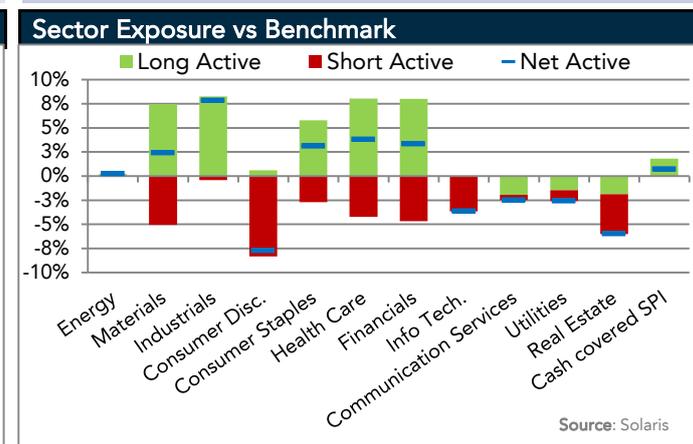
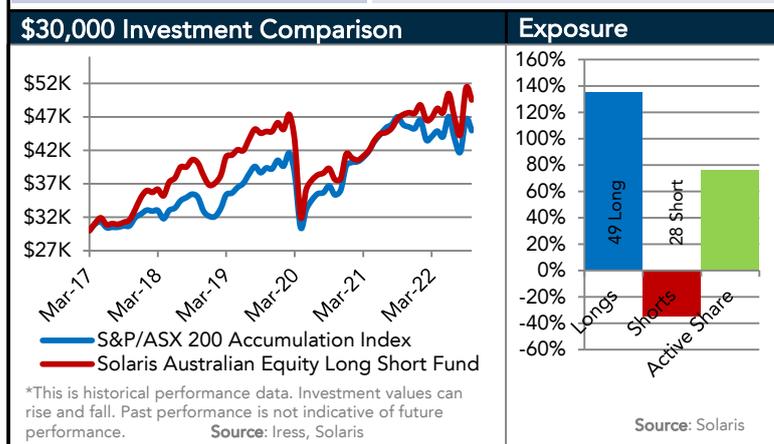


Quarterly Newsletter as at 31 December 2022

Solaris Australian Equity Long Short Fund (APIR: WHT3859AU)

Fund Overview		Top 10 Holdings	
FUM	\$336.5m	BHP Group Limited (Metals & Mining)	
Investment Objective	Exceed the S&P/ASX200 Accum. Index by taking both long and short positions	CSL Limited (Pharmaceuticals & Biotechnology)	
Typical Number of Stocks	40 - 70 Long and 20 - 30 Short	National Australia Bank Limited (Banks)	
Max Long/Short Exposures	140% Long and -40% Short	Australia and New Zealand Banking Group Limited (Banks)	
Max Cash	30%	Macquarie Group Limited (Diversified Financials)	
Management Fee	0.99%	Commonwealth Bank of Australia (Banks)	
Performance Fee	15% (of perf above bmk + mgt fee)	Coles Group Limited (Food & Staples Retailing)	
Buy/Sell Spread	+/- 0.3%	Goodman Group (Real Estate)	
Distribution	Semi-annually at 31 Dec and 30 Jun	Suncorp Group Limited (Insurance)	
Min initial investment	\$30,000	Ramsay Health Care Limited (Health Care Equipment & Services)	
		Top 10 Weight (gross): 39.3%	



Returns	Month	Rolling Qtr	FYTD	1 Year	2 Years p.a	3 Years p.a.	5 Years p.a.	Since Inception p.a. (1-Mar-2017)
Fund Gross [^]	-3.76%	8.95%	11.75%	5.45%	11.83%	4.55%	8.12%	10.71%
Benchmark*	-3.21%	9.40%	9.82%	-1.08%	7.69%	5.55%	7.11%	7.84%
Active	-0.55%	-0.45%	1.93%	6.53%	4.14%	-1.00%	1.01%	2.87%
Fund Net [^]	-3.84%	8.68%	11.19%	4.41%	10.73%	3.52%	6.82%	9.17%
Benchmark*	-3.21%	9.40%	9.82%	-1.08%	7.69%	5.55%	7.11%	7.84%
Active After Fees	-0.63%	-0.72%	1.37%	5.49%	3.04%	-2.03%	-0.29%	1.33%

