SOLARIS
investment management

Solaris Core Australian Equity Fund

(APIR: WHT0012AU)

Monthly Investment Report

as at 31 August 2021

Market and Fund Performance

The S&P/ASX 200 Accumulation Index rallied +2.5% over August, marking the 11th consecutive month of gains and the most extended series of successive monthly advances since 1943. The fund outperformed its benchmark for the month by 0.43%. August was dominated by company reporting season, with the majority of the top 300 companies presenting half-year or full-year results. Results for the period to 30 June were broadly strong, however the outlook and trading updates were soft due to the draconian lockdowns in Sydney and Melbourne impacting economic activity. Relative to consensus expectations, approximately 33% of companies reporting exceeded expectations, 33% were in line, and 34% were below expectations. Capital management was a key theme, with solid conditions over the past months enabling a wave of dividends to be declared (over $31.5 billion), combined with over $15 billion in buybacks (over half of which are off-market tax-efficient buybacks). In addition to this, mergers and acquisitions activity is heightened, with many stocks subject to corporate activity. Another critical development over the month was investors increasing confidence in the vaccination program, where momentum continues to build nationally. Key thresholds for re-opening are expected to be met soon and as a result companies exposed to a relaxation of restrictions (travel, physical retail, casinos, toll roads) outperformed during the month. With respect to commodities, heat came out of the iron ore price (-14.3%) as China curtailed steel production due to seasonal factors and a focus on improving air quality, while the oil price (WTI -7.4%) was weaker in anticipation of weakened demand worldwide due to the surge in COVID-19 cases.

The top three moves within the Index included Wisetech Global (+57.0%) which reported high growth in revenue and users combined with a strong outlook of 26%-38% EBITDA growth, Afterpay (+39.2%) appreciated after agreeing to a merger proposal with Square, and Blackmores (+37.4%) which reported underlying earnings growth of 61.2% on the prior year assisted by improving international sales and an underlying business improvement program. The bottom three moves included Champion Iron (-22.5%) and Fortescue Metals (-15.7%) which were both impacted by sharp falls in the price of iron ore and Boral (-15.0%) which highlighted an uncertain outlook as we approach 2022 and expects underlying market conditions to be mixed due to ongoing impacts of COVID-19.

A portfolio holding in focus that contributed positively to active returns is Atlas Arteria which owns a portfolio of high-quality toll roads in France, Germany and the United States. The 2021 interim result exceeded expectations and confirmed that traffic volumes, particularly on the key APRR asset in France, bounce back very quickly once restrictions ease. The share price remains undervalued given the quality of the assets, the under-geared balance sheet (which is getting stronger by the day), organic growth opportunities and a management team that is well placed to realise value for shareholders in the periods ahead. A portfolio position that detracted from active returns is BHP Group, which was impacted by the weaker iron ore price but also several pivotal strategy changes for investors to digest. Firstly, the company plans to collapse the dual listing structure to a single listing in Australia. The share price underperformed on this news as the Australian listing trades at a significant premium to the UK listing, given the value Australia investors attach to franking credits. Management also announced plans to divest the petroleum business to Woodside Petroleum and an intention to proceed with the Jansen potash project. The company is well placed to return surplus cash flow to shareholders with over US $15 billion returned for the full year to 30 June 2021.

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^	3.01%	5.97%	4.16%	24.96%	7.71%	10.69%	9.22%	11.35%	9.14%
Benchmark Return*	2.50%	5.97%	3.63%	28.15%	9.87%	10.94%	8.58%	10.31%	8.16%
Active Return	**0.51%**	**0.00%**	**0.53%**	**-3.19%**	**-2.16%**	**-0.25%**	**0.64%**	**1.04%**	**0.98%**
Fund Net Return^	2.93%	5.71%	3.99%	23.76%	6.68%	9.63%	8.17%	10.28%	8.11%
Benchmark Return*	2.50%	5.97%	3.63%	28.15%	9.87%	10.94%	8.58%	10.31%	8.16%
Active Return (After fees)	**0.43%**	**-0.26%**	**0.36%**	**-4.39%**	**-3.19%**	**-1.31%**	**-0.41%**	**-0.03%**	**-0.05%**

