

Solaris Core Australian Equity Fund

(APIR: WHT0012AU)

Monthly Investment Report

as at 31 July 2021

Fund Performance

The fund underperformed its benchmark for the month by 0.07%. Overweight holdings in BHP Group Limited, IGO Limited and Mineral Resources Limited and underweight positions in Afterpay Limited and Australia and New Zealand Banking Group Limited made a positive contribution to relative performance. The main detractors were overweight holdings in Westpac Banking Corporation, Insurance Australia Group Limited and Altium Limited together with underweight positions in Sydney Airport and Fortescue Metals Group Ltd.

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 [^]	1.11%	4.96%	1.11%	24.20%	7.19%	9.86%	8.85%	10.68%	8.95%
Benchmark Return [*]	1.10%	5.80%	1.10%	28.56%	9.48%	10.05%	8.29%	9.83%	8.01%
Active Return	0.01%	-0.84%	0.01%	-4.36%	-2.29%	-0.19%	0.56%	0.85%	0.94%
Fund Net Return [^]	1.03%	4.70%	1.03%	23.01%	6.16%	8.80%	7.81%	9.62%	7.92%
Benchmark Return [*]	1.10%	5.80%	1.10%	28.56%	9.48%	10.05%	8.29%	9.83%	8.01%
Active Return (After fees)	-0.07%	-1.10%	-0.07%	-5.55%	-3.32%	-1.25%	-0.48%	-0.21%	-0.09%

[^] 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.

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

Significant Contributors

Afterpay Limited (-18.2%)

The buy-now-pay-later payment provider underperformed the market during the month, as investors digested the news of new entrants in the space including a partnership between Apple and Goldman Sachs in the United States, which plans to roll out a 'pay in four' service called 'Apple Pay Later'.

BHP Group Limited (+10.1%)

The strong fourth quarter 2021 production report showed management is doing a good job at executing on operations including production targets and cost management. The heightened iron ore price environment provides the potential for large capital management programs over the coming months.

IGO Limited (+22.0%)

The share price performed well on the back of a strong quarterly production report where production volumes and cash costs at the Nova mine exceeded expectations. Rising lithium prices and improving investor confidence with respect to the new Tianqi lithium joint venture also supported sentiment.

Significant Detractors

Sydney Airport (+34.9%)

Sydney Airport received a takeover proposal from a consortium of infrastructure investors to acquire 100% of the stapled securities at an indicative price of \$8.25 per security. The board subsequently rejected the proposal after it deemed the consideration failed to generate sufficient long-term value for security holders.

Westpac Banking Corporation (-5.0%)

The banking sector was affected by the outbreak of the COVID-19 Delta variant in Australia and retraced after several months of strong performance. With a vaccination program in full swing and capital management on the horizon, share prices remained relatively resilient in the face of the major Sydney lockdown.

Altium Limited (-7.6%)

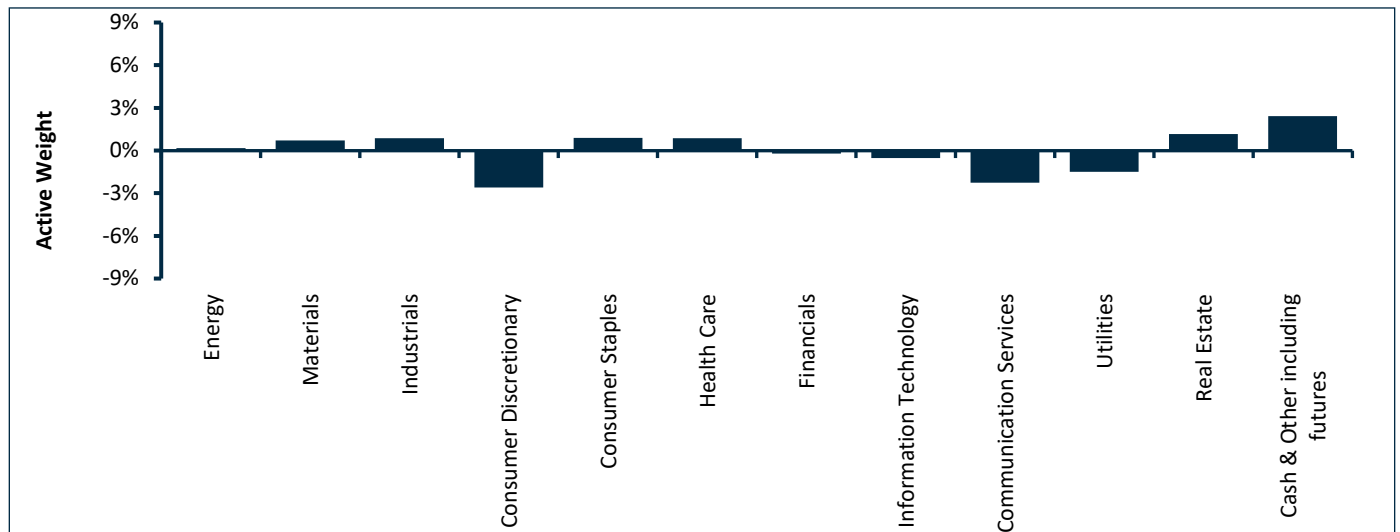
During the month the US listed company, Autodesk, announced that it had terminated discussions to acquire Altium Limited after failing to agree on a basis to advance discussions. The Altium board received and rejected the original proposal it received from Autodesk in June, as it determined the proposal significantly undervalued Altium's prospects.

