

# Solaris Core Australian Equity Fund

(APIR: WHT0012AU)

## Monthly Investment Report

as at 30 April 2021

### Fund Performance

The fund underperformed its benchmark for the month by 0.06%. Overweight holdings in Cleanaway Waste Management Limited, Altium Limited, IGO Limited, Mineral Resources Limited and Sezzle Inc. made a positive contribution to relative performance. The main detractors were overweight holdings in Woodside Petroleum Limited, Aurizon Holdings Limited and Woolworths Group Limited together with underweight positions in Afterpay Limited 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 <sup>^</sup>	3.49%	7.43%	18.65%	25.89%	7.50%	10.27%	8.56%	9.22%	8.72%
Benchmark Return <sup>*</sup>	3.47%	7.54%	22.12%	30.76%	9.50%	10.27%	7.95%	8.35%	7.69%
<b>Active Return</b>	<b>0.02%</b>	<b>-0.11%</b>	<b>-3.47%</b>	<b>-4.87%</b>	<b>-2.00%</b>	<b>0.00%</b>	<b>0.61%</b>	<b>0.87%</b>	<b>1.03%</b>
Fund Net Return <sup>^</sup>	3.41%	7.17%	17.70%	24.68%	6.47%	9.21%	7.52%	8.17%	7.69%
Benchmark Return <sup>*</sup>	3.47%	7.54%	22.12%	30.76%	9.50%	10.27%	7.95%	8.35%	7.69%
<b>Active Return (After fees)</b>	<b>-0.06%</b>	<b>-0.37%</b>	<b>-4.42%</b>	<b>-6.08%</b>	<b>-3.03%</b>	<b>-1.06%</b>	<b>-0.43%</b>	<b>-0.18%</b>	<b>0.00%</b>

<sup>^</sup> 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.

<sup>\*</sup> Benchmark refers to the S&P/ASX 200 Accumulation Index.

### Significant Contributors

#### Cleanaway Waste Management (+29.5%)

The waste management company attracted investors attention during the month as management successfully negotiated a deal to acquire a portfolio of prized Sydney waste infrastructure assets from Suez. The assets fill a gap in Cleanaway's network and are expected to be significantly earnings accretive for Cleanaway once the deal completes in 2022.

#### Mineral Resources Limited (+25.6%)

The mining contractor and producer of iron ore and lithium experienced continued positive momentum supported by strength in the price of iron ore and lithium. Management hosted an investor day during the month which highlighted the companies contracting capabilities and portfolio of quality assets.

#### IGO Limited (+19.3%)

During the month management announced it has entered into a binding agreement with Regis Resources for the sale of IGO's 30% interest in the Tropicana Gold Mine for \$903 million. This will enable management to concentrate on its strategic focus on commodities critical to the transition to a clean energy future (lithium, nickel, copper and cobalt).

### Significant Detractors

#### Fortescue Metals Group (+13.0%)

During the month the company presented the March 2021 Quarterly Production Report which confirmed strong operating performance contributed to record shipping performance. Earnings are supported by the record iron ore price environment which is leading to significant free cash flow generation for the Australian iron ore miners.

#### Afterpay Limited (+15.9%)

The buy-now pay-later payment provider announced active customers globally increased by 75% to 14.6 million, driving sales over the March 2021 quarter to exceed the December 2020 quarter with the US recording over \$1bn in underlying sales in a single month. Margins remained firm and gross losses remained below historical levels.

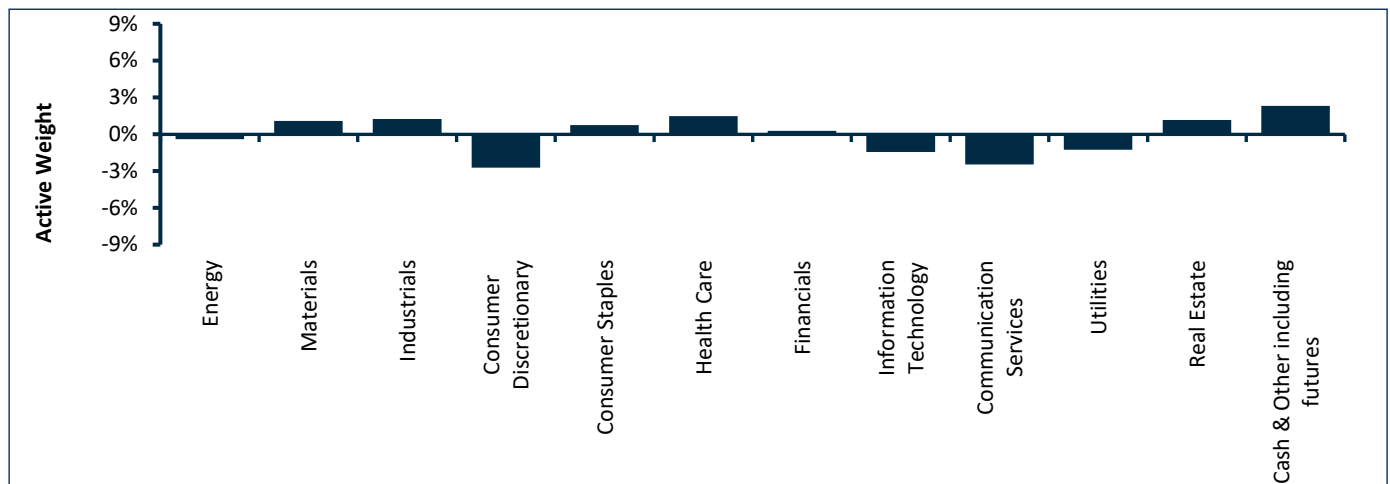
#### Woodside Petroleum (-4.8%)

The West Australian oil & gas producer underperformed the market over the month, as production volumes for the quarter to 31 March 2021 were 2% below the prior corresponding quarter due to impacts from heavy weather. The board announced the CEO will retire from Woodside on 3 June 2021 and is progressing an internal and external search for their next CEO.

