

# Solaris Core Australian Equity Fund

(APIR: WHT0012AU)

## Monthly Investment Report

as at 28 February 2022

### Market and Fund Performance

Despite being a short month, only 28 days in duration, February was filled with significant macroeconomic and geopolitical developments combined with a robust domestic company 'results season'. The S&P/ASX200 Accumulation Index rose +2.1% during the month, significantly outperforming the United States S&P 500 and MSCI World indices which fell -3.1% and -2.7% respectively. The fund outperformed its benchmark for the month by 0.35%. Early in the month the US annual inflation rate was published for January confirming a rate of +7.5% driven by strong demand, rising energy costs, labour shortages and supply chain disruptions. This was the highest inflation print in 40 years (since February 1982) and led to a further sell off in bonds globally, with the Australian 10-year government bond yield reaching as high as 2.29% intra-month, a move of +0.40%. Geopolitical threats continued to escalate throughout the month, culminating in the Russian invasion of Ukraine, sending commodity prices including oil, coal and natural gas sharply higher (Brent Oil +10.8%, Thermal Coal +20.2%, Natural Gas Futures +19.1%). Australian equities outperformed offshore markets, supported by strong contributions from the Materials and Banking sectors and a robust company 'results season'. Corporate results for the period to 31 December 2021 highlighted the underlying strength in the Australian economy where unemployment remains low, labour markets remain tight, and corporate balance sheets are generally in good health. Despite this, management teams highlighted continued COVID-19 related interruptions as lockdowns, labour shortages and supply chain issues are a common theme across most sectors. Although well below levels in the United States, inflation is increasing and is being felt across corporate Australia. Many companies are pushing through higher prices but are feeling the impacts of input cost and transport cost escalation on their margins.

The top three moves in the Index were Cimic (+34.8%) after receiving a takeover proposal from majority shareholder HOCHTIEF Australia, Sims Metal (+28.1%) which reported strong results for the six months to 31 December and ahead of market expectations, and Silver Lake Resources (+25.9%) which announced the closure of the deal to acquire Harte Gold for \$102million and was supported by the strength in gold prices. The bottom three moves in the Index were Life 360 (-36.6%), Novonix (-32.9%) and Tyro (-31.5%) which despite having materially different product offerings and business models were all similarly impacted by the broader sell-off and de-rating of higher growth technology focused companies during the month.

A portfolio holding in focus over the month is Woodside Petroleum, which is positioned well to benefit from the sharply rising oil and gas price environment. With demand continuing to recover from the weakness associated with COVID-19 travel restrictions and with supply increasingly interrupted following Russia's invasion of Ukraine, oil and gas prices have risen sharply (with Brent over \$100 US a barrel and rising). As Woodside has a reasonable percentage of its production sold into the elevated spot gas market (versus contracted prices), it is generating a material level of free cash flow at these levels, which further strengthens the balance sheet. The new management team at Woodside is focused on a number of growth projects, including a plan to decarbonise the portfolio progressively through to net zero 2050 or sooner. The plan to decarbonise includes a \$5 billion commitment to new energy products (hydrogen, solar, ammonia, carbon capture and storage) and lower-carbon investments by 2030. Woodside is displaying attractive valuation and prospects relative to its peers and is well positioned to assist in the energy transition over coming years.

