

Solaris Core Australian Equity Fund

(APIR: WHT0012AU)

Monthly Investment Report

as at 31 May 2021

Fund Performance

The fund underperformed its benchmark for the month by 0.39%. Overweight holdings in Westpac Banking Corporation, Aristocrat Leisure Limited and Northern Star Resources Ltd and underweight positions in Xero Limited and Afterpay Limited made a positive contribution to relative performance. The main detractors were overweight holdings in Macquarie Group Limited, Ramsay Health Care Limited, Sezzle Inc. and The A2 Milk Company Limited 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.	10 Years p.a.	Inception p.a. (17/09/2008)
Fund Gross Return [^]	2.03%	7.99%	21.06%	23.24%	7.87%	9.80%	8.71%	9.67%	8.83%
Benchmark Return [*]	2.34%	8.48%	24.98%	28.23%	9.95%	10.11%	8.21%	8.82%	7.84%
Active Return	-0.31%	-0.49%	-3.92%	-4.99%	-2.08%	-0.31%	0.50%	0.85%	0.99%
Fund Net Return [^]	1.95%	7.73%	19.99%	22.05%	6.83%	8.75%	7.67%	8.61%	7.80%
Benchmark Return [*]	2.34%	8.48%	24.98%	28.23%	9.95%	10.11%	8.21%	8.82%	7.84%
Active Return (After fees)	-0.39%	-0.75%	-4.99%	-6.18%	-3.12%	-1.36%	-0.54%	-0.21%	-0.04%

[^] 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 (-21.1%)

The buy now pay later (BNPL) payment provider underperformed the market over May, as high growth companies were impacted by investor concerns that higher inflation data may lead to higher bond yields. Further to this, investors continue to assess the level of competition in the sector given the increasing number of new entrants.

Westpac Banking Corporation (+8.2%)

Management published the 2021 interim financial results during the month, where earnings were considerably higher than the prior corresponding period due to a combination of improving net interest margins, improving balance sheet strength and positive impairment provision releases.

Aristocrat Leisure Limited (+10.8%)

Aristocrat's portfolio of digital and gaming assets continued to perform strongly, with net profit after tax of \$362.2 million for the six months to 31 March 2021 up +18.4% on the prior period. The groups earnings continued to grow and diversify over the six months, with almost 80% of revenue now derived from recurring sources.

Significant Detractors

Commonwealth Bank of Australia (+12.0%)

The bank provided a trading update for third quarter ended 31 March 2021. Investors were pleased with the strong balance sheet settings (Core equity tier one ratio of 12.7%) combined with a 2% increase in operating income from continued strong volume growth and an improved net interest margin.

Macquarie Group Limited (-3.2%)

Macquarie Group announced a \$3,015 million full year profit, which is up +10% on the prior year. Macquarie's businesses continued to perform well despite challenging market conditions, reflecting the diversity of the underlying operations and focus on prudent risk management.

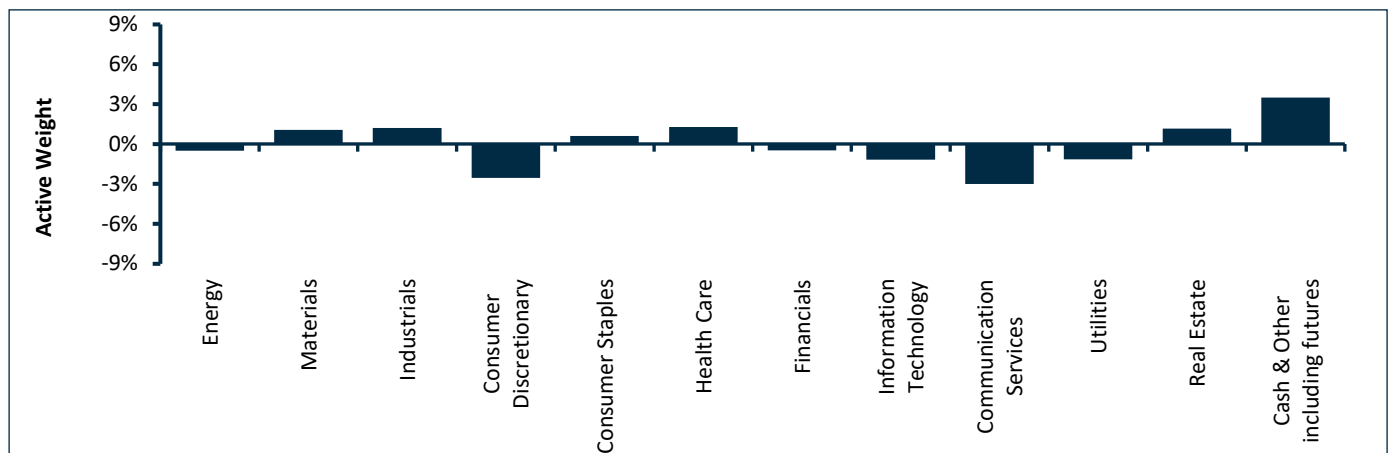
Sezzle Inc. (-22.4%)