## Top 10 Stocks

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

## 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	26.0%	11.1%	2.4%	19.9x	17.9x	17.5x	3.5%	3.9%	3.9%
Banks	18.1%	10.6%	5.2%	17.3x	15.6x	14.8x	3.8%	4.5%	4.8%
Listed Property Trusts	-5.1%	6.4%	4.3%	17.2x	16.1x	15.5x	4.0%	4.2%	4.5%
Resources	75.2%	2.1%	-11.3%	11.7x	11.5x	13.0x	5.8%	5.9%	4.9%
Industrials ex-Banks	5.7%	18.9%	10.6%	28.3x	23.8x	21.5x	2.6%	3.0%	3.3%

Estimate only

## Market Review

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The S&P/ASX 200 Accumulation Index rallied +3.5% over the month with the materials and banks sectors continuing to drive the index higher. The materials sector was driven largely by stronger metal prices and a slightly stronger Australian Dollar (+1.4% AUD/USD), while the financial sector continues to benefit from the improvement in the real economy. The major bank's balance sheets have improved notably, due to improving asset quality and a better economic outlook. The federal budget is due on 11 May and will be an important gauge as to the level of support available to the economy to bridge through the next phase of the recovery.

The top three moves over the month within the Index were Megaport (+29.7%) which reported solid quarterly growth with underlying Recurring Revenue up 8% over the quarter, Cleanaway Waste Management (+29.5%) after management negotiated the purchase of a portfolio of prized assets from Suez Australia and Mineral Resources (+25.6%) which was supported by the strength in the price of iron ore and lithium. The bottom three moves were Whitehaven Coal (-27.5%) after management revised down the FY21 production, sales and cost guidance, Beach Energy (-25.7%) after management significantly downgraded guidance and Redbubble (-25.6%) which provided a trading update relating to the March 2021 quarter that missed very high investor expectations.

### **S&P/ASX 200 Top & Bottom performing sectors for the month ending 30 April:**

The best performing sectors in the S&P/ASX200 Accumulation Index for the month were Technology Hardware & Equipment (+15.7%), Automobiles & Components (+14.4%), Capital Goods (+9.7%), Software & Services (+9.5%) and Media & Entertainment (+9.0%). The worst performing sectors included Household & Personal Products (-10.2%), Energy (-4.9%), Consumer Durables & Apparel (-3.4%), Food Beverage & Tobacco (-2.6%) and Food & Staples Retailing (-2.2%).

### **S&P/ASX200 Top & Bottom performing stocks for the month ending 30 April:**

The top 5 performing stocks in the S&P/ASX200 Accumulation Index for the month were Megaport Ltd (+29.7%), Cleanaway Waste Management Ltd (+29.5%), Mineral Resources Ltd (+25.6%), Champion Iron Ltd (+24.3%) and Monadelphous Group Ltd (+22.6%). The bottom 5 performers included Whitehaven Coal Ltd (-27.5%), Beach Energy Ltd (-25.7%), Redbubble Ltd (-25.6%), Challenger Ltd (-20.2%) and Nuix Ltd (-19.8%).

## Market Outlook

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As the economy continues to recover, supported by a successful COVID suppression effort and record levels of stimulus, the expectation for earnings growth across the market continues to improve. Based on our individual company forecasts aggregated to the index level, we are forecasting 11.1% earnings growth in FY2022 which is driven by the bank (+10.6%) and industrial (+18.9%) sectors. An improving housing market has supported the banking sector, where we expected to see increased probabilities of capital management looking forward. The mining sector has been buoyed by record commodity prices which we expect to lead to further capital management initiatives from the major mining companies. Our FY 2022 earnings growth forecast for the Resources sector is +2.1% on FY 2021, reflecting the high bar for earnings growth from the current elevated commodity price environment. The industrial sector has benefitted from large cost out programs, low borrowing costs and supportive government initiatives (job keeper, tax cuts) and conditions are expected to remain supportive for this sector.

Despite this rapid improvement in sentiment, the national borders remain closed, the vaccination effort is well behind initial expectations and earnings within many sectors of the economy are yet to reach pre-covid levels. As we approach the May budget, with a Federal election on the horizon, we expect the budget to contain a range of supportive measures for households and companies to help support the recovery and allow the vaccination program to ramp up in earnest. Overall, we continue to see attractive opportunities in a wide range of companies including those exposed to a recovery in the real economy, a number of cyclical and inflation-sensitive names combined with holdings in a range of sensibly priced growth companies.

Source: Solaris Investment Management, April 2021

## Contact Details

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