

Solaris Core Australian Equity Fund

(APIR: WHT0012AU)

Monthly Investment Report as at 30 November 2021

Market and Fund Performance

The S&P/ASX 200 Accumulation Index fell late in the month to finish down -0.5% in November. The fund underperformed its benchmark for the month by 0.34%. As the number of COVID-19 Delta variant cases continued to climb throughout the month, the discovery of the new Omicron variant rattled markets and sent a wave of panic across the globe with equities correcting, bond yields pushing sharply lower and the oil price falling. Given 'Delta' is the dominant variant and is relatively well understood, the uncertainty associated with 'Omicron' is what spooked markets most. It is clearly highly transmissible, but questions remain as to the level of severity and effectiveness of existing vaccines. While it is early days, indications suggest the variant is less severe than Delta, which would be a positive development in the evolution of COVID-19. Given the advances in vaccine and treatment technology over the past 18 months, we believe the world is in a strong position to detect, assess and respond to the new variant. Globally, inflation continues to remain elevated due to a range of factors including changing lifestyle patterns, government stimulus and supply chain factors. In terms of sector performance, the Materials sector (+6.3%) performed strongly despite softness in the price of iron ore (-6.6%) as investors anticipated a return to stimulus in China, while the Energy sector (-8.3%) was impacted by the collapse in the price of oil (Brent -16.4%) and the Banking sector (-9.3%) underperformed as major banks cited increased pressure on net interest margins due to increased funding costs and heightened competition.

The top three moves within the Index were Chalice Mining (+49.5%) after management announced the largest nickel sulphide discovery in over 20 years at its Julimar Project in Western Australia, Nickel Mines (+35.9%) which confirmed its Angel Nickel Project is expected to be commissioned ahead of schedule and Fortescue Metals (+22.1%) rallied as investors anticipated a recovery in iron ore markets if China returns to stimulating the economy following the recent slowdown. The bottom three moves were Tyro (-28.7%) which provided an update at the AGM that gross profit and implied margins were below market expectations, Nearmap (-27.6%) which underperformed as management confirmed the company would consume approximately \$30 million net cash this financial year as it continues to invest for growth, and Clinovel Pharmaceuticals (-25.5%) which underperformed following an analyst downgrade after strong performance in the September quarter.

A portfolio holding in focus over the month is Altium, which provides market leading software for the design of electronic products globally across a wide array of industries. The number of internet connected devices is forecasted to surpass 25.4 billion in 2030 and every second 127 devices hook up to the internet for the first time, which provides large industry tailwinds for Altium's specialised design tools and platforms. Altium is pivoting from one off licence sales to cloud based subscriptions which generate attractive recurring revenue. 'Altium 365' is Altium's cloud-based platform which is sold on a subscription basis and has over 17,300 active users. It is growing quickly based on the success of Altium's 'Designer' desktop software which is currently the world's most widespread professional Printed Circuit Board (PCB) design tool and used by over 100,000 engineers worldwide. Albeit at a smaller scale, this reminds us of Microsoft's pivot away from one off licence sales to cloud based subscriptions, which has generated significant wealth for shareholders over the past decade. In the recent past Altium has been subject to a takeover offer from offshore peer Autodesk, which validates Altium's high quality products, user base and business model. We are attracted to Altium's strong track record of profitability, its high-quality cash backed earnings, the experienced and aligned management team, the strong balance sheet and the potential to continue to disrupt and transform the global electronics industry in the years ahead.

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 [^]	-0.80%	-1.56%	2.54%	14.09%	10.91%	10.07%	9.45%	11.52%	8.83%
Benchmark Return [*]	-0.54%	-2.48%	1.07%	15.48%	12.56%	10.11%	8.89%	10.35%	7.80%
Active Return	-0.26%	0.92%	1.47%	-1.39%	-1.65%	-0.04%	0.56%	1.17%	1.03%
Fund Net Return [^]	-0.88%	-1.79%	2.13%	12.99%	9.84%	9.01%	8.40%	10.45%	7.80%
Benchmark Return [*]	-0.54%	-2.48%	1.07%	15.48%	12.56%	10.11%	8.89%	10.35%	7.80%
Active Return (After fees)	-0.34%	0.69%	1.06%	-2.49%	-2.72%	-1.10%	-0.49%	0.10%	0.00%