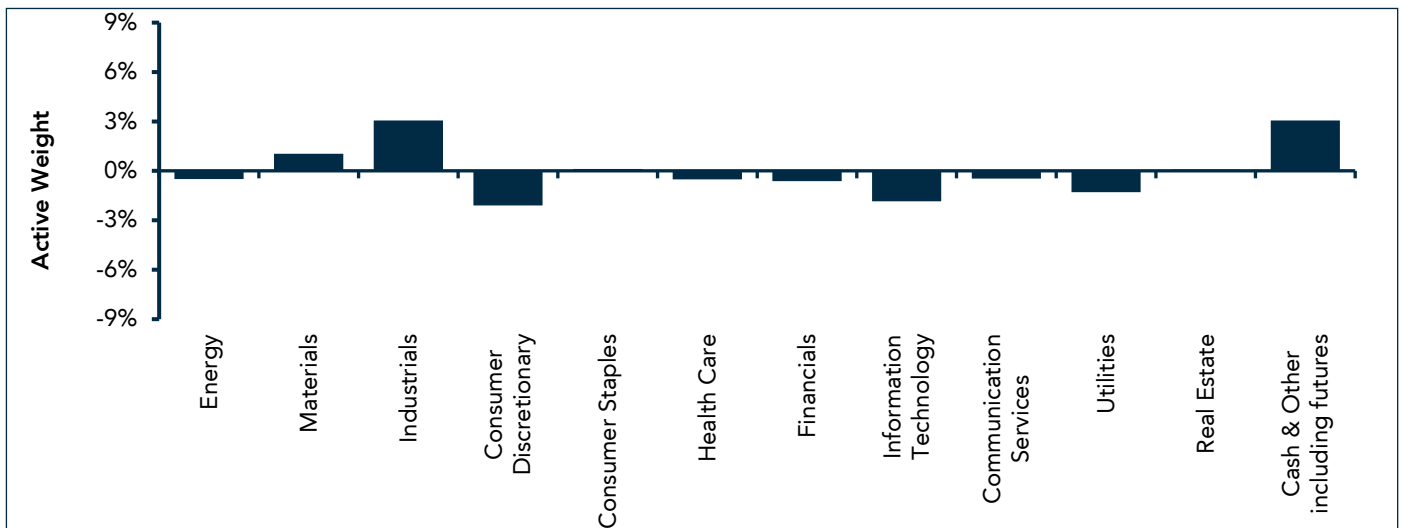
Returns	Month	Rolling Quarter	FYTD	1 Year	3 Years p.a.	5 Years p.a.	7 Years p.a.	10 Years p.a.	Inception p.a. (17/09/2008)
Fund Gross Return <sup>^</sup>	2.57%	-0.86%	1.66%	11.68%	6.85%	8.61%	7.53%	10.66%	8.59%
Benchmark Return*	2.14%	-1.72%	-0.67%	10.19%	8.43%	8.48%	6.78%	9.56%	7.51%
<b>Active Return</b>	<b>0.43%</b>	<b>0.86%</b>	<b>2.33%</b>	<b>1.49%</b>	<b>-1.58%</b>	<b>0.13%</b>	<b>0.75%</b>	<b>1.10%</b>	<b>1.08%</b>
Fund Net Return <sup>^</sup>	2.49%	-1.10%	1.01%	10.61%	5.82%	7.57%	6.50%	9.60%	7.57%
Benchmark Return*	2.14%	-1.72%	-0.67%	10.19%	8.43%	8.48%	6.78%	9.56%	7.51%
<b>Active Return (After fees)</b>	<b>0.35%</b>	<b>0.62%</b>	<b>1.68%</b>	<b>0.42%</b>	<b>-2.61%</b>	<b>-0.91%</b>	<b>-0.28%</b>	<b>0.04%</b>	<b>0.06%</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. All p.a. returns are annualised. \* Benchmark refers to the S&P/ASX 200 Accumulation Index.

## Top 10 Stocks (Alphabetical Order)

Name	Sector
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
South32 Limited	Materials
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	37.3%	11.4%	1.8%	18.3x	16.5x	16.2x	3.6%	3.9%	3.9%
Banks	25.0%	11.8%	4.5%	16.4x	14.6x	14.0x	3.8%	4.7%	5.0%
Listed Property Trusts	-3.3%	9.1%	9.1%	18.9x	17.3x	15.9x	3.6%	3.8%	4.3%
Resources	91.6%	8.0%	-14.0%	10.7x	10.0x	11.6x	6.8%	5.8%	5.0%
Industrials ex-Banks	10.2%	14.7%	16.5%	27.7x	24.3x	21.0x	2.5%	2.8%	3.1%

Estimate only

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

## Market Outlook

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The unfolding crisis in Ukraine, like many events including the threat of war, weather or health pandemics, creates uncertainty for markets and volatility in share prices. The common theme across all crises, is that they inevitably come to an end. The confluence of events impacting markets at present with the unfolding Russian/Ukrainian war, inflation at the highest levels in 40 years, increasing interest rate expectations and ongoing COVID-19 related disruptions, is indeed creating elevated volatility and uncertainty. The duration of these macroeconomic and geopolitical events vary; however, each event provides volatility and hence opportunity in share prices.

We are focused on the fundamentals for Australian listed corporates within our investment universe. While the global developments can dominate the headlines, company reporting season gives us insight into company fundamentals. The health of corporate Australia highlights the underlying economy is relatively robust with a low level of unemployment and strong GDP growth. We expect the outlook for corporate profits to remain positive and are focused on ensuring our portfolio companies are well positioned to manage the persistent labour shortages, supply chain disruptions and rising inflationary pressures. While many management teams are rightly cautious on the outlook, many are optimistic that the stop / start lockdowns of 2021 are behind us. We expect a remarkable amount of free cash flow to be generated by the major miners, with the potential for a large quantum of cash flow to be returned to shareholders in the form of fully franked dividends and off-market buybacks. We have a cautious view on companies with elevated working capital in the form of inventory, particularly in the fashion and retail sectors, as this can quickly become a future liability. Many high growth companies that we viewed as expensive a year ago are now approaching more attractive levels following a significant retracement in share prices. We are focused on attractive investment opportunities across the full spectrum of our investment universe, including companies in the 'growth' and 'value' classifications of the market.

Source: Solaris Investment Management, February 2022

## Contact Details

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