SOLARIS
investment management

Solaris Core Australian Equity Fund (Performance Fee Option)

(APIR: WHT0017AU)

Monthly Investment Report

as at 31 May 2022

Market and Fund Performance

The S&P/ASX200 Accumulation Index fell -2.60% over the month, following the first cash rate hike by the Reserve Bank of Australia in over ten years. The fund underperformed its benchmark for the month by 0.33%. Globally, the combination of the strong recovery in demand, ongoing disruptions to global supply chains and increases in commodity prices following Russia's invasion of Ukraine has led to inflation significantly exceeding central banks targets, leading to a withdrawal of low cash rate settings. The Reserve Bank expects headline inflation to peak at 6.0% year on year in the second half of the year and has begun on a path of rate hikes, with the market currently anticipating a cumulative 2.45% of further cash rate increases this calendar year, taking the cash rate to 2.8% in the December meeting. Throughout the month bond yields continued to rise, with the Australian 10-year Commonwealth bond rising +0.22% to 3.34%. This led to the underperformance of yield sensitive sectors including Real Estate (-8.9%) and Software & Services (-8.6%). The energy sector was resilient throughout the month, supported by the oil price (Brent +12.3%) which remains elevated due to recovering demand at a time of supply side interruptions due to Russian sanctions.

Within the ASX 200 Index the top three moves were Polynovo (+30.0%) after the company announced it is close to appointing a new CEO, Allkem (+11.9%) which was supported by the strength in Lithium markets and Codan (+10.8%) after the Board confirmed the company is on track for a record profit in the 2022 financial year. The bottom three performers were CSR (-21.0%) which underperformed the market due to concerns with respect to the health of the housing and construction sector, Novonix (-21.8%) which was impacted by the de-rating of higher growth segments of the market and AVZ Minerals (-21.2%) which entered voluntary suspension in relation to the finalisation and release of an announcement with respect to its mining and exploration rights at a key project.

A portfolio holding in focus over the month is Mineral Resources, which is performing well across its three key divisions of mining services, iron ore and lithium. We believe the market is not fully appreciating the value of its high-quality lithium business, with the company now a top 5 global lithium producer with a pipeline of significant growth projects. Importantly, relative to other lithium producers and explorers, the key projects are based in Australia which differentiates the company versus many other lithium peers which operate in higher risk jurisdictions including Africa and South America where it is hard to price sovereign risk and execution risk. We are attracted to the experienced management team led by CEO Chris Ellison who is the founder of the company and still maintains a 12% shareholding today. Management have a strong track record of superior capital allocation and strong execution on their projects. They have built a sector leading mining services business which continues to grow very strongly and will benefit from planned growth in their iron ore and lithium businesses. The company has strategy initiatives to increase the quality of the iron ore business through the development of the Ashburton and Pilbara Hub projects, lowering the cost of production and enabling the operation to be profitable through the cycle. The company has a clear sustainable vision with a commitment to reduce operational emissions to net zero by 2050 and a focus on identifying opportunities to commercial low and zero emission innovations. Relative to other resources companies we are excited with respect to the company's organic growth profile, superior capital allocation and strong track record on execution.

