

Solaris Core Australian Equity Fund (Performance Alignment)

(APIR: SOL0001AU)

Monthly Investment Report as at 29 February 2024

Market and Fund Performance¹

The S&P/ASX 200 Accumulation index returned +0.8% for February, a relatively sideways move at the market level masking significant stock-level volatility driven by a busy reporting season. Macroeconomic data took a backseat as the focus was on company results, as over 80% of index constituents reported during the month, with more earnings beats than misses. However, this contrasted to outlooks where there were more earnings downgrades than upgrades. The flat move at the market level resulted in Australian equities underperforming US markets as the S&P500 delivered +5.2%, helped by continued strong earnings from tech companies.

The RBA kept the cash rate on hold in February but the 10-year yield was slightly up to finish the month at 4.1%. Commodities were mixed with Iron Ore down over 10% for the period while Oil recorded modest gains.

The intra-stock volatility was evident in the dispersion of sector performance with Information Technology (+19.5%) the top performing sector for the month, followed by Consumer Discretionary (+9.1%) and Real Estate (+4.2%). The worst performing sectors were Energy (-5.9%), Materials (-5.0%) and Health Care (-2.7%).

The top performers included in February included Lovisa (+40.9%), the jewellery chain delivered their first half result with revenue ahead of market expectations and provided an update on their store rollout, which the market reacted positively to. Altium (+30.4%) share price surged following a takeover bid for the software company at a 35% premium by Japan's Resenas. Wisetech (+29.4%) the share price rallied after announcing a strong first half result that beat market's earnings expectations.

The worst performers in February included Strike Energy (-48.8%), the oil and gas explorer was under pressure following a trading halt and announcement relating to issues at one of its gas wells. Corporate Travel Limited (-21.7%) underperformed as management delivered their 1H result and disappointed on revenue and EBITDA and downgraded guidance for FY24. Helius (-19.9%), also underperformed as management downgraded FY24 earnings a week prior to their first half result, which while in line, it disappointed on margins for their pathology and imaging businesses.

A portfolio holding in focus is Goodman Group, a market leader in industrial property development, management, and ownership led by its founder Greg Goodman.

Goodman boasts a robust business model and has consistently delivered strong results, with recent earnings growth upgrades. Solaris sees significant potential for Goodman in the data centre sector. The company has strategically positioned itself to capitalize on the growing demand for data centres, which command a materially higher rent per kilowatt of power supply compared to rent per square meter of industrial land. With a pipeline of 4 gigawatts of power capacity, equivalent to powering almost 4 million homes in Australia, Goodman is uniquely positioned to capitalise this opportunity.

We anticipate continued earnings growth from Goodman, bolstered by its experience and expertise in developing data centres. Furthermore, the company benefits from a strong management team with aligned incentives and a robust balance sheet.

¹Illustrative only and not a recommendation to buy or sell any particular security.

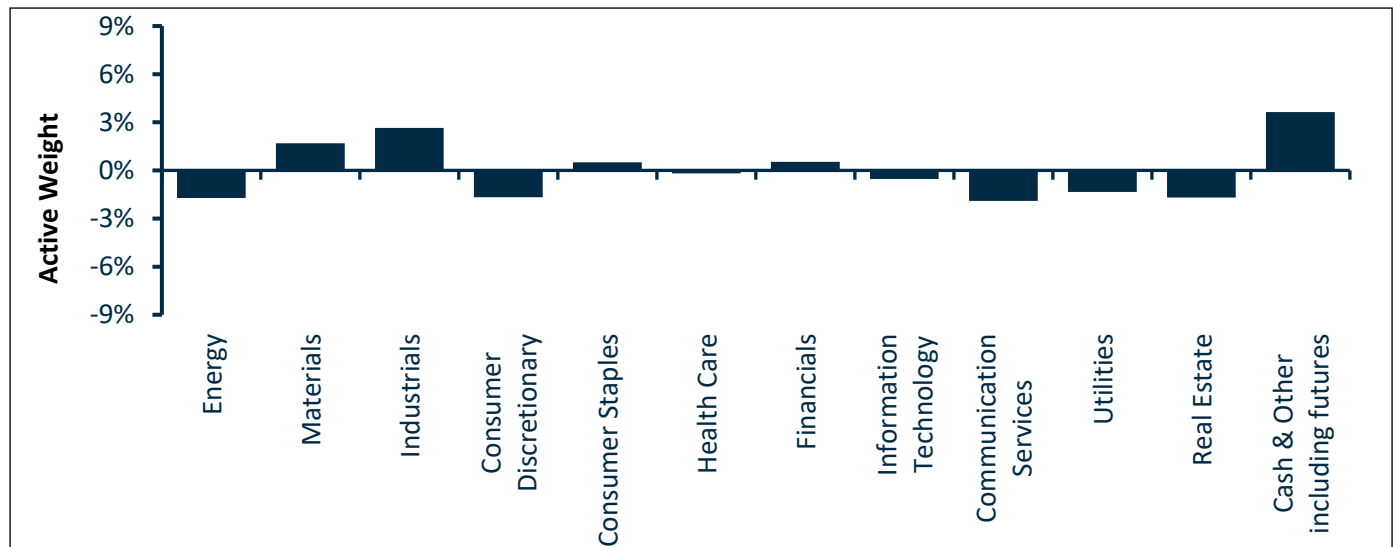
Returns	Month	Rolling Quarter	FYTD	1 Year	2 Years p.a.	3 Years p.a.	5 Years p.a.	7 Years p.a.	10 Years p.a.	Since Inception p.a. (31/08/2012)
Fund Gross Return [^]	1.84%	9.50%	11.40%	10.66%	9.53%	10.24%	7.91%	8.85%	8.65%	10.74%
Benchmark Return [*]	0.79%	9.39%	9.70%	10.64%	8.89%	9.32%	8.61%	8.60%	7.95%	9.62%
Active Return	1.05%	0.11%	1.70%	0.02%	0.64%	0.92%	-0.70%	0.25%	0.70%	1.12%
Fund Net Return [^]	1.84%	9.50%	11.40%	10.66%	9.53%	10.24%	7.91%	8.64%	8.33%	10.39%
Benchmark Return [*]	0.79%	9.39%	9.70%	10.64%	8.89%	9.32%	8.61%	8.60%	7.95%	9.62%
Active Return (After fees)	1.05%	0.11%	1.70%	0.02%	0.64%	0.92%	-0.70%	0.04%	0.38%	0.77%

