SOLARIS
investment management

Solaris Core Australian Equity Fund (Performance Fee Option)

(APIR: WHT0017AU)

Quarterly Investment Report

as at 30 September 2021

Market and Fund Performance

S&P/ASX 200 Accumulation Index fell -1.9% in September which incredibly marked the first down month over the past year. For the quarter the Index finished up a commendable +1.7%, after strong months in July and August. The fund outperformed its benchmark for the quarter by 1.40%. The Equities fell across the globe in September due to mounting headwinds including the spreading delta variant, concerns around the health of China's property market, the rise in bond yields and the impact of supply chain shortages (especially in energy). The recent September FOMC meeting was the latest in a chorus of recent central bank updates which signalled a tightening bias (Bank of England and the European Central Bank) whilst other G20 nations have already commenced interest rate increases such as South Korea, Brazil and Norway. This saw bonds yields move higher across the curve in anticipation of tapering and future interest rate increases. The US 10-year bond yield broke through 1.50% and the US 5-year bond yield broke through 1.00% to be trading at its highest level since the start of the pandemic. Energy was the best performing sector over the quarter with a gain of +7.6% as the market observed energy shortages in multiple countries driven by a rise in demand after a period of low investment. This led to large rises in energy commodity prices, with Coking Coal +109%, Natural Gas up +63% and Thermal Coal up +44%. On the flipside Metals and Mining was the worst performing sector and fell -12.5% through the quarter, largely driven by the -45% fall in iron ore prices following escalating concerns around China's property market and flow of impacts associated with the collapse of the Chinese property giant Evergrande Group.

The top three moves within the Index were WiseTech Global (+68.2%) which presented a strong set of 2021 financial year results, Whitehaven Coal (+66.5%) benefitted from the rally in coal prices (Newcastle Thermal Coal +44%) and Flight Centre (+44.5%) appreciated as we move closer to the re-opening of domestic and international borders. The bottom three moves within the Index were Appen (-33.8%) after management provided a soft outlook in the 2021 full year result, Magellan Financial Group (-32.6%) which retracted following the release of financial results for the 12 months to 30 June 2021 that were softer than anticipated and Polynovo (-31.7%) where growth rates have not been as high as investors previously anticipated due to COVID-19 associated impacts within hospitals.

A portfolio holding in focus that contributed positively to active returns over the quarter is Macquarie Group. In September management provided a trading update confirming improving trading conditions are supporting earnings to be higher than market expectations, with the share price up +4.7% on the day. Macquarie Group remains well-positioned to deliver superior performance over the medium term, with a strong and conservative balance sheet, an exceptional risk management framework and culture, deep expertise in major markets and a portfolio of business that are adaptable to market conditions. Annuity style recurring income is produced from Macquarie Asset Management (which now has over A$693 billion in assets under management) and from Banking & Financial Services, while the market facing businesses of Commodities & Global Markets and Macquarie Capital are well positioned to benefit from improving market conditions. In addition to this, Macquarie is well positioned with its 'Green Investment Group' to facilitate capital investment in the 'Green transition' through development and investment in projects with specific green objectives, including the reduction of greenhouse gas emissions. Since 2010, Macquarie has invested in or arranged over A$63 billion in over 150 green energy projects that collectively will reduce greenhouse gas emissions by around 200 million tonnes of CO_2 equivalent over their lifetime. A portfolio underweight position that detracted from active returns (relative to the Index) over the quarter is Sydney Airport, which received a takeover proposal from a consortium of investors and appreciated +42.3%. Whilst we do not hold Sydney Airport in the portfolio, we hold several companies that have been similarly impacted by the pandemic and are encouraged that other patient long-term investors are seeing the significant outstanding value in a range of listed companies that have been impacted by the pandemic.