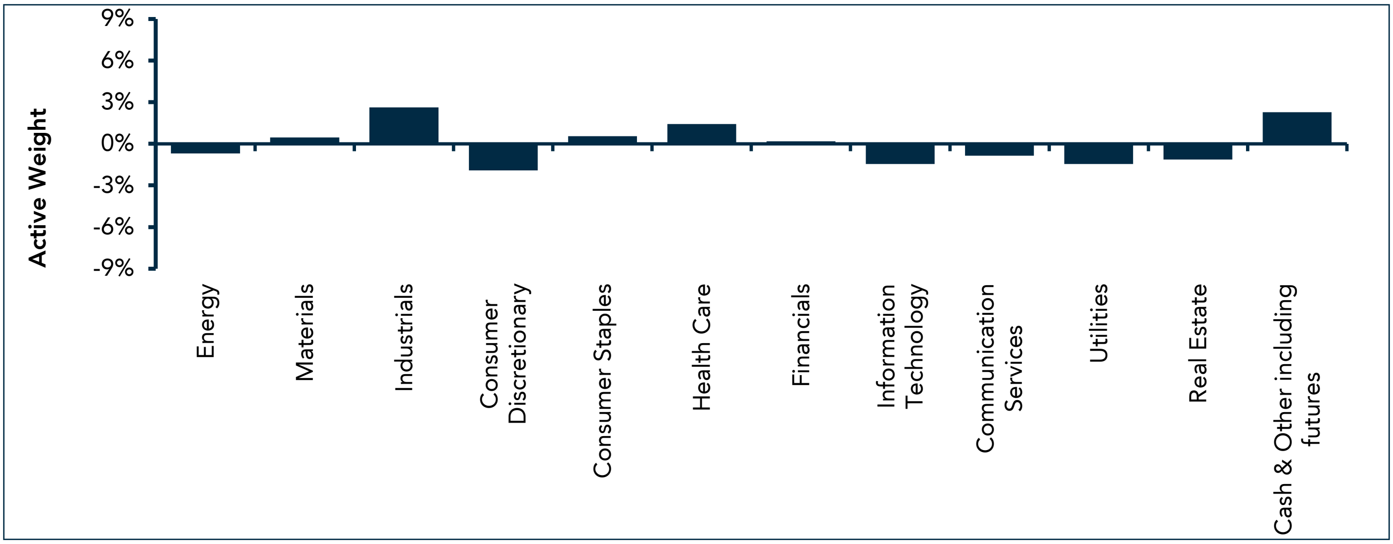
Returns	Month	Rolling Quarter	FYTD	1 Year	3 Years p.a.	5 Years p.a.	7 Years p.a.	10 Years p.a.	Inception p.a. (20/03/2009)
Fund Gross Return^	-2.85%	3.27%	4.98%	6.81%	6.76%	8.80%	8.08%	11.47%	10.86%
Benchmark Return*	-2.60%	3.21%	2.52%	4.84%	7.85%	8.84%	7.48%	10.37%	10.24%
Active Return	**-0.25%**	**0.06%**	**2.46%**	**1.97%**	**-1.09%**	**-0.04%**	**0.60%**	**1.10%**	**0.62%**
Fund Net Return^	-2.93%	3.02%	4.05%	5.78%	5.73%	7.75%	7.04%	10.51%	10.10%
Benchmark Return*	-2.60%	3.21%	2.52%	4.84%	7.85%	8.84%	7.48%	10.37%	10.24%
Active Return (After fees)	**-0.33%**	**-0.19%**	**1.53%**	**0.94%**	**-2.12%**	**-1.09%**	**-0.44%**	**0.14%**	**-0.14%**

^ 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 Energy Group 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	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
All Companies	20.4%	6.2%	-3.6%	15.6x	14.7x	15.2x	4.2%	4.4%	4.2%
Banks	13.1%	7.7%	8.8%	15.6x	14.5x	13.3x	4.4%	4.7%	5.1%
Listed Property Trusts	9.9%	8.7%	5.5%	17.3x	15.9x	15.1x	4.2%	4.5%	4.7%
Resources	30.4%	-1.7%	-21.6%	8.2x	8.4x	10.7x	7.5%	7.2%	5.6%
Industrials ex-Banks	14.6%	14.9%	8.6%	24.5x	21.4x	19.7x	2.8%	3.1%	3.3%

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

While the portfolio is constructed from the 'bottom-up' and driven by stock level positioning, we have closely followed central banks offshore and have been focusing for some time on the ability of our portfolio companies to withstand inflationary pressures, higher borrowing costs and tight labour markets.

Australia is not immune to the offshore pressures with elevated fuel prices, increasing energy costs and high commodity prices been seen and felt across Australia. We expect the Reserve Bank to continue to increase cash rate settings, following the lead of New Zealand, Canada and the United States which have already moved to tighter settings. The market is currently pricing in an aggressive series of rate hikes with the market currently pricing in a 2.8% cash rate by year end. In New Zealand the impact of the cash rate hikes has been stark, with a significant hit to consumer confidence (the ANZ-Roy Morgan Consumer Confidence survey reached its record low in March 2022 and remains low) and a slowing property market. While we expect a series of cash rate increases, the portfolio is well placed to manage this volatile environment. The portfolio is relatively balanced exposure to both 'growth' and 'value' factors and a range of portfolio companies are benefitting from ongoing recovery from COVID-19 associated impacts to their operations. There has been a notable correction in the valuation of higher growth companies across the market, with the one year forward price to earnings multiple for Solaris's classification of 'High Growth' companies retracing from 43x to 27x. Many of these companies looked expensive over the recent past and are approaching more attractive valuations. We have added to or initiated new positions in several high-quality companies in this space over recent months. A range of portfolio companies are also benefitting from higher commodity prices and are well positioned in this environment. As borders, both domestic and international, have re-opened our team of analysts have been active conducting company and industry research 'on the ground' which provides unique insights. We could see first-hand the pent-up demand leading to a surge in business and leisure travel, with many airports busting at the seams. A range of portfolio companies are also well placed to benefit from this re-opening and as patterns begin to return to pre-COVID levels.

Source: Solaris Investment Management, May 2022

Contact Details

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