SOLARIS
investment management

Solaris Core Australian Equity Fund (Performance Alignment)

(APIR: SOL0001AU)

Quarterly Investment Report

as at 31 March 2022

Market and Fund Performance

The S&P/ASX200 Accumulation Index rose +6.9% during the month, finishing +2.2% over the quarter to 31 March. The fund outperformed its benchmark for the quarter by 1.08%. With US inflation reaching levels not seen since February 1982, bond yields moved sharply higher over the quarter. Australian bond yields followed, and the 10-year Government yield shifted from 1.67% on 31 December 2021 to 2.83% at 31 March, a remarkable move in a short period of time. This drove a de-rating of the longer duration segments of the market including the Software & Services, Real Estate and Healthcare sectors. Commodity prices rose sharply due to heightened geopolitical tensions associated with the Russian invasion of Ukraine, with oil, natural gas and nickel some of the highlights over the quarter (brent oil +37.7%, US natural gas futures +51.3% and nickel +59.6%). Overall, Australia continues to lead global equity markets this calendar year driven by strong contributions from Materials, Energy and Banking sectors.

The top three moves in the Index over the quarter were Whitehaven Coal (+63.0%) which performed strongly due to rapidly rising coal prices as a result of the sanctions placed on Russian coal exports, Woodside Petroleum (+54.0%) which is benefitting from sharply rising oil and gas prices and Champion Iron (+45.9%) which performed well operationally achieving record production despite scheduled maintenance and COVID-19 associated interruptions. The bottom three moves in the Index were ZIP Co (-65.7%) on credit quality concerns impacting the BNPL sector which overshadowed an agreed scrip merger with Sezzle, Pointsbet Holdings (-46.4%) which underperformed the market as a result of the broader de-rating of high-growth segments of the market and Telix Pharmaceuticals (-40.3%) which was impacted by the broader sell-off and de-rating of higher growth Healthcare companies during the quarter.

A portfolio holding in focus over the quarter was 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.

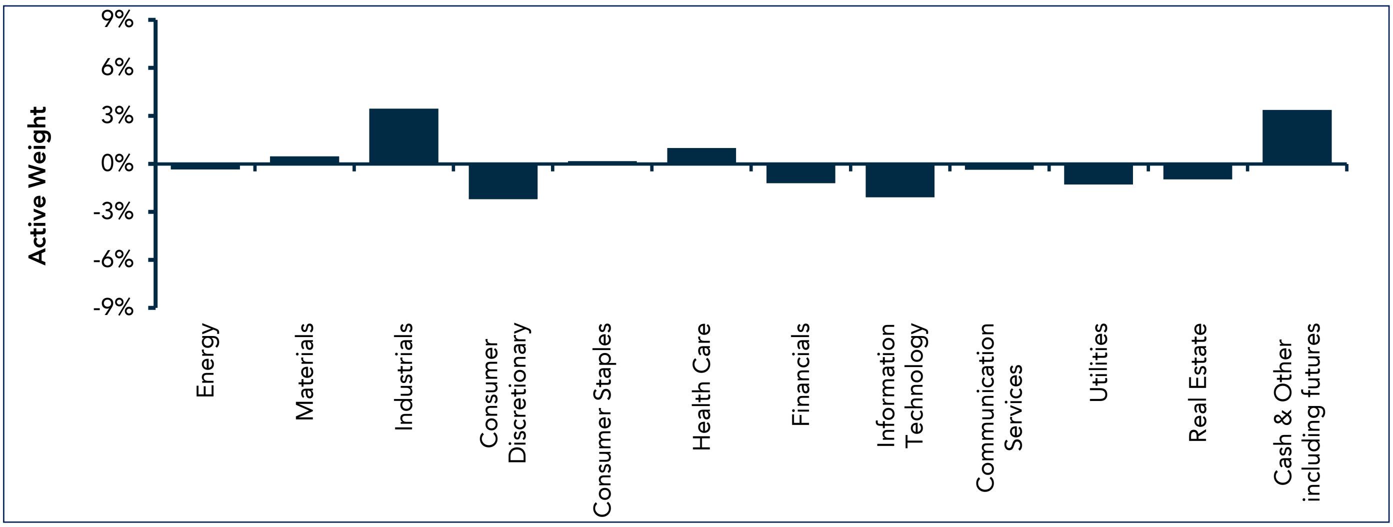
Returns	Month	Rolling Quarter	FYTD	1 Year	3 Years p.a.	5 Years p.a.	7 Years p.a.	Since Inception p.a. (31/08/2012)
Fund Gross Return^	6.80%	3.32%	8.57%	16.63%	8.95%	9.24%	8.35%	11.66%
Benchmark Return*	6.89%	2.24%	6.17%	14.97%	10.59%	9.22%	7.81%	10.45%
Active Return	**-0.09%**	**1.08%**	**2.40%**	**1.66%**	**-1.64%**	**0.02%**	**0.54%**	**1.21%**
Fund Net Return^	6.80%	3.32%	8.57%	16.63%	8.95%	8.96%	7.98%	11.24%
Benchmark Return*	6.89%	2.24%	6.17%	14.97%	10.59%	9.22%	7.81%	10.45%
Active Return (After fees)	**-0.09%**	**1.08%**	**2.40%**	**1.66%**	**-1.64%**	**-0.26%**	**0.17%**	**0.79%**

