SOLARIS
investment management

Solaris Core Australian Equity Fund (Performance Fee Option)

(APIR: WHT0017AU)

Quarterly Investment Report

as at 31 December 2023

Market and Fund Performance[1]

The year kicked off under the shadow of recession fears, only to conclude with growing market confidence that central banks would orchestrate a "soft landing." Equities struggled for most of the year, with the ASX200 down -3.8% in October. However, a strong year-end rally saw the S&P/ASX 200 Accumulation index up +8.4% for the quarter and +12.4% for 2023. The US Federal Reserve's decision to maintain rates in December, along with a shift in guidance and signs of moderating inflation, spurred market sentiment. The Fed's "dovish pivot" and increasing prospects of 2024 rate cuts, propelled the Australian equity market nearly 13% higher from its October lows, within striking distance of an all-time high.

Key sectors driving this surge in the quarter included Real Estate (+15.8%), Materials (+13.8%) and Health Care (+13.1%), while Energy (-9.1%), Utilities (-2.1%), and Consumer Staples (0.2%) lagged. Over the 2023 calendar year, IT emerged as the top-performing sector (+31.3%), contrasting with Consumer Staples (+1.3%) as the bottom performer based on total returns.

Bonds markets are essentially back to where they started with the Australian 10- year bond yield finishing the year at ~4.0%. This masks a year of extreme volatility, with the Australian 10-year yield having a 160bps range throughout the year.

The top performers were Neuren Pharmaceuticals (+125.8%), whose share price surged due to strong sales and improved US guidance for their Rett syndrome drug, Dabuye, as well as promising phase-two trial results for their drug targeting Phelan-McDermid syndrome in children. Block (+68.9%), where the share price rebounded following the company's quarterly update providing evidence of future growth opportunities and clarity on share based compensation and Regis Resources (+46.3%) the gold explorer outperformed after company management released positive exploration update, as well as closing their hedge book, improving cash flows.

The worst performers for the quarter were all Lithium miners due to ongoing weakness in underlying commodity prices. Liontown Resources (-43.9%) was the worst performer as the US Lithium giant, Albarmarle, pulled their takeover bid, leading Liontown to undertake a capital raising at a ~35% discount. Core Lithium (-38.3%) whose management announced a strategic review of their business with elevated operational costs and IGO (-28.5%) also underperformed, as management announced it may need to consider write-down of nickel project, Western Areas.

A portfolio holding in focus is James Hardie, a leading fiber cement and fiber gypsum manufacturer in the United States, Asia-Pacific and Europe. Despite the uncertain macroeconomic environment, James Hardie has demonstrated the strength of its branded product proposition, lean business model and high-quality management team, performing strongly over the past quarter and growing its market share in 'new home construction' and 'repair and remodel' end markets. The business has a deep senior leadership team who are executing on strategy in relation to manufacturing, marketing, and product innovation. Their most recent quarterly update was in line with market expectations but provided a materially improved outlook, supported by healthy margins and increased earnings visibility. A feature of the James Hardie business is the strong balance sheet and cash flow generation which has enabled a new $250 share buyback program to be conducted. Solaris anticipates the ability for James Hardie to maintain their strong margins above consensus expectations, to continue to grow market share and generate cashflows supporting shareholder focused outcomes including on-market share buybacks.

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

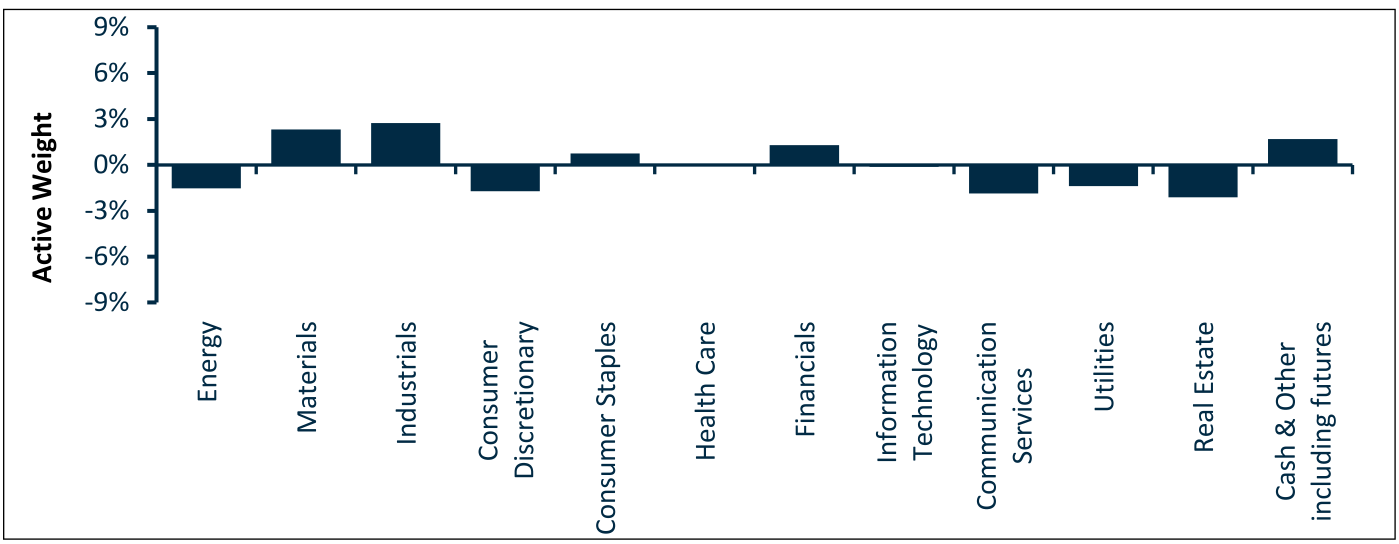
Returns	Month	Rolling Quarter	FYTD	1 Year	2 Years p.a.	3 Years p.a.	5 Years p.a.	7 Years p.a.	10 Years p.a.	Inception p.a. (20/03/2009)
Fund Gross Return^	5.23%	6.63%	7.05%	10.89%	5.61%	9.25%	9.29%	8.48%	8.47%	10.46%
Benchmark Return*	5.89%	7.02%	6.20%	10.99%	4.78%	8.78%	10.00%	8.32%	7.79%	9.88%
Active Return	**-0.66%**	**-0.39%**	**0.85%**	**-0.10%**	**0.83%**	**0.47%**	**-0.71%**	**0.16%**	**0.68%**	**0.58%**
Fund Net Return^	5.17%	6.40%	6.56%	9.85%	4.61%	8.21%	8.24%	7.44%	7.43%	9.67%
Benchmark Return*	5.89%	7.02%	6.20%	10.99%	4.78%	8.78%	10.00%	8.32%	7.79%	9.88%
Active Return (After fees)	**-0.72%**	**-0.62%**	**0.36%**	**-1.14%**	**-0.17%**	**-0.57%**	**-1.76%**	**-0.88%**	**-0.36%**	**-0.21%**

