SOLARIS
investment management

Solaris Core Australian Equity Fund (Performance Fee Option)

(APIR: WHT0017AU)

Monthly Investment Report

as at 31 July 2022

Market and Fund Performance

The S&P/ASX200 Accumulation Index bounced +5.7% over the month, following global leads with the United States S&P 500 Index and the MSCI World ex Australia rallying +9.1% and +7.9%, respectively. As inflation expectations continued to rise, the Reserve Bank of Australia implemented a second consecutive 0.50% cash rate increase, with a third expected in August to take the cash rate to 1.85%. This is a significant change from the 0.10% cash rate in May 2022 and is aimed at controlling inflation expectations which the RBA forecasts to reach over 7.75% in 2022. Following the steep cash rate hikes, long-duration bond yields fell throughout the month, reflecting signs of slowing growth and investor concerns the sharp front-loaded rate hikes will lead to a recession and subsequent cash rate cuts in 2023. The Australian 10-year Commonwealth bond fell 0.60% to 3.06% over the month, which led to the outperformance of yield-sensitive sectors including Software & Services (+15.2%) and Real Estate (+12.1%). The market rally over the month was largely driven by a re-rating of the one-year forward valuation multiple applied to the market as opposed to significant changes in earnings expectations. Materials (-0.66%) was the only negative sector, driven by a decline in commodity prices as growth slowed in the US and lockdowns continued in China, impacting sentiment on the Chinese property sector and demand for iron ore.

Within the ASX 200 Index the top three moves were Zip Co (+158%) after the company announced it was terminating its merger with other buy-now-pay-later company Sezzle to focus on profitability, Megaport (+77.8%) which posted strong quarterly results particularly in Japan and Canada and Telix Pharmaceutical (+63.1%) which reported strong sales following the launch of a new cancer diagnostic imaging agent. The bottom three performers included Coronado Global Res (-14.8%) which underperformed the market after reporting a drop in second-quarter sales volumes, EML Payments (-14.6%) which was impacted after the Central Bank of Ireland identified concerns with its Prepaid Financial Services arm's risk assessment of stakeholders and Champion Iron (-10.9%) which declined after reporting higher fuel and explosive costs in the previous quarter.

A portfolio holding in focus over the month is Goodman Group, the founder-led market leader in industrial property development, management, and ownership. With industrial vacancy at record low levels in Goodman's key markets, the investment portfolio is well positioned to benefit from continued rental growth and development activity. We expect the infrastructure-like qualities of many assets within the portfolio to remain highly sought after and the value embedded within the development assets to continue to increase, as many new facilities in urban locations are increasingly higher-value multi-story facilities. The nature of the new development assets close to urban areas enables fast delivery and fulfilment options for the tenants but crucially reduces the carbon footprint and labour costs of the delivery fleet by reducing kilometres travelled. The business is well structured and aligned to create successful outcomes for shareholders and its underlying property investors. Management and staff receive a material proportion of their remuneration in Goodman Group shares, which creates alignment to shareholder-based outcomes. Further to this, Goodman Group co-invests in developments and properties alongside its underlying investors, which ensures alignment and successful outcomes for its clients, creating a win-win business model for clients and shareholders. The business is conservatively managed from a leverage perspective, with a low level of debt in employed at a corporate level and a low level of debt employed within its investment portfolios. With the tailwinds outlined above, Goodman Group is well positioned to take advantage of the volatility in property markets and to grow earnings in the periods ahead.