[^] Performance is for the Solaris Core Australian Equity Fund (Performance Alignment) (APIR: SOL0001AU), also referred to as Class D 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
ANZ Group Holdings Limited	Financials
Aristocrat Leisure Limited	Consumer Discretionary
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
Rio Tinto Limited	Materials
Suncorp Group Limited	Financials

Sector Allocation



Source: Solaris Investment Management, February 2024

Market Valuation & Earnings Estimates:

	Market & Sector EPS Growth			Market & Sector PEs			Market & Sector Yield		Dividend
Pro-rated to June	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
All Companies	-4.2%	-4.0%	3.1%	16.4x	16.9x	16.4x	4.0%	3.8%	3.9%
Banks	9.8%	-3.9%	-2.9%	15.0x	15.6x	16.1x	5.1%	4.8%	4.8%
Listed Property Trusts	-0.2%	3.4%	3.5%	15.5x	15.4x	14.9x	4.7%	4.4%	4.4%
Resources	-25.7%	-14.0%	-0.1%	11.2x	12.1x	12.2x	5.2%	4.8%	4.6%
Industrials ex-Banks	17.1%	5.2%	8.8%	22.0x	21.1x	19.4x	3.0%	3.0%	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.
Illustrative only and not a recommendation to buy or sell any particular security.

Market Outlook

Despite significant volatility at the intra-stock level, the market moved sideways in February to continue trading at a one-year forward P/E multiple of 16.6x. However, with the completion of reporting season, we have more insight into corporates earnings for 2024 and future guidance. While more companies beat than missed for first half earnings, this was against low expectations and there were net downgrades to outlook guidance.

Market expectations for earnings growth were negative pre reporting season, and this has not changed post results. However, there were several key themes and areas of opportunity emanating from results season including:

- *Cost Management:* improved cost control was evident throughout results. While inflation has aided topline numbers over the past two years, it has weighed on margins however we are beginning to see improved outcomes on cost management. Ongoing improved cost control was evident in outlook statements, demonstrating that management believe the cost environment may still be challenging.
- *Pricing power:* throughout this inflationary cycle, we have highlighted the importance of pricing power and this remains a powerful lever for companies to drive top line growth. This was particularly evident in certain sectors, including Insurance and Building Materials.
- *M&A:* we have been flagging that 2024 was likely to see a rise in capital market activity and this is proving to be true. Big bids were lobbed for companies during reporting season (CSR, Altium, Boral). We expect this trend to continue given strong balance sheet positions and stabilization in funding costs.
- *Market Positioning:* Positioning by market participants has played a significant role in the performance of certain companies and sectors this financial year. This was again evident this reporting season with share price movements large in some companies relative to their change in earnings. As an example, the Consumer Discretionary sector, considered by some to be under owned by market participants saw overall earnings estimates remain unchanged yet the sector added 9.0% for the month. It is important to be aware of market positioning when considering portfolio construction.

Changing trends and market dynamics provides opportunity for the Solaris investment approach as we construct the portfolio from bottom-up research and seek opportunities across sectors and companies. Against the backdrop of negative earnings growth, we remain focused on constructing the portfolio with companies that are best placed to deliver earnings or valuations upside. The Portfolio maintains a bias to cyclical and growth companies which is where the analysts are seeing opportunities.

Through our portfolio construction and robust risk management, which is embedded in our +20-year process, we are confident in our objective and seek to offer higher potential returns across all market conditions. We are seeing clear investment opportunities across many areas of the market and believe this elevated volatility is well suited to the Solaris investment process.

Thank you as always for the privilege of managing your investments.

Source: Solaris Investment Management, February 2024

Contact Details

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Link to the [Product Disclosure Statement](#)

Link to the [Target Market Determination](#)

For historic TMD's please contact Pinnacle client service Phone 1300 010 311 or Email service@pinnacleinvestment.com

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