[^] Fund refers to the Solaris Australian Equity Long Short Fund (APIR: WHT3859AU), the returns are calculated based on month end prices before tax. Net returns are calculated after management fees and operating costs, excluding taxation. Gross returns are stated excluding all fees, costs and taxation. All p.a. returns are annualised. Past performance is not indicative of future performance.

* Benchmark refers to the S&P/ASX 200 Accumulation Index. The securities presented in this report are for illustrative purposes only and are not the complete holdings of the fund.

Contact Details: For further information please contact Solaris' distribution partner:-
Pinnacle Investment Management Limited on **1300 010 311**
alternatively, please email: distribution@pinnacleinvestment.com

IMPORTANT: This communication is prepared by Solaris Investment Management Limited ('Solaris') ABN 72 128 512 621 AFSL 330505 as the investment manager of the Solaris Australian Equity Long Short Fund (ARSN 618 962 995) ('the Fund'). Pinnacle Fund Services Limited ABN 29 082 494 362 AFSL 238371 ('PFSL') is the product issuer of the Fund. PFSL is not licensed to provide financial product advice. PFSL is a wholly-owned subsidiary of the Pinnacle Investment Management Group Limited ('Pinnacle') ABN 22 100 325 184. The Product Disclosure Statement ('PDS') and Target Market Determination ('TMD') of the Fund are available via the links below. Any potential investor should consider the PDS and TMD before deciding whether to acquire, or continue to hold units in, the Fund.
Link to the PDS: <https://solariswealth.com.au/wp-content/uploads/Solaris-Australian-Equity-Long-Short-Fund-PDS.pdf>
Link to the TMD: <https://solariswealth.com.au/wp-content/uploads/Solaris-Australian-Equity-Long-Short-Fund-TMD.pdf>
For historic TMD's please contact Pinnacle client service Phone 1300 010 311 or Email service@pinnacleinvestment.com
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Solaris Australian Equity Long Short Fund (APIR: WHT3859AU)

Market Overview

After two months of strong performance, equity markets pulled back in December. Despite this the S&P/ASX 200 Accumulation index still finished the quarter up +9.4%. Inflation and central bank's reactions drove sentiment in equity markets. A lower-than-expected US CPI print provided relief for equity markets early in the quarter and the market seized on any dovish rhetoric. However, by quarter end, the RBA had raised rates by 0.25% each month, bringing the cash rate to 3.1%.

All S&P/ASX200 sectors delivered positive returns for the quarter with Utilities (+28.0%) the strongest supported by the bid for Origin, and Materials (+15.3%) benefitting from strong performance of mining stocks with improved commodity prices and potential relaxation of China's restrictive COVID-19 policies. Meanwhile, Health Care (+1.9%) and Consumer Staples (+1.9%) and were the worst performing sectors for the quarter.

Market Outlook

What a year 2022 was. With markets dominated by the trajectory of inflation and the associated moves in interest rates to combat this, the investment team was presented with heightened volatility and an elevated investment opportunity set throughout the year.

Entering 2022 the portfolio opportunities were tilted towards companies with cyclical earnings and value characteristics. Throughout the year strong performance in these areas of the market, particularly in the resources sector and companies with COVID-19 recovery exposure provided an opportunity to lock in profits and redeploy in investments offering higher future expected returns. As we have highlighted throughout the year, a range of high-quality companies with strong earnings growth profiles have de-rated materially on movements in discount rates, providing an opportunity to enter new or increase existing positions in high-quality franchises that are now trading at attractive valuations. The portfolio enters 2023 tilted towards companies with quality and sustainable earnings and displays a modest 'growth' bias.