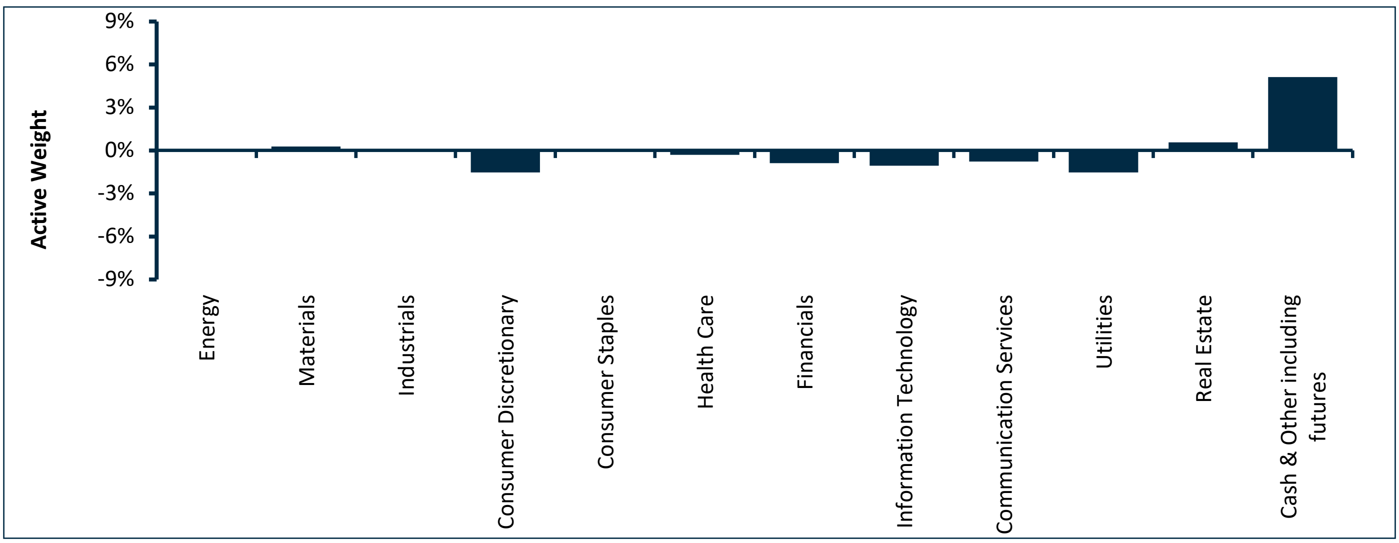
Returns	Month	Rolling Quarter	FYTD	1 Year	3 Years p.a.	5 Years p.a.	7 Years p.a.	Since Inception p.a. (20/03/2009)
Fund Gross Return^	-0.76%	3.36%	3.36%	28.59%	7.89%	10.41%	9.84%	11.33%
Benchmark Return*	-1.85%	1.71%	1.71%	30.56%	9.65%	10.42%	9.14%	10.74%
Active Return	**1.09%**	**1.65%**	**1.65%**	**-1.97%**	**-1.76%**	**-0.01%**	**0.70%**	**0.59%**
Fund Net Return^	-0.84%	3.11%	3.11%	27.35%	6.85%	9.35%	8.78%	10.59%
Benchmark Return*	-1.85%	1.71%	1.71%	30.56%	9.65%	10.42%	9.14%	10.74%
Active Return (After fees)	**1.01%**	**1.40%**	**1.40%**	**-3.21%**	**-2.80%**	**-1.07%**	**-0.36%**	**-0.15%**

^ Performance is for the Solaris Core Australian Equity Fund (APIR: WHT0017AU), also referred to as Class C 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
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	36.0%	15.1%	-0.5%	19.4x	17.0x	17.1x	3.6%	4.1%	4.0%
Banks	27.7%	12.0%	5.0%	17.4x	15.5x	14.7x	3.7%	4.4%	4.6%
Industrials ex-Banks	-3.5%	7.3%	9.3%	18.9x	17.7x	16.2x	3.6%	3.8%	4.3%
Listed Property Trusts	107.9%	19.6%	-21.3%	9.1x	7.7x	9.8x	8.0%	8.9%	6.7%
Resources	7.1%	13.0%	15.9%	30.1x	26.7x	23.1x	2.5%	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 October, a wide array of listed companies will be hosting their Annual General Meetings. During company financial reporting season in August, a clear theme was the lack of company 'guidance' due to the uncertainty associated with Sydney and Melbourne lockdowns. Given the success of the vaccination program and the potential for domestic and international borders to re-open sooner than previously expected, we expect many companies will be in a good position to provide trading updates and potentially 'guidance' at their Annual General Meetings. As a general statement we expect companies that benefitted from the crisis (for example from lockdown panic buying, unprecedented cash handouts in the form of JobKeeper and JobSeeker or from 'stay at home' movement restrictions) to face headwinds looking forward as the high growth rates of the last twelve months are unlikely to be repeated as the economy and consumer behaviour normalizes. Further to this, we expect several companies that have been materially impacted by the health crisis to outperform as company specific factors normalise (for example, as cars return to toll roads as restrictions ease or as air travel resumes following the relaxation of border closures).

We believe the market over the 2021 financial year was focused on short term earnings certainty and was reluctant to "look through" the impacts of COVID-19. Our process at Solaris remains unchanged and we are committed to looking through the short-term noise and instead focus on longer term fundamentals which we believe is the best way to outperform through the cycle. It is encouraging to see the early signs of a more balanced market and it is also pleasing to start to reap the rewards of some of our investments that have been made since the pandemic first struck. Looking ahead we have a high degree in confidence in the outlook for the portfolio and outperformance is expected to be delivered from three main areas:

1. Companies with COVID-19 recovery exposure (companies with outstanding value to be realised as the market looks at fundamentals post lockdowns and border closures);

2. Growth companies – companies with the ability to grow and reinvest earnings, that are trading at reasonable fundamentals valuations; and

3. Value companies – companies that are displaying attractive valuation opportunities.

We remain steadfast in our investment approach and believe it is incredibly important to remain disciplined and focussed while also staying nimble through this uncertain and volatile investing environment.

Source: Solaris Investment Management, September 2021

Contact Details

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