^ 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
ANZ Group Holdings Limited	Financials
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
Rio Tinto Limited	Materials
Suncorp Group Limited	Financials

Sector Allocation



Source: Solaris Investment Management, December 2023

Market Valuation & Earnings Estimates:

	Market & Sector EPS Growth			Market & Sector PEs			Market & Sector Dividend Yield		
Pro-rated to June	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
All Companies	-3.3%	-2.2%	3.8%	16.4x	16.8x	16.3x	4.0%	3.9%	4.0%
Banks	10.1%	-5.1%	-1.4%	13.8x	14.6x	14.8x	5.1%	5.2%	5.2%
Listed Property Trusts	1.0%	0.9%	3.9%	15.2x	15.1x	14.5x	4.6%	4.5%	4.5%
Resources	-23.2%	-8.4%	0.1%	12.3x	13.5x	13.5x	5.0%	4.2%	4.1%
Industrials ex-Banks	12.3%	4.9%	9.4%	21.6x	20.7x	18.9x	3.0%	3.2%	3.4%

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.
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Market Outlook

2023 was a year where macro drove sentiment as central banks tried to navigate a soft landing. As recession risk subsides looking forward to 2024, the landscape presents an intricate tapestry of dynamics, marked by soaring expectations regarding potential rate cuts and an ever-evolving economic scenario.

Market sentiment has surged with optimistic projections for rate cuts, surpassing even the Federal Reserve's estimations. While acknowledging the economic and inflation outlook, a note of caution arises. Risk assets have surged significantly, and equity volatility has plummeted to pre-pandemic lows, prompting a crucial question: Have markets already priced-in a more favourable interest-rate environment? Consequently, our confidence in a smooth 2024 market trajectory is tinged with scepticism. We anticipate heightened volatility and divergence, factors that favour active management strategies.

Areas of focus into 2024 –

The resource sector, despite its underperformance in 2023, presents an interesting investment thesis. Long-term trends such as population growth, renewable energy adoption, reshoring of supply chains, and ESG considerations support the case for resource stocks. Furthermore, prudent capital expenditure and robust balance sheets among major resource companies position them favorably for potential shareholder value creation.

Increased capital markets activity. After a prolonged drought in primary and secondary activity, we saw increased activity in Q4 and expect this to continue into 2024. Balance sheets are flush and with expectation for a more stable rate environment (or potential cuts) allows corporates to look forward with more certainty on the cost of capital and pursue inorganic growth through M&A given challenging growth environment. We preference companies with capital allocation framework, executing disciplined acquisitions that will be accretive to shareholders.

Earnings uncertainty: Expectations are for slower growth globally and in Australia, earnings growth forecasts remain in negative territory (-3% EPS growth in FY24). Ongoing immigration and potentially lower borrowing costs as we focus on FY2025 earnings should provide positive support however, potential risks are looming due to poor EPS momentum and perceived second-half uncertainties. Additionally, despite many inflationary costs subsiding in 2023, the lagged effect of wage negotiations in Australia could see the impact being felt by corporates well into 2024. The combination of earnings uncertainty and high valuations has led us to favour quality in our investment approach.

In this dynamic environment, we are poised to seize opportunities across various market segments, leveraging our proven investment process. As volatility persists and differentiation between companies intensifies, we remain committed to our strategy, emphasizing flexibility, rigorous risk management, and an unwavering dedication to delivering value to our investors.

In conclusion, we extend our gratitude for your continued trust and support, allowing us the privilege to manage your investments. As we navigate the complexities of the market, our commitment to identifying and capitalizing on compelling investment opportunities remains resolute.

Thank you for being an integral part of our journey.

Source: Solaris Investment Management, December 2023

Contact Details

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