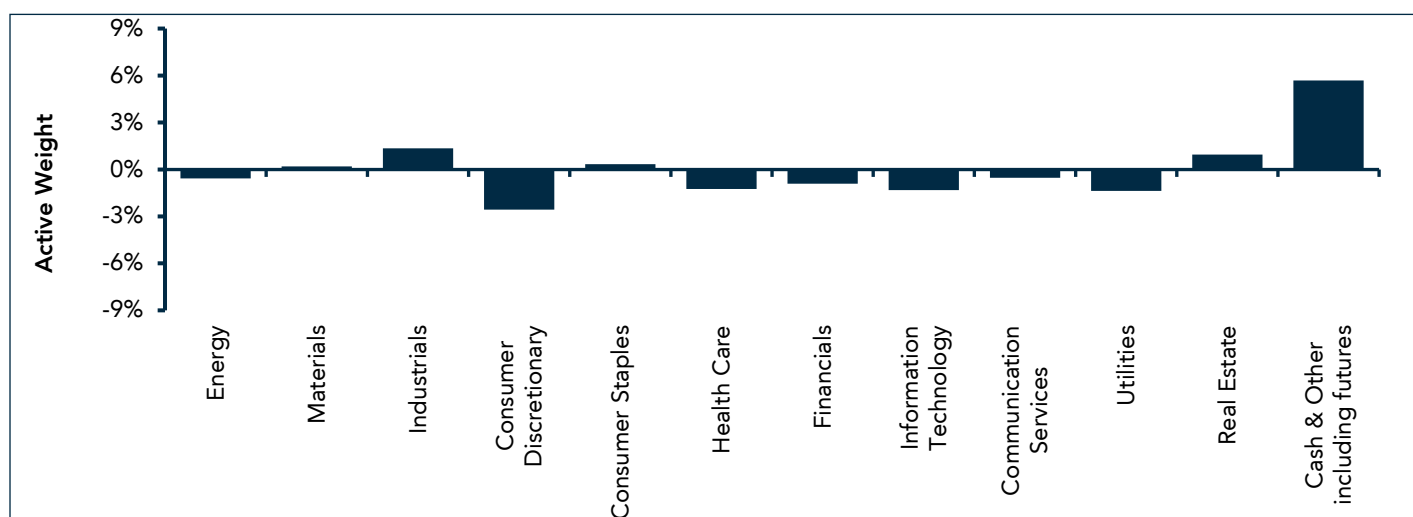
[^] Performance is for the Solaris Core Australian Equity Fund (APIR: WHT0012AU), also referred to as Class B units, and is based on month end prices before tax. Net performance is calculated after management fees and operating costs, excluding taxation. Gross performance is stated excluding all fees, 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
Australia and New Zealand Banking Group Limited	Financials
BHP Group Limited	Materials
Commonwealth Bank of Australia	Financials
CSL Limited	Health Care
Goodman Group	Real Estate
James Hardie Industries PLC	Materials
Macquarie Group Limited	Financials
National Australia Bank Limited	Financials
Westpac Banking Corporation	Financials
Woolworths Group Limited	Consumer Staples

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	30.9%	10.4%	1.6%	19.4x	17.6x	17.3x	3.7%	3.8%	3.8%
Banks	24.7%	9.5%	5.6%	15.8x	14.4x	13.7x	4.1%	4.9%	5.1%
Listed Property Trusts	-3.3%	9.4%	9.8%	19.5x	17.9x	16.3x	3.5%	3.7%	4.2%
Resources	80.1%	6.6%	-18.1%	9.5x	9.0x	11.0x	7.7%	6.5%	5.3%
Industrials ex-Banks	8.2%	14.4%	15.5%	30.2x	26.5x	22.9x	2.4%	2.7%	3.0%

Estimate only

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

Market Outlook

As we approach two years since the onset of COVID-19, we have witnessed a remarkable period following the initial precipitous fall – large stay in business capital raisings in 2020, a strong equity bull market through 2021, with near-record levels of M&A and IPO's. Looking forward, the onset of the new COVID-19 'Omicron' variant will bring uncertainty but should not be a surprise to global markets. As developed nations have focused on vaccinating their local populations, access to vaccines in the developing world has been lacklustre leading to the heightened potential for mutations. We remain focused on the link between the infection rate and the mortality rate, which continues to weaken due to the success of global vaccination efforts. Whilst we are focused on ensuring our portfolio companies have the balance sheet strength to withstand any periods of volatility, we believe advances in vaccine and treatment technology put health authorities in a strong position to manage the new variant.

We are genuinely excited about the outlook for our portfolio holdings. As a reminder – company research is where we dedicate the overwhelming majority of our time. Solaris analysts are focused on deriving an underlying fair value for each company within our investment universe. We have held over 680 company-related meetings this year – with portfolio companies, competitors, and industry experts as we build a deep understanding of each company and industry. It's this analysis that gives us a high conviction in our portfolio as we approach 2022 where we believe several themes will continue to resonate:

1) *M&A and Corporate Activity will remain elevated*

Capital remains cheap - access to debt markets and equity capital markets is wide open for corporates looking to expand, acquire or list. We expect this to support corporate activity in 2022. In particular, real assets (infrastructure, property) continue to remain desired by long-term investors and we expect that unlisted investors will continue to pay attention to listed assets that are trading at a discount to their intrinsic valuation.

2) *Income will remain a key focus*

With cash rates near zero, term deposits yielding little and inflation increasing, the real interest rate for savers (after adjusting for inflation) is significantly negative. Investors must remain focused on total return (income plus capital movement), as we have seen over the past quarter that simply chasing yield in the Banks and Miners leaves savers facing material capital volatility.

3) *Supply chain impacts will linger*

Given the ongoing bottlenecks in the shipping industry we have been focused on ensuring our portfolio companies are well placed to manage any supply chain related disruptions and have a strategy to manage their supply chain into 2022. Freight providers remain at full capacity, labour markets in several industries remain tight and we expect COVID-19 related impacts on supply chains to continue into 2022.

4) *Stimulus will fade*

We expect that direct and indirect monetary and fiscal stimulus will continue to ease into 2022. Already we have seen stricter lending conditions imposed on the banks by the regulator (Australian Prudential Regulatory Authority) and we have seen a significant reduction in Job Keeper related handouts. We expect to continue to see a reduction in the level of stimulus into 2022 as the economy begins to stand on its own two feet.

As we approach 2022, we see investment opportunities across a wide range of companies and this paragraph summarises the key attributes we look for. We are attracted to companies with stable and improving industry structures. Companies must display strong balance sheets and conservative levels of debt, as this enables management to withstand periods of stress. We prefer companies that have a conservative approach to accounting and like to see accounting earnings backed by cash earnings. Strong and experienced management teams that display owner-operator shareholder focused behaviour are important attributes. We search for positive trends in return on equity – that is, companies that are re-investing at high incremental rates of return or directing excess capital back to shareholders. And lastly but importantly, we believe that ESG factors are key to future success.

Source: Solaris Investment Management, November 2021

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