SOLARIS
investment management

Solaris Core Australian Equity Fund (Performance Alignment)

(APIR: SOL0001AU)

Quarterly Investment Report

as at 30 June 2021

Fund Performance

The fund underperformed its benchmark for the quarter by 0.86%. Overweight holdings in Altium Limited, Aristocrat Leisure Limited and Mineral Resources Limited and underweight positions in Sydney Airport and Australia and New Zealand Banking Group Limited made a positive contribution to relative performance. The main detractors were overweight holdings in Woodside Petroleum Limited, Aurizon Holdings Limited, Ramsay Health Care Limited and Lendlease Group together with an underweight position in Commonwealth Bank of Australia.

Returns	Month	Rolling Quarter	FYTD	1 Year	3 Years p.a.	5 Years p.a.	7 Years p.a.	Since Inception p.a. (31/08/2012)
Fund Gross Return^	1.73%	7.43%	23.15%	23.15%	7.14%	10.92%	9.28%	11.66%
Benchmark Return*	2.26%	8.29%	27.80%	27.80%	9.59%	11.16%	8.79%	10.63%
Active Return	**-0.53%**	**-0.86%**	**-4.65%**	**-4.65%**	**-2.45%**	**-0.24%**	**0.49%**	**1.03%**
Fund Net Return^	1.73%	7.43%	23.15%	23.15%	7.11%	10.56%	8.81%	11.21%
Benchmark Return*	2.26%	8.29%	27.80%	27.80%	9.59%	11.16%	8.79%	10.63%
Active Return (After fees)	**-0.53%**	**-0.86%**	**-4.65%**	**-4.65%**	**-2.48%**	**-0.60%**	**0.02%**	**0.58%**

^ Performance is for the Solaris Core Australian Equity Fund (Performance Alignment) (APIR: SOL0001AU), also referred to as Class D 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.

* Benchmark refers to the S&P/ASX 200 Accumulation Index.

Significant Contributors

Altium Limited (+38.6%)
The company which specialises in software for the design of printed circuit boards performed strongly, after receiving a takeover proposal from the Nasdaq listed company Autodesk for $38.50. The Altium Board considered that the proposal materially undervalues Altium's prospects and rejected the proposal.

Aristocrat Leisure Limited (+25.9%)
During the quarter management upgraded earnings guidance for the six months ended 31 March 2021, with normalised EBITDA of $750 million, representing growth of 6% compared to the prior year. The gaming business performed well boosted by stronger than expected consumer sentiment in the United States, while the digital business experienced elevated demand.

Mineral Resources Limited (+41.3%)
The mining services and processing company continued to perform strongly, supported by the elevated price of key commodities including iron ore and lithium combined with elevated mining activity and good operational performance. Management hosted a strategy day which highlighted the future growth prospects associated with the build, own and operate strategy.

Significant Detractors

Woodside Petroleum (-7.5%)
Woodside experienced a soft quarter despite strength in the price of oil (where Brent was up +18.2% over the quarter). Management is progressing towards a final investment decision on the Scarborough project in the second half of 2021 and has around 50% of expected equity production under contract.

