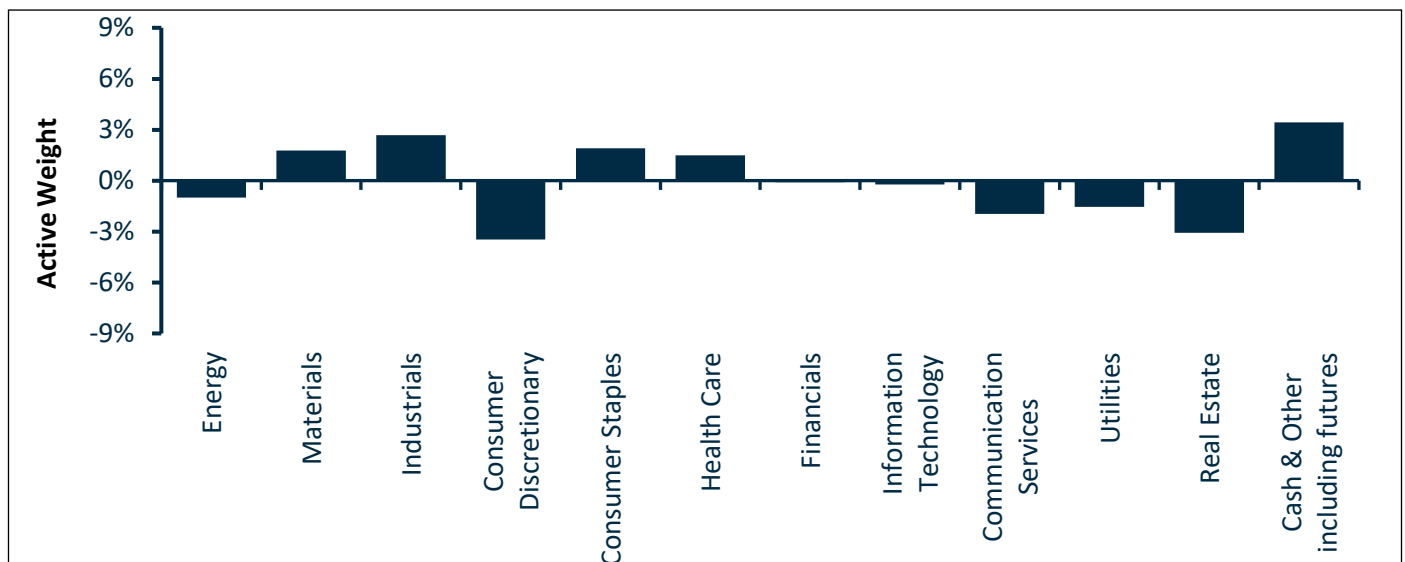
| Returns | Month | Rolling Quarter | FYTD | 1 Year | 3 Years p.a. | 5 Years p.a. | 7 Years p.a. | 10 Years p.a. | Inception p.a. (17/09/2008) |
|-----------------------------------|---------------|-----------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------------------|
| Fund Gross Return^ | 2.08% | 0.94% | 2.08% | 10.30% | 11.14% | 6.36% | 8.49% | 9.18% | 8.43% |
| Benchmark Return* | 2.88% | 2.04% | 2.88% | 11.67% | 11.99% | 7.47% | 8.44% | 8.32% | 7.53% |
| Active Return | -0.80% | -1.10% | -0.80% | -1.37% | -0.85% | -1.11% | 0.05% | 0.86% | 0.90% |
| Fund Net Return^ | 2.00% | 0.70% | 2.00% | 9.24% | 10.07% | 5.34% | 7.45% | 8.13% | 7.40% |
| Benchmark Return* | 2.88% | 2.04% | 2.88% | 11.67% | 11.99% | 7.47% | 8.44% | 8.32% | 7.53% |
| Active Return (After fees) | -0.88% | -1.34% | -0.88% | -2.43% | -1.92% | -2.13% | -0.99% | -0.19% | -0.13% |

^ Performance is for the Solaris Core Australian Equity Fund (APIR: WHT0012AU), also referred to as Class B 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 Yield | | | Dividend |
|------------------------|-------------------------------|-------|-------|------------------------|-------|-------|--------------------------|-------|-------|----------|
| | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E | |
| Pro-rated to June | | | | | | | | | | |
| 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. Illustrative only and not a recommendation to buy or sell any particular security.

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

For further information, please contact Solaris' distribution partner:

Pinnacle Investment Management Limited on 1300 010 311,
alternatively, please email: distribution@pinnacleinvestment.com

This communication is prepared by Solaris Investment Management Limited ('Solaris') (ABN 72 128 512 621, AFSL 330505) as the investment manager of the Solaris Core Australian Equity Fund (ARSN 128 859 898) ('the Fund'). Pinnacle Fund Services Limited ('PFSL') (ABN 29 082 494 362, AFSL 238371) is the product issuer of the Fund. PFSL is not licensed to provide financial product advice. PFSL is a wholly-owned subsidiary of the Pinnacle Investment Management Group Limited ('Pinnacle') (ABN 22 100 325 184). The Product Disclosure Statement ('PDS') and Target Market Determination ('TMD') of the Fund are available via the links below. Any potential investor should consider the PDS and TMD before deciding whether to acquire, or continue to hold units in, the Fund.

Link to the [Product Disclosure Statement](#)

Link to the [Target Market Determination](#)

For historic TMD's please contact Pinnacle client service Phone 1300 010 311 or Email service@pinnacleinvestment.com

This communication is for general information only. It is not intended as a securities recommendation or statement of opinion intended to influence a person or persons in making a decision in relation to investment. It has been prepared without taking account of any person's objectives, financial situation or needs. Any persons relying on this information should obtain professional advice before doing so. Past performance is for illustrative purposes only and is not indicative of future performance.

Whilst Solaris, PFSL and Pinnacle believe the information contained in this communication is reliable, no warranty is given as to its accuracy, reliability or completeness and persons relying on this information do so at their own risk. Subject to any liability which cannot be excluded under the relevant laws, Solaris, PFSL and Pinnacle disclaim all liability to any person relying on the information contained in this communication in respect of any loss or damage (including consequential loss or damage), however caused, which may be suffered or arise directly or indirectly in respect of such information. This disclaimer extends to any entity that may distribute this communication.

Any opinions and forecasts reflect the judgment and assumptions of Solaris and its representatives on the basis of information available as at the date of publication and may later change without notice. Any projections contained in this presentation are estimates only and may not be realised in the future.

Unauthorised use, copying, distribution, replication, posting, transmitting, publication, display, or reproduction in whole or in part of the information contained in this communication is prohibited without obtaining prior written permission from Solaris. Pinnacle and its associates may have interests in financial products and may receive fees from companies referred to during this communication.