Contributors and detractors are based on the portfolio weight relative to the benchmark

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
Goodman Group	Real Estate
Rio Tinto Limited	Materials
James Hardie Industries PLC	Materials

Sector Allocation



Market Valuation & Earnings Estimates:

	Market & Sector EPS Growth			Market & Sector PEs			Market & Sector Dividend Yield		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Pro-rated to June									
All Companies	33.0%	19.1%	-1.5%	19.7x	16.6x	16.9x	3.6%	4.2%	4.1%
Banks	25.1%	13.3%	5.1%	16.9x	14.9x	14.2x	3.9%	4.5%	4.8%
Listed Property Trusts	-1.2%	8.1%	6.8%	18.1x	16.8x	15.7x	3.8%	4.0%	4.4%
Resources	91.6%	24.3%	-19.3%	11.3x	9.1x	11.3x	6.4%	7.8%	6.1%
Industrials ex-Banks	7.4%	18.0%	11.6%	29.2x	24.7x	22.2x	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 +1.1% over the month. Index gains were driven by the strong performance of the Materials sector (+7.1%), where despite the pullback in the price of iron ore (-14.5%), the sector remained well supported on expectations of elevated capital management and the ongoing strength in commodity prices including Coal (+15.5%), Spodumene (+10.1%) and Copper (+3.9%). A range of sectors were increasingly impacted during the month due to the escalating national lockdowns due to the spread of the COVID-19 'Delta' variant in Sydney, Melbourne, and Brisbane. Across the market corporate activity remains elevated, as management teams focused on opportunities as they emerge from the pandemic. Low interest rates, strong balance sheets and heightened share price volatility has created conditions supportive of corporate activity in three key areas. Firstly, capital management particularly in the banking and resources sectors is expected to remain robust with excess cash returned to shareholders. This is evident in the National Australia Bank \$2.5 billion share buyback and Rio Tinto's \$9.1 billion dividend which were both announced in July. Secondly, merger and acquisition activity is elevated, with recent notable bids involving Altium, Sydney Airport, Spark Infrastructure, and Oil Search Limited highlighting that there is unrealised value in a wide range of Australian corporates. Thirdly, corporates are progressing with the demerger or divestment of non-core investments, with the Woolworths/Endeavour Group, Link Administration/Pexa Group and AGL demerger all underway or recently announced.

The top three moves within the Index included Sydney Airport (+34.9%) which received and subsequently rejected a takeover proposal from a consortium of investors, while both Lynas Rare Earths (+28.5%) and Orocobre (+27.5%) were well supported due to the strength in spodumene markets (which is a key source of lithium for electric vehicle batteries). The bottom three moves were Crown Resorts (-27.7%) which is subject to a number of regulatory reviews and is impacted by the ongoing COVID-19 lockdowns limiting site visitation, Polynovo (-20.2%) which experienced share price volatility as it continues to grow its key products in the US market and Afterpay (-18.2%) which underperformed the market due to concerns in relation to new competitors entering the buy-now-pay-later sector including Apple.

S&P/ASX 200 Top & Bottom performing sectors for the quarter ending 31 July:

The best performing sectors in the S&P/ASX200 Accumulation Index for the month were Consumer Durables & Apparel (+7.8%), Materials (+7.1%), Transportation (+6.2%), Real Estate Management & Development (+6.2%) and Automobiles & Components (+5.5%). The worst performing sectors included Software & Services (-6.9%), Technology Hardware & Equipment (-6.5%), Media & Entertainment (-4.5%), Consumer Services (-4.0%) and Energy (-2.5%).

S&P/ASX200 Top & Bottom performing stocks for the quarter ending 31 July:

The top 5 performing stocks in the S&P/ASX200 Accumulation Index for the month were Sydney Airport (+34.9%), Lynas Rare Earths Limited (+28.5%), Orocobre Ltd (+27.5%), Spark Infrastructure Group (+23.7%) and Pilbara Minerals Ltd (+22.1%). The bottom 5 performers included Crown Resorts Ltd (-27.7%), Polynovo Ltd (-20.2%), Afterpay Ltd (-18.2%), Platinum Asset Management Ltd (-16.7%) and Appen Ltd (-16.5%).

Market Outlook

We are approaching 'reporting season' in August, where most Australian listed companies present financial results for either the full-year or half-year period to 30 June 2021. Recently US companies have presented results for the 2nd quarter of 2021 and this has provided a positive backdrop, with over 72% of company results beating consensus expectations by more than 5%. However, the breakout of the COVID-19 'Delta' variant in New South Wales, Victoria, South Australia, and Queensland has led to tighter border controls, strict lockdowns and restrictions which significantly impact economic activity. Given this we expect company reporting season to be volatile. A range of corporates will be unable to provide financial guidance due to the uncertainty, and outlook statements are likely to be cautious. The current vaccination effort has been lacklustre leaving most Australians unvaccinated against COVID-19, which leads to state-based lockdowns that will continue to impact economic activity until a sufficient percentage of Australian's are vaccinated. During this phase, we expect the government to remain supportive of individuals and businesses impacted by the lockdowns, and for monetary policy to remain at supportive levels with cash rates held at the record low setting of 0.10% for the foreseeable future. Overall, we see a wide range of attractive investment opportunities in 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, July 2021

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