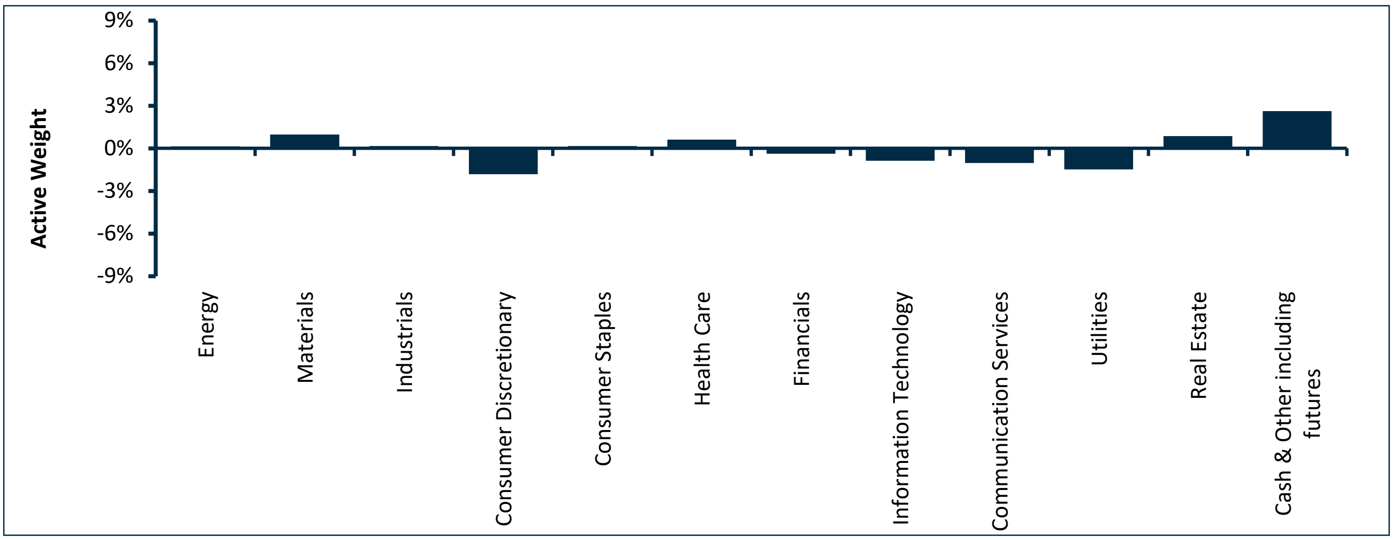
^ Performance is for the Solaris Core Australian Equity Fund (APIR: WHT0012AU), also referred to as Class B units, and is based on month end prices before tax. Net performance is calculated after management fees and operating costs, excluding taxation. Gross performance is stated excluding all fees, 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
Atlas Arteria	Industrials
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		
Pro-rated to June	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
All Companies	35.2%	17.3%	-1.7%	20.0x	17.1x	17.4x	3.5%	4.0%	3.9%
Banks	26.6%	12.6%	5.4%	17.2x	15.2x	14.5x	3.7%	4.4%	4.7%
Industrials ex-Banks	6.7%	14.6%	12.2%	30.4x	26.6x	23.7x	2.4%	2.6%	2.9%
Listed Property Trusts	-6.1%	6.1%	8.7%	19.0x	18.0x	16.5x	3.6%	3.7%	4.1%
Resources	107.6%	23.7%	-20.8%	10.2x	8.3x	10.5x	7.1%	8.3%	6.3%

Estimate only

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

Market Outlook

Following reporting season, the near-term focus of corporate Australia is managing the impact of current lockdowns. The vaccination program is in full-swing and there is the potential for a range of restrictions to be relaxed into year end, however during reporting season a range of companies (in particular New South Wales and Victorian focused consumer discretionary, retail, construction, travel) highlighted the impacts of the current lockdowns on their operations. We expect targeted government assist and supportive conditions to remain for the foreseeable future, with interest rates and borrowing costs at record low settings. As mentioned in recent months, we continue to see heightened activity in terms of mergers and acquisitions. Recent activity and corporate news flow includes BHP / Woodside Petroleum, Afterpay / Square, Sydney Airports, Vocus, Spark Infrastructure, Altium / Autodesk and Z Energy / Ampol. We expect conditions to remain highly conducive to further activity as a result of the following factors:

- *Healthy corporate balance sheets*
  Many corporate balance sheets are strong and have additional borrowing capacity as a result of record low interest rates and borrowing costs.

- *Accommodating equity markets*
  Corporate confidence levels remain high and management teams are willing to use this opportunity to look through the uncertainty and pull the trigger on mergers and acquisitions.

- *Pricing*
  For focused management teams, there remains value on offer from mergers and acquisitions activity that is within their circle of competence (within-country, within-sector, within capability). Despite the recovery in many share prices, the divide between the valuation multiples of 'old world' and 'new economy' stocks remains high. Many high-quality companies, with irreplaceable assets and an improving outlook are trading well below their intrinsic value. Unlisted investors (including pension funds and private equity) have an increasing ability and willingness to take listed companies private.

As we progress forward, we remain focused on investing in companies with the following characteristics:

- ✓ Attracted to stable or improving industry structures
- ✓ Avoid excessively geared balance sheets
- ✓ Attracted to competent and trustworthy management
- ✓ Look for good cashflow, cash realisation and earnings quality
- ✓ Favour companies with improving return on equity
- ✓ Strong belief that ESG factors can drive share price performance

We see attractive opportunities in a wide range of companies including those exposed to a re-opening of the economy, a number of cyclical and inflation sensitive names combined with a range of sensibly priced growth companies.

Source: Solaris Investment Management, August 2021

Contact Details

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