

# Solaris Core Australian Equity Fund

(APIR: WHT0012AU)

## Monthly Investment Report as at 31 October 2023

### Market and Fund Performance<sup>1</sup>

The S&P/ASX 200 Accumulation index returned -3.8% in October, underperforming global markets as the S&P 500 delivered -2.2% in local currency and MSCI World returned -2.7%. Tensions in the Middle East and surging bond yields contributed to a risk off sentiment and a second straight month of absolute negative returns for equity markets.

Longer dated bond yields continued to move higher; the Australian 10 year yield is up over ~160bps over the last 6 months, finishing the month at 4.9% despite the Reserve Bank of Australia maintaining the cash rate at 4.1%. Oil reversed some of the gains made last quarter and was down over 10% while precious metals outperformed as preferred defensive asset classes such as bonds sold off.

The top performing sector was Utilities (+1.7%); the only sector to deliver a positive return, followed by Materials (-0.8%) and Communications (-2.9%). Higher bond yields weighed on interest rate sensitive sectors as the worst performing sectors were Technology (-7.6%), Health (-7.2%) and Real Estate (-6.1%).

The top performers in October were all Gold explorers and miners, as gold was seen as a safe haven in the face of escalating geopolitical tension with the underlying gold spot price up 7% for the month, supporting Silver Lake Resources (+24.3%), Gold Road Resources (+17.0%) and Regis Resources (+16.1%).

The worst performers were Lontown Resources (-45.2%) as the US Lithium giant, Albemarle, pulled their takeover bid, leading Lontown to undertake a capital raising at a ~35% discount. Credit Corp Group (-37.7%), announced a \$45m impairment on their US Debt ledger assets and downgraded guidance for FY24 and Magellan Financial (-29.6%), underperformed after providing a FUM update showing continued outflows from the business, as well as a CEO change during the month.

A portfolio holding in focus is Lynas Rare Earths. Lynas mines and processes rare earth minerals including the elements, Nd (Neodymium) and Pr (Praseodymium) which are required for high powered magnets and for use in Electric Vehicles and wind turbines.

The energy transition provides strong demand for the rare earths, with majority of global production undertaken in China. Lynas is a key producer globally, accounting for half of the ex-China global production. Currently, Lynas' processing operations (known as cracking and leeching) are undertaken in Malaysia. Lynas have recently resolved some regulatory issues at these facilities. In addition, Lynas are commissioning a similar processing plant in in Kalgoorlie, Australia to enable growth in production and earnings in future years.

Lynas has a strong balance sheet, and good management team, and remains a preferred holding in Metals & Mining.

<sup>1</sup>Illustrative only and not a recommendation to buy or sell any particular security.

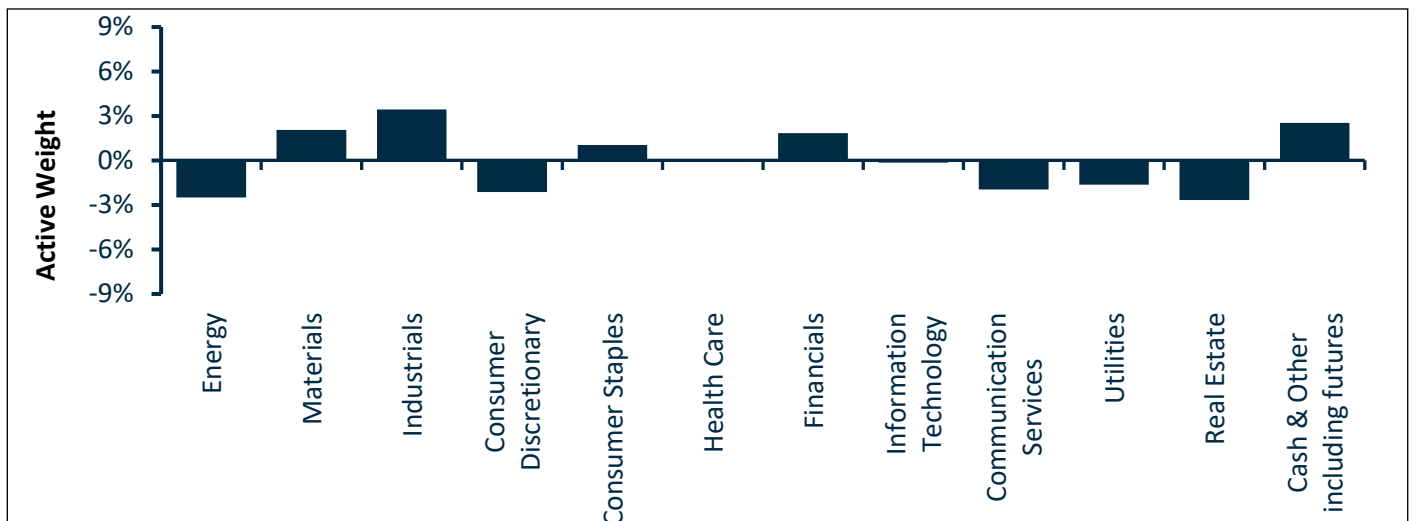
Returns	Month	Rolling Quarter	FYTD	1 Year	2 Years p.a.	3 Years p.a.	5 Years p.a.	7 Years p.a.	10 Years p.a.	Inception p.a. (17/09/2008)
Fund Gross Return <sup>^</sup>	-3.53%	-5.12%	-3.14%	3.00%	1.29%	9.14%	6.44%	8.13%	7.51%	7.91%
Benchmark Return <sup>*</sup>	-3.78%	-7.19%	-4.52%	2.95%	0.44%	8.88%	7.18%	7.79%	6.60%	6.87%
<b>Active Return</b>	<b>0.25%</b>	<b>2.07%</b>	<b>1.38%</b>	<b>0.05%</b>	<b>0.85%</b>	<b>0.26%</b>	<b>-0.74%</b>	<b>0.34%</b>	<b>0.91%</b>	<b>1.04%</b>
Fund Net Return <sup>^</sup>	-3.61%	-5.35%	-3.45%	2.01%	0.32%	8.09%	5.42%	7.09%	6.48%	6.89%
Benchmark Return <sup>*</sup>	-3.78%	-7.19%	-4.52%	2.95%	0.44%	8.88%	7.18%	7.79%	6.60%	6.87%
<b>Active Return (After fees)</b>	<b>0.17%</b>	<b>1.84%</b>	<b>1.07%</b>	<b>-0.94%</b>	<b>-0.12%</b>	<b>-0.79%</b>	<b>-1.76%</b>	<b>-0.70%</b>	<b>-0.12%</b>	<b>0.02%</b>

