SOLARIS
investment management

Solaris Core Australian Equity Fund (Performance Fee Option)

(APIR: WHT0017AU)

Monthly Investment Report

as at 31 January 2022

Market and Fund Performance

The US Federal Reserve sent shockwaves through global markets during January, signalling an intent to raise interest rates and reduce monetary policy accommodation in response to elevated inflation. Both of these intended moves are earlier than market expectations and drove a significant spike in bond yields during the month (the Australian 10-year Commonwealth Government Bond increased from 1.67% to as high as 2.05%), impacting high-growth stocks, long-duration assets and the technology sector in particular. The ASX200 Accumulation Index ended the month down -6.35%, with the Information Technology sector (-18.4%) hit particularly hard as market participants factored in higher discount rates, while the Energy sector (+7.9%) was supported by strength in oil markets (WTI +17.5%, Brent +17.1%). Oil markets are proving resilient with demand in 2022 proving to be higher than expected, as the rapid spread of the Omicron COVID-19 variant has proved less disruptive to transport and travel than the spread of previous variants. Late in the month, BHP Group collapsed its dual listing structure, resulting in a material index event as the BHP Group PLC shares listed on the London Stock Exchange transferred to the Australian Stock Exchange, resulting in the index weight from increasing from ~7.0% to ~11.3%. The positioning for this event resulted in a record daily value traded for the Australian Stock Exchange of $41.6 billion on 28 January 2022 eclipsing the previous peak recorded during the peak of the COVID-19 sell-off in March 2020 of $21.7 billion. In terms of commodity markets, Lithium (+35.9%) continued to appreciate materially during the month, along with Iron Ore (+18.2%) and Oil (+17.1%). The fund outperformed its benchmark for the month by 0.59%.

The top three moves in the Index were Champion Iron (+18.6%) which performed well assisted by the strength in iron ore markets, Beach Petroleum (+17.5%) which was buoyed by strength in oil markets and AGL Limited (+15.6%) experienced a bounce as value appeared following a collapse in the share price over 2020 and 2021. The bottom three moves within the Index were PointsBet Holdings (-31.1%), Megaport (-27.8%) and Promedicus (-27.8%) as all three companies were impacted by the broad-based sell-off in high growth names seen during the month.

A portfolio holding in focus over the month is BHP Group. Management at BHP are executing well operationally, are set to return a material quantum of cash to shareholders and have a clear strategy in place to manage the transition to future facing 'green' commodities in a profitable manner. Operationally, key commodity divisions are achieving record production and throughput, which is a notable achievement given the ongoing pandemic related interruptions globally. The current elevated commodity price environment is generating material cash flows, which management is focused on returning to shareholders in the form of fully franked dividends and share buybacks. BHP is chaired by Ken McKenzie, who we regard as an excellent steward of capital, and has a capital allocation framework which prioritises a strong balance sheet (to manage periods of commodity price stress) and the return of surplus cash flows to shareholders. Strategically, management is focused on growing the portfolio of 'future facing commodities' which include commodities like Copper, Nickel and Iron Ore that are essential for building the infrastructure and technology that will aid the world's decarbonisation ambitions and also potash that enables more efficient and sustainable farming, assisting to feed the worlds growing population. The divestment of the BHP Petroleum assets is a step in this direction. From a valuation perspective, BHP is displaying attractive value and prospects relative to peers.

