

# Solaris Core Australian Equity Fund (Performance Alignment)

(APIR: SOL0001AU)

## Monthly Investment Report

as at 29 February 2020

### Fund Performance

The fund underperformed its benchmark for the month by -0.22%. Overweight holdings in Atlas Arteria, QBE Insurance Group Limited, Goodman Group, Northern Star Resources Ltd and Evolution Mining Limited made a positive contribution to relative performance. The main detractors were overweight holdings in BHP Group Limited, Altium Limited, Reliance Worldwide Corporation Limited and Link Administration Holdings Limited together with an underweight position in Commonwealth Bank of Australia.

Returns	Month	Rolling Quarter	FYTD	1 Year	3 Years p.a.	5 Years p.a.	7 Years p.a.	Since Inception p.a. (31/08/2012)
Fund Gross Return <sup>^</sup>	-7.90%	-5.38%	0.18%	7.93%	10.13%	7.99%	10.24%	12.28%
Benchmark Return <sup>*</sup>	-7.69%	-5.18%	-0.12%	8.64%	8.59%	6.17%	7.96%	10.16%
<b>Active Return</b>	<b>-0.22%</b>	<b>-0.20%</b>	<b>0.30%</b>	<b>-0.71%</b>	<b>1.54%</b>	<b>1.82%</b>	<b>2.28%</b>	<b>2.11%</b>
Fund Net Return <sup>^</sup>	-7.90%	-5.38%	0.18%	7.95%	9.62%	7.40%	9.68%	11.74%
Benchmark Return <sup>*</sup>	-7.69%	-5.18%	-0.12%	8.64%	8.59%	6.17%	7.96%	10.16%
<b>Active Return (After fees)</b>	<b>-0.22%</b>	<b>-0.20%</b>	<b>0.30%</b>	<b>-0.69%</b>	<b>1.03%</b>	<b>1.22%</b>	<b>1.72%</b>	<b>1.58%</b>

<sup>^</sup> 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.

<sup>\*</sup> Benchmark refers to the S&P/ASX 200 Accumulation Index.

### Significant Contributors

#### Northern Star Resources (+6.8%)

The Australian-based gold mining company performed well over the month assisted by strength in the gold price and the publishing of financial results for the six months to 31 December 2019 where increases in revenue, earnings and cashflow pleased investors.

#### Atlas Arteria (-1.4%)

The company which owns toll road infrastructure presented results for the 12 months to 31 December 2019. Results were in line with investors' expectations and marked the seamless completion of a period of change that included the establishment of a new management team and the transfer of management arrangements from Macquarie.

#### Evolution Mining (+10.6%)

The Australian gold mining company benefited from a rally in the gold price and reported positive results for the six months to 31 December 2019 where underlying net profit after income tax increased 62% to 149.1 million Australian dollars.

### Significant Detractors

#### Link Administration Holdings (-31.0%)

Management presented financial results for the half-year ended 31 December 2019 which were softer than investors' expectations. The company also downgraded full-year earnings guidance, where operating earnings (EBITDA) is expected to fall 10% year on year.

#### Commonwealth Bank of Australia (-1.9%)

Management presented results for the six months to 31 December 2019 that were above consensus expectations. Investors were pleased with the cash profit of \$4.48 billion combined with a strong capital position.

#### Reliance Worldwide Corporation (-24.9%)

The plumbing business experienced a tough period due to a range of factors where metrics were softer than expected. This included weak sales performance in the US, volatile market conditions in the United Kingdom, and a slowing housing market in Australia.

# Solaris Core Australian Equity Fund (Performance Alignment)

(APIR: SOL0001AU)