During the month, Sezzle expanded its buy now pay later technology offering through a partnership with Ally Financial in the United States. Despite this positive development, the company underperformed the market over the month as higher inflation data impacted sentiment on higher growth companies, combined with concerns on higher competition in the BNPL space.

Top 10 Stocks

Name	Sector
BHP Group Limited	Materials
CSL Limited	Health Care
Commonwealth Bank of Australia	Financials
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		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Pro-rated to June									
All Companies	27.9%	13.2%	1.4%	20.0x	17.7x	17.5x	3.5%	3.9%	3.9%
Banks	22.9%	12.4%	5.1%	17.7x	15.8x	15.0x	3.7%	4.3%	4.6%
Listed Property Trusts	-5.1%	6.4%	4.3%	17.5x	16.4x	15.8x	4.0%	4.1%	4.4%
Resources	78.8%	7.1%	-13.9%	11.7x	11.0x	12.7x	5.9%	6.2%	5.0%
Industrials ex-Banks	5.3%	18.8%	10.6%	28.5x	24.0x	21.7x	2.6%	3.0%	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. The banking sector continued to perform strongly (+7.3%) as the major banks provided trading updates during the month. The key takeaways were improving net interest margins and capital adequacy levels that were both much stronger than consensus expectations. This bodes well for future capital management opportunities within the sector. The software and services (-10.2%) and utilities (-6.6%) sectors both significantly underperformed the market, despite bond yields pushing lower over the month (typically lower yields are supportive for these sectors). Commodity markets performed well over the month, supported by rising inflation expectations, strong demand and supply constraints in some cases, with Thermal Coal ex Newcastle Port (+31.1%), Gold (+7.8%) and Oil (+4.3%) leading the gains.

The top three moves within the Index included Resolute Mining Limited (+25.8%) and Gold Road Resources (+20.7%) which were both well supported by a strengthening gold price and Whitehaven Coal (+23.0%) which performed well off a low base as Newcastle coal futures signalled increasing prices. The bottom three moves were EML Payments (-41.9%) which fell after announcing the Central Bank of Ireland raised regulatory concerns with its Irish regulated subsidiary, Perenti (-38.5%) following the emergence of upward wage pressure in the Australian market and Nuix (-33.1%) after management announced the third downgrade to earnings expectations since listing six months ago.

S&P/ASX 200 Top & Bottom performing sectors for the month ending 31 May:

The best performing sectors in the S&P/ASX200 Accumulation Index for the month were Banks (+7.3%), Pharmaceuticals & Biotechnology (+6.9%), Consumer Durables & Apparel (+5.3%), Consumer Services (+5.0%) and Insurance (+4.7%). The worst performing sectors included Software & Services (-10.2%), Utilities (-6.6%), Food Beverage & Tobacco (-3.9%), Real Estate Management & Development (-3.3%) and Transportation (-2.7%).

S&P/ASX200 Top & Bottom performing stocks for the month ending 31 May:

The top 5 performing stocks in the S&P/ASX200 Accumulation Index for the month were Resolute Mining Ltd (+25.8%), Whitehaven Coal Ltd (+23.0%), Gold Road Resources Ltd (+20.7%), Perseus Mining Ltd (+18.4%) and ALS Ltd (+17.5%). The bottom 5 performers included EML Payments Ltd (-41.9%), Perenti Global Ltd (-38.5%), Nuix Ltd (-33.1%), Costa Group Holdings Ltd (-27.0%) and The A2 Milk Company Ltd (-23.5%).

Market Outlook

As the economy continues to recover, supported by a successful COVID-19 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 13.8% earnings growth in the 2022 financial year which is driven by the Bank (+12.4%) and Industrial (+18.8%) sectors. An improving housing market has supported the banking sector, where we expect to see an increased probability 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. However, our earnings growth forecast for Resources sector in the 2022 financial year is +7.1% vs the 2021 financial year, 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). We expect conditions to remain supportive for this part of the market. 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-19 levels. 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, May 2021

Contact Details

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