<sup>^</sup> Performance is for the Solaris Core Australian Equity Fund (APIR: WHT0012AU), also referred to as Class B 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. <sup>\*</sup> 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, October 2023

**Market Valuation & Earnings Estimates:**

	Market & Sector EPS Growth			Market & Sector PEs			Market & Sector Yield			Dividend
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	
Pro-rated to June										
All Companies	-6.1%	3.0%	1.3%	15.6x	15.1x	15.0x	3.7%	3.6%	3.8%	
Banks	11.2%	-4.6%	-0.6%	12.2x	12.8x	12.9x	5.7%	5.8%	5.9%	
Listed Property Trusts	0.8%	0.3%	3.7%	12.3x	12.3x	11.9x	5.6%	5.5%	5.7%	
Resources	-23.7%	4.4%	-4.5%	14.7x	14.1x	14.7x	3.1%	2.7%	2.7%	
Industrials ex-Banks	12.3%	6.1%	9.3%	18.8x	17.7x	16.2x	3.4%	3.7%	4.0%	

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**

Equity markets have recently experienced a correction now trading at 2019 levels with a P/E in line with the long run average. We expect volatility to continue in markets given the ongoing uncertainty in the macro and geopolitical environment. However, volatility presents buying opportunities across the market and the investment team believes that despite the noise, there are plenty of investment opportunities.

As we look forward, Australian corporates continue to face the headwinds regarding inflation and a potential economic slowdown, and we seek to construct a portfolio to outperform against this backdrop. Some of the key themes evident in the portfolio are:

- **Pricing Power:** Key feature of the portfolio is in companies that show pricing power. Wage inflation, higher input costs, and increase interest costs clearly impact margins. Companies that have ability to pass on higher prices have been able to maintain their margins. Examples include SUN, COL, COH, ALX and WOR.
- **Industry Structure:** A rational or improving industry structure is a qualitative factor we value, and we currently see this in the general insurance space with the portfolio overweight Insurers (SUN, QBE). Challenger brands are not competing as hard, allowing established brands to at least maintain marketshare, and pricing power is evident in higher premiums for customers. The Industry is also further supported by the tailwinds of higher investment yields and lower catastrophe events.

We remain conscious of the risks to the portfolio, specifically:

- **Refinance Risk:** The duration of the higher rate cycle and timing for any potential rate hikes continues to be pushed out resulting in cost of debt remaining elevated compared to recent history. For corporates that have had fixed debt, where this is rolling off it will need to be refinanced at much higher levels in many cases. Refinance risk shows the importance of understanding company balance sheets and their debt profile; this was evident during reporting season where the investment community consistently underestimated the level of interest costs amongst the market.
- **Second half skew:** while early in the year and only a subset of companies are providing Q1 updates, a number of companies have explicitly noted a second half skew to meet FY24 guidance. Reliance on second half skew provides earnings uncertainty, particularly given the headwinds and lack of clear catalysts to drive a stronger second half.

Solaris aims to ensure that the majority of the risk in the fund is generated from bottom-up stock decisions rather than allowing macro and geopolitical events to dictate risk and performance. 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.

As always, thank you for your support and for allowing us the privilege of managing your investments.

Source: Solaris Investment Management, October 2023

## Contact Details

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Link to the [Product Disclosure Statement](#)

Link to the [Target Market Determination](#)

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