As we move into 2023, we expect that macroeconomic headlines will continue to drive market sentiment and the global economy faces several challenges – namely global policy tightening, the risk of recession, the energy crisis with no clear endpoint in the devastating Russia-Ukraine war, weak consumer confidence and geopolitical concerns. Our investment process, driven by bottom-up company analysis, allows us to focus on which companies will have robust earnings and be able to weather the changing operating conditions which continue to evolve rapidly in this complicated investment backdrop. As we assess which companies are positioned to outperform in this environment, we are focusing on the following themes:

➤ *Cost and availability of capital*

There are many unknowns heading into 2023, but one certainty is that the access to cheap and readily available debt and equity capital has diminished. The combination of rising cash rates, higher bond yields, widening credit spreads and lower liquidity in capital markets makes us cautious sections of the market that have relied on cheap capital to fund future growth. In this environment we are focused on companies that are generating free cash flow with accounting earnings backed by cash earnings, that are not reliant on access to capital markets to grow.

➤ *Strong and appropriate balance sheets*

We remain laser focused on the strength of our portfolio companies balance sheets. A strong and appropriately structured balance sheet enables management teams the ability to manage through any periods of uncertainty. Whether we have a 'soft landing' or a 'hard landing' companies with conservatively managed balance sheets are best placed to perform. Companies with leveraged balance sheets in this higher cost of capital environment are putting shareholder returns at risk, as it leaves little margin of safety in the event of an unexpected shock.

➤ *Pricing power*

With the pressures on corporate margins into 2023, pricing power and a company's ability to increase prices to maintain or grow margin remains a key focus. An example is Suncorp Group which has several strong re-pricing tailwinds in hardening premium rates and higher re-investment yields. Combined with the anticipated sale of the bank franchise to ANZ in 2023, Suncorp is a great example of the pricing power we look for, combined with embedded value yet to be released through the sale of the bank and potential future capital management.

➤ *Inventory positions*

While supply chains are showing signs of easing, many companies are now caught with excess inventory positions. We highlighted in June and September the increasing risks that elevated inventory positions pose and have avoided and shorted companies where we have seen the risk building. It's only more recently that this story is beginning to play out in the earnings for many retailers and a factor we expect to continue as a key risk into 2023.

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Solaris Australian Equity Long Short Fund (APIR: WHT3859AU)

➤ *Governance*

Corporate governance has always been an important consideration but becomes elevated under more challenging operating environments. In 2022, we have seen companies without clear succession planning for executives or lack of alignment between remuneration and outcomes been punished by the market. We will continue to focus and ensure portfolio companies have quality management, appropriate governance controls as well as strong alignment between management and shareholder outcomes.

➤ *Energy transition*

In 2023 we expect continued focus on the goal of decarbonizing the global economy. Companies involved in the production of critical metals and minerals for the energy transition are well positioned to benefit from this mega-trend. As more companies set Net Zero targets, the opportunity set for investment as well as speculative capital grows. Our focus, to avoid areas of speculation, is to invest in companies that are in production and generating free cash flows, with experienced and proven management teams operating in low-risk jurisdictions (Australia).

Where to from here?

Despite all the uncertainty and volatility of 2022, the S&P/ASX200 Accumulation Index impressively only finished the year down -1.1%, defying many market commentators and once again reminding us that trying to time the market is fraught with danger and something we never advocate. From a valuation perspective the current one year forward P/E is 14.1x, slightly below the 10-year average of 15.4x. We believe the deteriorating backdrop is not yet reflected in earnings forecasts, implying there could be further downgrades to come, particularly in some of the areas we highlighted above. Despite this we are seeing compelling investment opportunities across other areas of the market and overall believe this environment is well suited to the Solaris investment process.

Elevated market volatility and dispersion between companies provides the setting for increased alpha opportunities as the investment team welcomes the return to a "stock pickers market" and we strongly believe that having a robust, flexible, and forward-looking investment framework that is not constrained by owning the entire index and is further liberated by being able to short sell, positions the portfolio extremely well. 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.

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

Solaris Team.