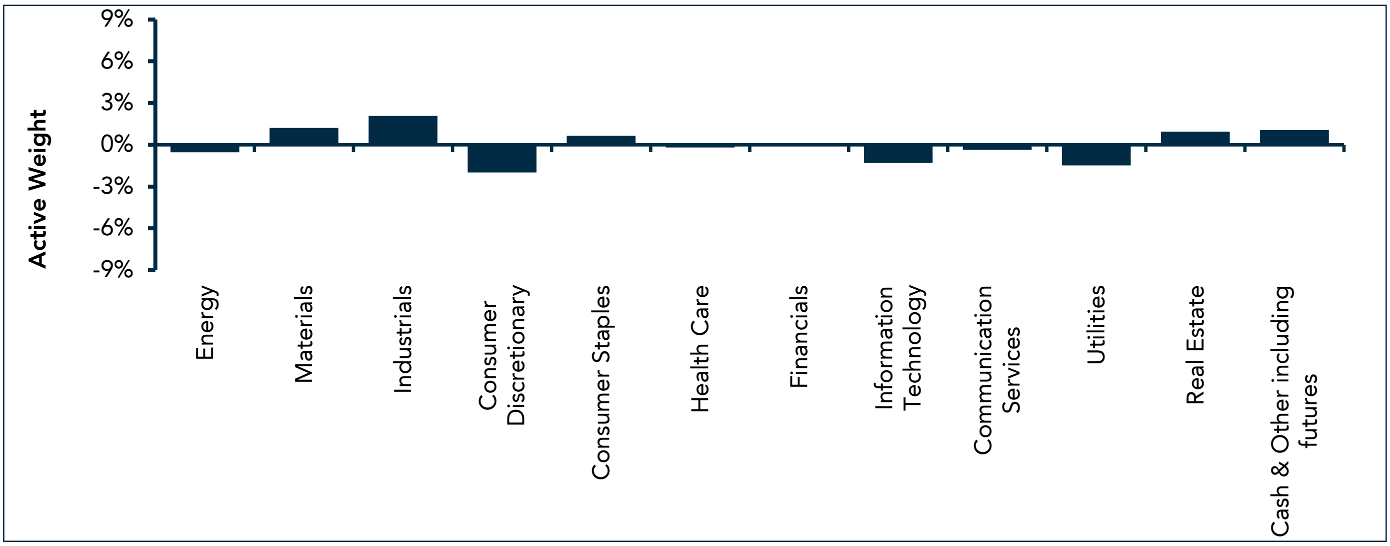
Returns	Month	Rolling Quarter	FYTD	1 Year	3 Years p.a.	5 Years p.a.	7 Years p.a.	10 Years p.a.	Inception p.a. (20/03/2009)
Fund Gross Return^	-5.68%	-4.12%	-0.89%	10.51%	8.23%	8.56%	8.17%	10.65%	10.66%
Benchmark Return*	-6.35%	-4.30%	-2.75%	9.44%	9.77%	8.50%	7.48%	9.53%	10.06%
Active Return	**0.67%**	**0.18%**	**1.86%**	**1.07%**	**-1.54%**	**0.06%**	**0.69%**	**1.12%**	**0.60%**
Fund Net Return^	-5.76%	-4.35%	-1.46%	9.45%	7.19%	7.52%	7.13%	9.73%	9.91%
Benchmark Return*	-6.35%	-4.30%	-2.75%	9.44%	9.77%	8.50%	7.48%	9.53%	10.06%
Active Return (After fees)	**0.59%**	**-0.05%**	**1.29%**	**0.01%**	**-2.58%**	**-0.98%**	**-0.35%**	**0.20%**	**-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
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		
Pro-rated to June	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
All Companies	37.2%	10.8%	1.8%	17.9x	16.2x	15.9x	3.6%	4.0%	4.0%
Banks	25.0%	10.0%	4.7%	15.8x	14.4x	13.7x	3.8%	4.9%	5.2%
Listed Property Trusts	-3.6%	10.6%	8.8%	18.3x	16.6x	15.3x	3.6%	4.0%	4.5%
Resources	88.4%	8.1%	-14.1%	10.1x	9.5x	11.0x	6.8%	6.1%	5.2%
Industrials ex-Banks	10.4%	14.3%	16.9%	27.7x	24.4x	20.9x	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

The February company reporting season will be a test for many Australian listed corporates, with pressures to deliver on 'earnings' at a time of volatility in the 'earnings-multiples' investors are prepared to apply to listed corporates. We expect this challenging backdrop for listed corporates to create opportunities for active investors with a long-term mindset for the following reasons.

Firstly, in regards to 'earnings' the prevailing COVID-19 related supply chain disruptions, labour shortages and inflationary cost pressures are creating difficult trading conditions for many management teams. Although we are now two years since the onset of COVID-19, many management teams are challenged by closed borders, staffing issues, logistics challenges and disrupted trade. These issues persist across the economy and in the short term they have the potential to impact company revenues, costs and/or margins. We are focused on ensuring our portfolio companies are well positioned to navigate these issues. Secondly, global central banks are responding to heightened inflationary pressures and preparing to reduce monetary policy accommodation through a reduction in asset purchases and raising interest rates from emergency level settings, pushing bond yields sharply higher. This has impacted the 'earnings multiple' investors are prepared to apply to company earnings and has led to a significant de-rating of the share price for companies, in particular many higher growth technology focused firms. Lastly, as a result of the disruption caused by COVID-19 globally, it is difficult for investors to assess what 'normal' operating conditions are for many companies in any given six-month reporting window. This leads to diverse views on earnings trajectories as the stimulus and 'cash handouts' in place through 2020 and 2021 have been significantly pared back. In summary, we expect the COVID-19 interruptions, de-rating of earnings multiples and forecasted earnings dispersions to result in stock selection opportunities for active managers.

We are seeing attractive opportunities in many companies including companies in the 'growth' and 'value' areas of the market. While we have viewed areas of the 'high-growth' market as expensive for some time, we expect this market volatility will yield attractive investment opportunities for long-term patient investors.

Source: Solaris Investment Management, January 2022

Contact Details

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