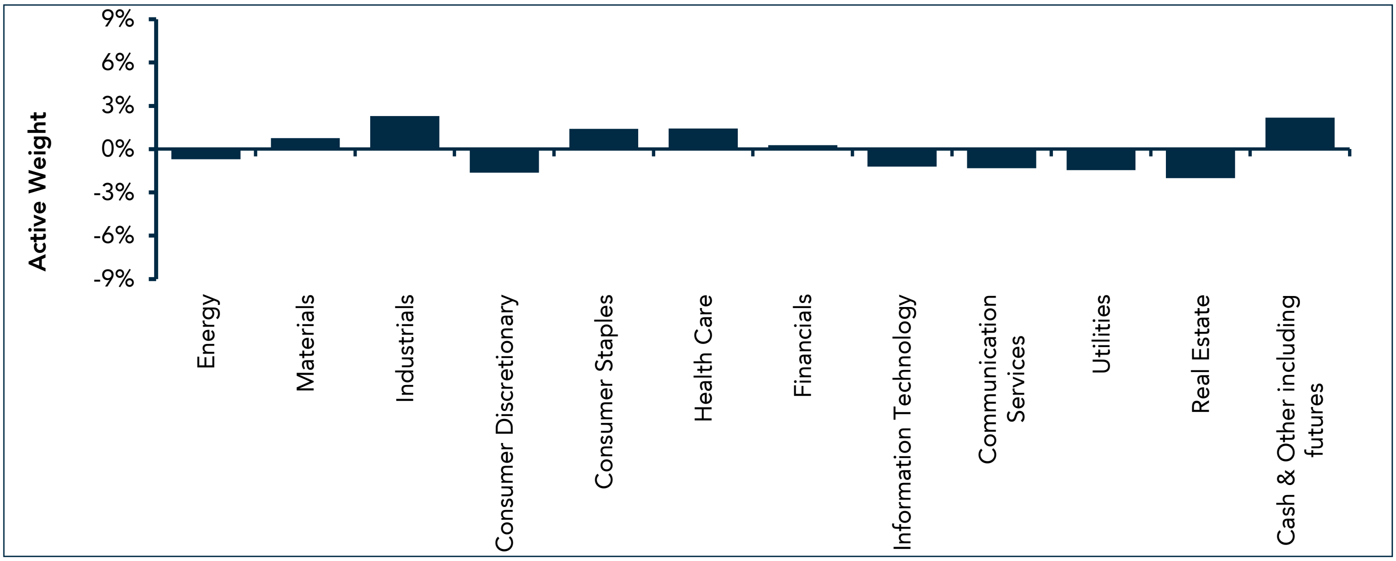
Returns	Month	Rolling Quarter	FYTD	1 Year	3 Years p.a.	5 Years p.a.	7 Years p.a.	10 Years p.a.	Inception p.a. (20/03/2009)
Fund Gross Return^	5.68%	-6.25%	5.68%	0.20%	2.98%	7.94%	7.59%	10.74%	10.42%
Benchmark Return*	5.75%	-6.04%	5.75%	-2.17%	4.27%	8.03%	7.10%	9.44%	9.81%
Active Return	**-0.07%**	**-0.21%**	**-0.07%**	**2.37%**	**-1.29%**	**-0.09%**	**0.49%**	**1.30%**	**0.61%**
Fund Net Return^	5.60%	-6.48%	5.60%	-0.76%	1.99%	6.90%	6.56%	9.78%	9.66%
Benchmark Return*	5.75%	-6.04%	5.75%	-2.17%	4.27%	8.03%	7.10%	9.44%	9.81%
Active Return (After fees)	**-0.15%**	**-0.44%**	**-0.15%**	**1.41%**	**-2.28%**	**-1.13%**	**-0.54%**	**0.34%**	**-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
Coles Group Limited	Consumer Staples
Commonwealth Bank of Australia	Financials
CSL Limited	Health Care
Goodman Group	Real Estate
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	18.9%	4.5%	-4.3%	14.6x	13.9x	14.5x	4.5%	4.7%	4.5%
Banks	10.4%	4.1%	8.5%	14.6x	14.0x	12.9x	4.8%	5.2%	5.5%
Listed Property Trusts	9.4%	2.7%	6.7%	16.2x	15.8x	14.8x	4.4%	4.6%	4.8%
Resources	30.5%	-2.7%	-22.3%	7.1x	7.2x	9.3x	9.1%	8.5%	6.5%
Industrials ex-Banks	12.0%	13.9%	9.3%	24.2x	21.3x	19.5x	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

As we look forward, company reporting season approaches in August. With four cash rate hikes from the Reserve Bank of Australia in as many months, rapidly rising inflation and weakening consumer sentiment there are a range of factors with the potential to impact Australian corporate earnings as we look forward. We expect corporate results for the period to 30 June 2022 to broadly be quite strong, as the economy rebounded in the June half supporting activity across many sectors. However, the key will be in the outlook statements for many companies. With market 'consensus' expectations forecasting +13.5% earnings per share growth over the 2023 financial year for the S&P/ASX 200 Industrials excluding Banks, we are cautious with respect to three key areas. Firstly, there is pressure on the consumer as increasing mortgage interest costs and general cost of living inflation impact the household budget. The residential market is slowing, as homeowners and home-buyers factor in the reality of mortgage interest payments that are sharply higher than they were expected to be only 9 months ago (when the RBA expected cash rates to be on hold until 2024). Consumer activity for the period to 30 June has been very strong, however we question the duration of the strength due to the pressures outlined above. Secondly, with sharply rising interest costs we are cautious of companies that have relied on incrementally lower borrowing costs over the past five years to financially engineer earnings growth or dividend growth. Our focus on balance sheet strength ensures we invest in companies with debt structures that are appropriate for their cash flow profile. Companies with pricing power that have strong and appropriate balance sheets are well placed to withstand periods of stress. Without taking a macro-economic view on the path of cash rates and inflation as we move forward, we are focused on ensuring our portfolio companies are well placed to manage higher borrowing costs if interest rates and borrowing costs continue to increase above market consensus expectations from this point. Thirdly, we are mindful of the recent volatility in commodity prices. While commodity prices will remain volatile, our framework assumes a normalisation of price levels as we look forward and continue to see attractive investment opportunities within the mining and resources sectors.

In March, April and May we highlighted the indiscriminate nature of the selloff in many high-quality growth companies and were able to purchase positions in new or existing portfolio companies that were displaying more reasonable valuations. In July the 'High Growth' segment of the market performed strongly, as investors globally positioned for a 'soft landing' and a series of cash rate cuts following the sharp hikes. According to JP Morgan the market implied stock-based odds of a recession fell from 91% in June to less than 51% by the end of July. The 'High Growth' segment of the market re-rated from a PE (price to earnings) multiple of 24.0 to 27.0 during the month and became more 'expensive' with limited changes to earnings expectations. With the strong economy and labour market leading to elevated inflation and global central banks tightening monetary policy to suppress inflation we believe that volatility will remain elevated. There will be further opportunities presented in the 'High Growth' segment of the market as we move forward. In this environment consensus earnings estimates can significantly lag fundamentals and we believe fundamental bottom-up stock analysis is key in navigating the period ahead. We see clear valuation opportunities in companies with 'growth' and 'value' characteristics and believe the portfolio is well positioned to take advantage of the elevated volatility.

Source: Solaris Investment Management, July 2022

Contact Details

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