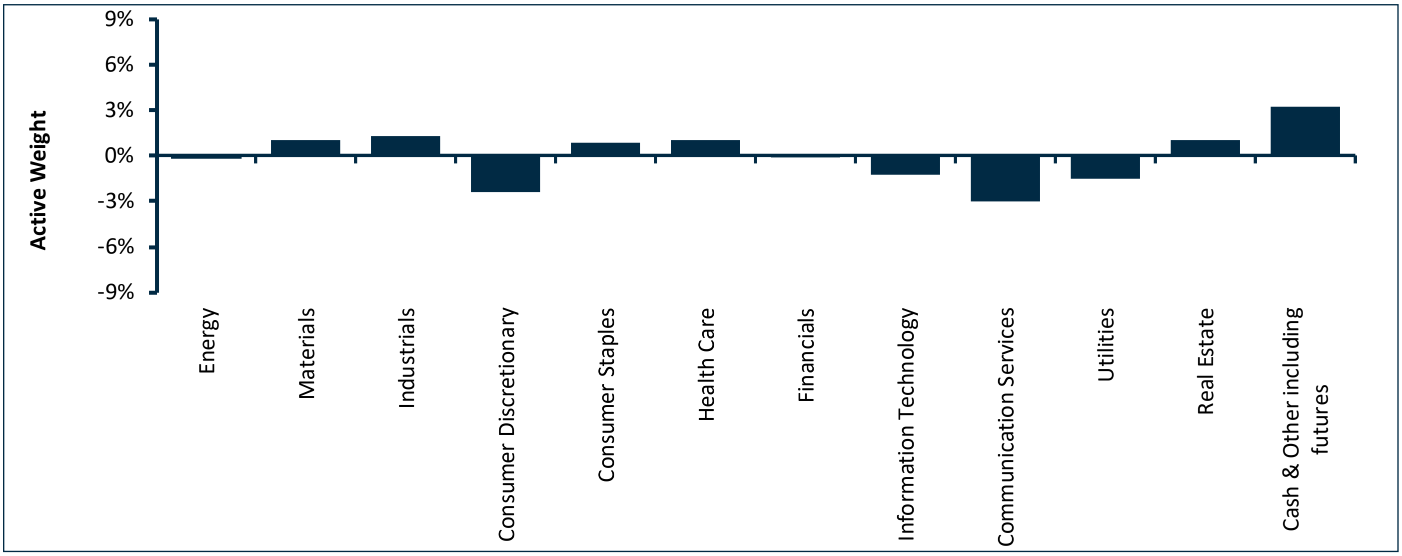
Lendlease Group (-11.3%)
Lendlease underperformed the market over the quarter due to the lack of news flow in relation to near term development activity, which was hampered due to the ongoing impacts from COVID-19. The new chief executive Tony Lombardo announced a restructure that aims to streamline the company's operations to focus on the company's $110 billion development pipeline.

Commonwealth Bank of Australia (+16.0%)
Commonwealth Bank released their third quarter 2021 report which beat market expectations due to better revenue growth and controlled costs. The market is growing more confident in the potential for significant capital returns for the sector given the large excess capital balances across all the major banks.

Top 10 Stocks

Name	Sector
BHP Group Limited	Materials
Commonwealth Bank of Australia	Financials
CSL Limited	Health Care
Westpac Banking Corporation	Financials
National Australia Bank Limited	Financials
Macquarie Group Limited	Financials
Woolworths Group Limited	Consumer Staples
Rio Tinto Limited	Materials
Goodman Group	Real Estate
Atlas Arteria	Industrials

Sector Allocation



Market Valuation & Earnings Estimates:

	Market & Sector EPS Growth			Market & Sector PEs			Market & Sector Dividend Yield		
Pro-rated to June	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
All Companies	29.0%	14.6%	0.9%	20.0x	17.5x	17.3x	3.5%	3.9%	3.9%
Banks	25.3%	13.0%	4.7%	17.2x	15.2x	14.5x	3.8%	4.4%	4.7%
Listed Property Trusts	-5.6%	7.2%	6.3%	18.0x	16.8x	15.8x	3.9%	4.1%	4.3%
Resources	81.3%	10.2%	-14.8%	11.3x	10.3x	12.1x	6.2%	6.6%	5.3%
Industrials ex-Banks	4.9%	19.4%	11.0%	29.3x	24.5x	22.1x	2.5%	2.9%	3.2%

Estimate only

The securities presented on this slide are for illustrative purposes only and are not the complete holdings of the fund.

Market Review

The S&P/ASX 200 Accumulation Index rallied +2.3% over the month, taking the quarterly return to a strong +8.3%. Global economic activity continued to improve throughout the quarter, supported by global vaccination efforts, extreme monetary policy settings and the ongoing support from high levels of stimulus. Despite inflation data surprising to the upside over the quarter, global central banks continue to view the spike in inflation as transitory. Commentary from the US Federal Reserve was surprisingly hawkish, with the governor hinting at the possibility of raising interest rates earlier than expected due to the rapidly improving economic outlook. This led 2-year bond yields to push higher in anticipation, however the 10-year yields fell as market participants feared a more hawkish policy may dampen activity. The energy sector underperformed the market despite a rapid improvement in the price of oil (Brent +18.2%) over the quarter. The energy sector is under pressure with respect to carbon intensity which featured heavily in headlines. Mining stocks and Commodity prices were mixed with the market concerned that Chinese credit growth has peaked and is now easing.

