SOLARIS
investment management

Solaris Core Australian Equity Fund (Performance Fee Option)

(APIR: WHT0017AU)

Monthly Investment Report
as at 31 August 2022

Market and Fund Performance

The S&P/ASX200 Accumulation Index rose +1.2% during August, delivering a positive return and outperforming offshore markets, with the S&P500 finishing the month down -4.1% and MSCI World ex Australia Index down -4.2%. As expected, the RBA again raised the cash rate in the August meeting, to 1.85% and hawkish comments from the Federal Reserve indicating rates would remain elevated to combat inflation sparked a sell-off in equities at the end of the month. On a sector basis, Energy was the strongest performer, followed by Materials while Property and Consumer Staples were the worst performers. Reporting season dominated, with more than 90% of ASX companies reporting June results. Relative to consensus expectations, approximately over one third of companies reporting exceeded expectations. However, with the macro concerns of higher rates, inflation pressures and a constrained labour market resulted in an increased number of downgrades for FY23.

The top three moves within the ASX 200 Index were all Metals and Mining stocks as share prices surged for lithium miners, including Lake Resources (+44.4%) and Pilbara Minerals (+31.8%), based on strong sales of electronic vehicles and expected future demand. Oz Minerals (+ 36.6%) performed strongly as the share price rallied following an indicative takeover bid from BHP during the month. The bottom three performers included City Chic Collective (-29.1%), which sold off after a disappointing result and concerns regarding inventory management. Megaport (-25.1%) underperformed, noting they were laying off staff and preparing for rises in direct network costs, while gold miner Ramelius Resources (-25.0%) also underperformed with earnings downgrades post results.

A portfolio holding in focus over the month is IGO, an exploration and mining company focused on future-facing metals and the energy transition. IGO has performed strongly recently as the market has gained greater conviction on the outlook for lithium prices. Electric vehicle penetration rates, particularly in China, have been performing very strongly and have been assisted by favourable government policy. The company has exposure to the world's best hard rock lithium project, Greenbushes. The mine produces spodumene, a 6% grade lithium product with the highest mine head grade of any operating mine globally and also has the lowest cost of production. We are attracted to the company's strong growth pipeline, low cost of production, long asset life and the assets are located in tier one mining jurisdiction, Australia. The company plans to become fully integrated in lithium and is building and ramping up battery grade lithium plants in Kwinana, South of Perth. The plants will process the 6% lithium from Greenbushes and convert it into lithium hydroxide, a battery grade lithium product with a lithium content greater than 99%. The company also has grand ambitions in their nickel business, with the recent takeover of nickel producer, Western Areas completed in June. Nickel is also leveraged to the electrical vehicle thematic as EV batteries require the high-grade nickel to provide stability in the battery. The company has a strong balance sheet and strong free cash flow over the next few years given our expectation that lithium prices will remain well above our long-term price forecasts.