^ Performance is for the Solaris Core Australian Equity Fund (Performance Alignment) (APIR: SOL0001AU), also referred to as Class D 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
Macquarie Group Limited	Financials
National Australia Bank Limited	Financials
South32 Limited	Materials
Westpac Banking Corporation	Financials
Woodside Petroleum Limited	Energy
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	38.1%	14.3%	1.6%	19.8x	17.4x	17.2x	3.6%	3.8%	3.7%
Banks	25.9%	11.1%	4.6%	17.9x	16.0x	15.3x	3.8%	4.3%	4.6%
Listed Property Trusts	-1.1%	10.1%	8.9%	20.2x	18.3x	16.9x	3.6%	4.0%	4.2%
Resources	92.1%	16.2%	-13.0%	12.0x	10.5x	12.0x	6.8%	6.0%	4.9%
Industrials ex-Banks	11.1%	14.4%	15.8%	29.4x	26.0x	22.6x	2.5%	2.6%	2.9%

Estimate only, which may not be realised in the future.

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

Market Outlook

"The future is never clear. You pay a very high price in the stock market for a cheery consensus. Uncertainty is the friend of the buyer of long-term values." Warren Buffett August 6, 1979

Current headlines are dominated by the Russian invasion of Ukraine, skyrocketing commodity prices, ongoing impacts of COVID-19, rapidly rising inflation and higher bond yields. As a result of these issues uncertainty is elevated and we are seeing attractive investment opportunities emerge in the elevated volatility.

Firstly, the Russian invasion of Ukraine has sent commodity prices skyrocketing, as Russia and the Ukraine are significant producers of a range of key commodities including Gas, Oil, Coal, Nickel, Aluminium, Steel, Copper, Wheat, Corn and Fertilisers. We have reviewed our portfolio's exposure to Russia and Ukraine. Overall, we consider the operational impacts as being immaterial. The portfolio is well positioned for the higher commodity price environment. We believe commodity prices have the potential to remain higher for longer as the world pivots away from Russian supply. Portfolio positions that were displaying attractive value prior to the recent move in commodity prices are well positioned to benefit from the surge in prices. In many cases, balance sheets have never been stronger and there's potential for a large amount of free cash flow to be generated and returned to shareholders. Portfolio positions including Woodside, South32, Incitec Pivot, IGO Limited, Mineral Resources and Worley are positively exposed to this dynamic.

Secondly, elevated commodity prices entrench rising inflation. With inflation levels in the US reaching 40-year highs, we feel the recent moves in commodity prices will likely lead to higher inflation for a longer duration. This has led to sharp movements in cash rate expectations (with now over 9 hikes in the US expected by the market in 2022), significantly higher bond yields (US 10-year up from 1.51% to 2.34% in the March quarter). The move in bonds has caused a "de-rating" in the valuation multiple applied to the 'High Growth' segment of the market. While the price earnings valuation multiple for this segment of the market is not back to the pre-COVID levels of 25x, it has retraced back to 32x from over 42x during 2020/21. We had previously struggled to justify some of the high share prices. As a result of our bottom-up valuation process, we have been under-weight the 'High Growth' area of the market over the last 18 months and are now seeing opportunities to increase positions in select high-quality high-growth companies that have simply de-rated on movements in bond yields. Examples include Altium, Aristocrat Leisure, CSL, Goodman Group, James Hardie and Seek.

Lastly, we are now two years since the onset of the pandemic and global vaccination efforts have gained significant momentum. Further to this, advances in vaccination and treatment technology provide confidence that global health authorities will be able to respond to any future developments should they arise. During the February reporting season this was reinforced with management teams optimistic that the lockdown disruptions of 2020 & 2021 are very much in the rear vision mirror. With this is mind, we have a collection of holdings within the portfolio that are positively exposed to an ongoing recovery from COVID-19 restrictions, and we feel these companies are well placed in this environment. Examples include Atlas Arteria, CSL, Lendlease, Qantas and Ramsay Healthcare.

In summary, the markets are no longer dominated by the one factor of COVID-19 and short-termism. Investors are once again looking at earnings two to three years out to value companies. Despite the volatility, these are more "normal" markets that suit our process. The recent volatility is creating opportunities for the portfolio, particularly in more reasonably priced growth companies. The portfolio is comprised of companies displaying Value characteristics, Growth companies trading at reasonable prices and companies positively exposed to a recovery from COVID-19 impacts. Source: Solaris Investment Management, March 2022.

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Contact Details

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Link to the Product Disclosure Statement

Link to the Target Market Determination

For historic TMD's please contact Pinnacle client service Phone 1300 010 311 or Email service@pinnacleinvestment.com

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