During the quarter the top three moves within the Index included Megaport (+66.2%) after reporting continued growth in Monthly Recurring Revenue combined with the launch of a new product 'Virtual Edge', Promedicus (+42.1%) which performed strongly after signing a deal with the Vermont Health Network and Mineral Resources (+41.3%) which continued to perform well assisted by strength in the price of Iron Ore and Lithium. The bottom three moves in the Index were Nuix Limited (-57.2%) which experienced a difficult quarter culminating in the resignation of both the CEO and the CFO, Perenti Global (-34.0%) after management advised of a soft earnings outlook due to headwinds associated with COVID-19 and EML Payments Limited (-29.0%) following the receipt of risk and control concerns raised by the Central Bank of Ireland.

S&P/ASX 200 Top & Bottom performing sectors for the quarter ending 30 June:

The best performing sectors in the S&P/ASX200 Accumulation Index for the quarter were Automobiles & Components (+19.3%), Technology Hardware & Equipment (+16.8%), Commercial & Professional Services (+14.9%), Media & Entertainment (+14.3%) and Capital Goods (+13.3%). The worst performing sectors included Real Estate Management & Development (-11.3%), Household & Personal Products (-7.9%), Utilities (-4.5%), Food Beverage & Tobacco (-3.6%) and Energy (-2.8%).

S&P/ASX200 Top & Bottom performing stocks for the quarter ending 30 June:

The top 5 performing stocks in the S&P/ASX200 Accumulation Index for the quarter were Megaport Ltd (+66.2%), Pro Medicus Ltd (+42.1%), Mineral Resources Ltd (+41.3%), IRESS Ltd (+40.6%) and Pilbara Minerals Ltd (+38.8%). The bottom 5 performers included Nuix Ltd (-57.2%), Redbubble Ltd (-34.5%), Perenti Global Ltd (-31.5%), EML Payments Ltd (-29.0%) and Costa Group Holdings Ltd (-28.9%).

Market Outlook

We approach the second half of 2021 with knowledge that a vaccination program is in full swing in Australia and while delayed, it is encouraging to see vaccines being rolled out to large segments of the population. This gives us confidence that in the near future Australia will transition to a more open economy, free of border closures and movement restrictions. We remain convicted that this health crisis, like crisis of the past, will end. With cash rates and bond yields at "crisis settings" and with inflation increasing, we expect that as we emerge from the health crisis the emergency settings will be gradually eased leading to higher cash rates and bond yields over time.

As a general statement we expect companies that benefitted from the crisis (for example from lockdown panic buying, unprecedented cash handouts in the form of JobKeeper and JobSeeker or from 'stay at home' movement restrictions) to face headwinds looking forward as the high growth rates of the last twelve months are unlikely to be repeated when the economy and behaviour normalises with a successful vaccination effort. Further to this, we expect several companies that have been materially impacted by the health crisis to outperform the market in the future. We see extremely attractive value in a range of companies in this category that remain well below our estimates of "fair value". Recently mergers and acquisitions activity has picked up significantly, for example, a key portfolio company Altium Limited received a takeover offer from Nasdaq listed Autodesk at a 41% premium to last, while Sydney Airport (not held in the portfolio) received a proposal at a 42% premium to last. This gives the confidence that patient, long term and focused investors see the same significant value we are seeing in many companies that remain impacted by the pandemic. A good example of this unrealised value is Atlas Arteria which operates a series of toll roads in France, United States and Germany. With traffic volumes rapidly improving, led by a quality management team and supported by an "under geared" balance sheet, we see significant value in this company. Secondly, the recent M&A activity highlights the value of investing for the longer term – understanding the short-term issues caused by the pandemic and looking through market noise to focus on investing to create long term value. Lastly, there remains significant dry powder sitting in private equity and infrastructure funds globally looking for investment opportunities. Australia is set to thrive in a post-pandemic setting and this dry powder is set to catalyse latent value.

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The upcoming August reporting season and the months preceding it are anticipated to be volatile and create significant opportunities for stock selection. As we progress through this environment, our investment process remains unchanged with our detailed company analysis focusing on the following characteristics:

- ✓ Attracted to stable or improving industry structures
- ✓ Avoid excessively geared balance sheets
- ✓ Attracted to competent and trustworthy management
- ✓ Look for good cashflow, cash realisation and earnings quality
- ✓ Favour companies with improving return on equity
- ✓ Strong belief that ESG factors can drive share price performance

Overall, we see attractive opportunities in a wide range of companies including those exposed to a recovery in the economy, a number of cyclical and inflation-sensitive names combined with a range of sensibly priced growth companies.

Source: Solaris Investment Management, June 2021

Contact Details

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