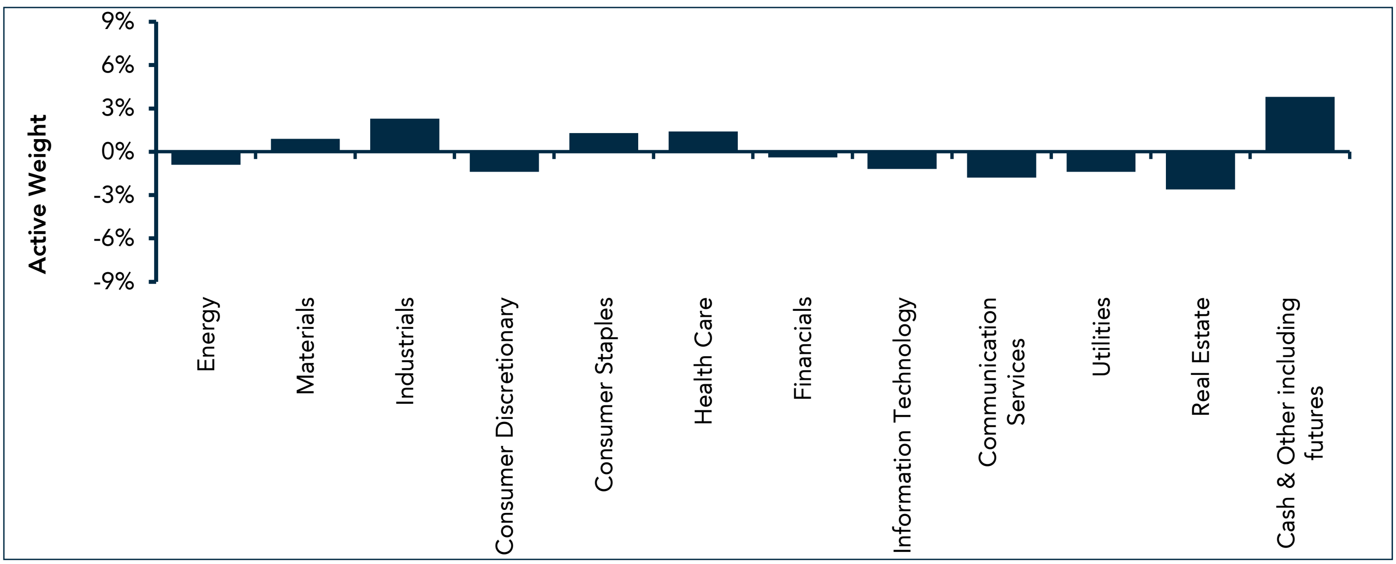
Returns	Month	Rolling Quarter	FYTD	1 Year	3 Years p.a.	5 Years p.a.	7 Years p.a.	10 Years p.a.	Inception p.a. (20/03/2009)
Fund Gross Return^	1.61%	-1.95%	7.38%	-1.17%	4.26%	8.08%	9.07%	10.56%	10.48%
Benchmark Return*	1.18%	-2.39%	6.99%	-3.43%	5.51%	8.13%	8.53%	9.34%	9.84%
Active Return	**0.43%**	**0.44%**	**0.39%**	**2.26%**	**-1.25%**	**-0.05%**	**0.54%**	**1.22%**	**0.64%**
Fund Net Return^	1.52%	-2.18%	7.20%	-2.12%	3.26%	7.04%	8.02%	9.59%	9.72%
Benchmark Return*	1.18%	-2.39%	6.99%	-3.43%	5.51%	8.13%	8.53%	9.34%	9.84%
Active Return (After fees)	**0.34%**	**0.21%**	**0.21%**	**1.31%**	**-2.25%**	**-1.09%**	**-0.51%**	**0.25%**	**-0.12%**

^ 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
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	18.4%	0.8%	-1.8%	14.7x	14.5x	14.7x	4.4%	4.4%	4.4%
Banks	13.8%	5.9%	3.8%	14.2x	13.3x	12.9x	4.8%	5.2%	5.5%
Listed Property Trusts	13.6%	-2.0%	5.7%	14.8x	15.1x	14.3x	4.7%	4.8%	5.0%
Resources	25.6%	-10.8%	-15.0%	7.6x	8.5x	10.0x	8.2%	7.0%	5.9%
Industrials ex-Banks	13.4%	11.8%	8.4%	23.6x	21.2x	19.6x	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

There were several key themes throughout the August reporting season, with many companies citing challenges including labour shortages, input cost inflation and rising borrowing costs. While a third of companies beat consensus expectations for FY22, we also witnessed a number of downgrades to future earnings expectations and in many cases, company management have been unwilling to provide future guidance, highlighting uncertainty as they navigate the impacts of ongoing margin pressures.

Overlaying post-pandemic inflation is the ongoing conflict in Russia/Ukraine and subsequent energy crisis. Rising gas prices in Europe and uncertainty of supply will weigh on both the European consumer and industry and have broader implications for the global energy sector. As inflation prints escalate throughout the globe, central banks continue to raise rates to combat this. We are focused on how rising rates and a higher inflation environment will play out across sectors. We remain cautious on companies with consumer discretionary exposure, particularly those with elevated inventories. We are seeing a clear divergence between consumer sentiment and consumer spending data, with household spending continuing to grow despite the increases in the cash rate. Looking forward we see the impact of rising interest rates, rising energy costs and the rising cost of living impacting household budgets and crimping discretionary spend. We continue to be under-weight the Real Estate sector, where the sharply rising cost of debt (both fixed and floating rate) is presenting a strong headwind for the earnings of companies that employ high levels of debt. Conversely, we are seeing great opportunities in companies that are well positioned to navigate this volatile environment. We believe the ability to maintain pricing power and the ability to pass on higher costs is critical in this environment. Companies with strong market positions in improving market structures are well positioned.

The portfolio is constructed from 'bottom-up' fundamental analysis and portfolio positioning is driven by stock level decisions. Following the underperformance of the high growth segment of the market, we have continued to see very attractive investment opportunities presented. This volatile investment environment is very well suited to our investment process at Solaris. Volatility creates mis-pricings and opportunities. Importantly, with the normalization in interest rates we are seeing more rational valuations being applied across the market and a rational investment landscape – this is well suited to our process and we have high conviction in our portfolio and future expected returns.

Source: Solaris Investment Management, August 2022

Contact Details

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