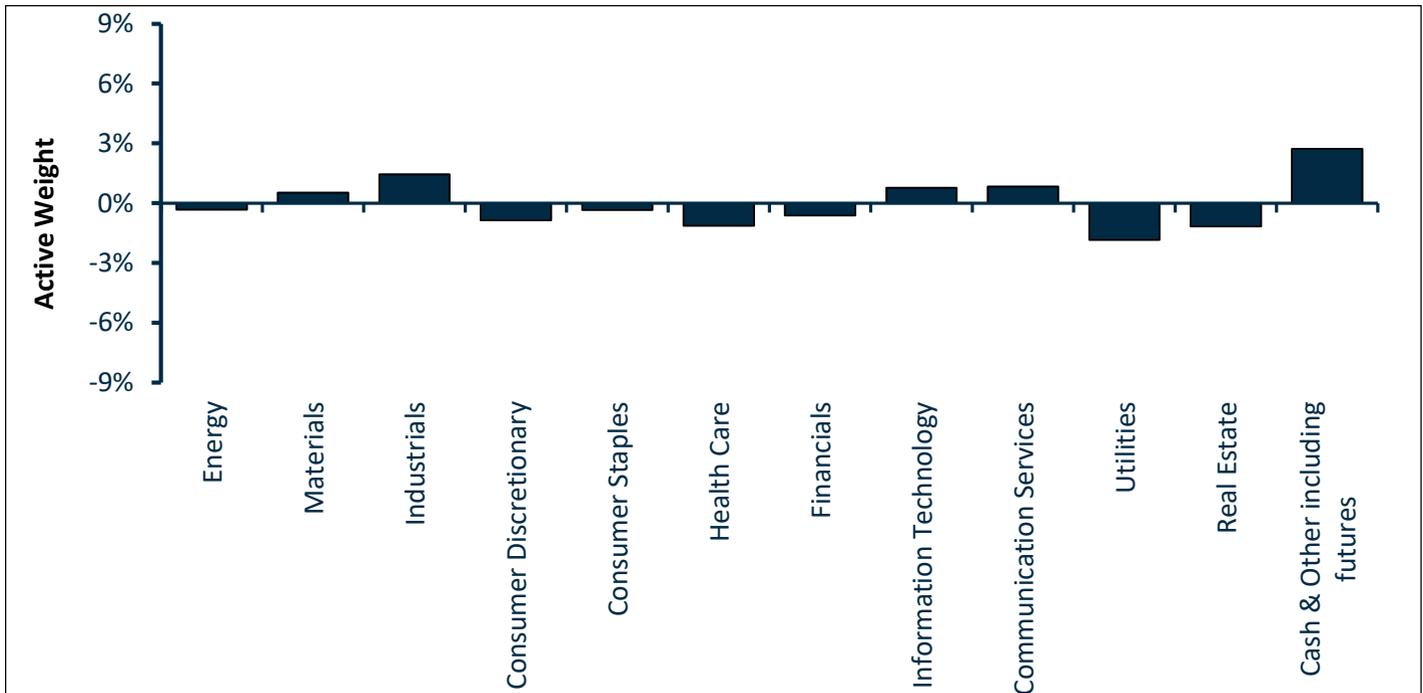
## Monthly Investment Report

as at 29 February 2020

### Top 10 Stocks

Name	Sector
CSL Limited	Health Care
BHP Group Limited	Materials
Westpac Banking Corporation	Financials
Commonwealth Bank of Australia	Financials
National Australia Bank Limited	Financials
Macquarie Group Limited	Financials
Telstra Corporation Limited	Communication Services
Australia and New Zealand Banking Group Limited	Financials
QBE Insurance Group Limited	Financials
Goodman Group	Real Estate

### Sector Allocation



# Solaris Core Australian Equity Fund (Performance Alignment)

(APIR: SOL0001AU)

## Monthly Investment Report

as at 29 February 2020

### Market Review

The S&P/ASX 200 Accumulation Index fell -7.7% over the month, reducing the trailing twelve-month return to +8.6%. Initial concerns of the impact of the coronavirus were predominately reflected in Asian markets. However, during the month, concerns of a potential global pandemic were amplified and the associated impact on economic activity led to a sharp correction across global equity markets (MSCI World ex-Australia -8.5%). In addition to the global equity market sell-off, bond yields fell to new record lows (Australian 10 year Commonwealth bond yield fell to 0.82%) and the Australian dollar fell as low as of 0.64 versus the US Dollar.

The company reporting season was in full swing, with results were generally soft versus prevailing expectations. Due to the soft nature of results, the consensus earnings per share growth forecast for the index over the 2020 financial year was revised from 3.8% to 2.4%. The top three moves within the S&P/ASX 200 Accumulation index were IDP Education (+19.6%) after reporting strong revenue growth driven by student placement volumes which were up 30%, Cleanaway Waste (+11.3%) after management reported underlying net profit growth of 13.7% and Evolution Mining (+10.8%) which reported a record half-year net profit after tax driven by steady production metrics and a strong gold price. The bottom three moves were Wisetech Global (-39.7%) where management revised revenue guidance for the 2020 financial year from \$440-460 million to \$420-450 million due to impacts from the coronavirus, Clinuvel Pharmaceuticals (-35.8%) who reported results for the six months ended 31 December 2019 that were below investors' expectations and Beach Energy (-33.9%) where an increase in capital expenditure surprised investors.

#### S&P/ASX 200 Top & Bottom performing sectors for the month ending 29 February:

The best-performing sectors in the S&P/ASX200 Accumulation Index for the month were Consumer Durables & Apparel (+5.2%), Real Estate Management & Development (-1.1%), Pharmaceuticals & Biotechnology (-1.4%), Food Beverage & Tobacco (-3.3%) and Banks (-3.5%). The worst-performing sectors included Household & Personal Products (-28.0%), Capital Goods (-18.2%), Software & Services (-17.3%), Energy (-17.2%) and Media & Entertainment (-12.3%).

#### S&P/ASX200 Top & Bottom performing stocks for the month ending 29 February:

The top 5 performing stocks in the S&P/ASX200 Accumulation Index for the month were IDP Education Limited (+19.6%), Cleanaway Waste Management Ltd (+11.3%), Evolution Mining Limited (+10.6%), Fisher & Paykel Healthcare (+10.1%) and Pinnacle Investment Management Group Limited (+9.2%). The bottom 5 performers included WiseTech Global Limited (-39.7%), Clinuvel Pharmaceuticals Limited (-35.8%), Beach Energy Limited (-33.9%), EML Payments Limited (-31.2%) and Link Administration Holdings Ltd (-31.0%).

### Market Valuation & Earnings Estimates:

Pro-rated to June	Market & Sector EPS Growth			Market & Sector PE's			Market & Sector Dividend Yield		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
All Companies	-1.7%	4.8%	4.4%	17.6x	16.9x	16.2x	4.5%	4.3%	4.4%
Banks	-8.4%	-3.1%	0.6%	13.2x	13.6x	13.4x	6.3%	6.2%	5.9%
Listed Property Trusts	0.2%	5.9%	4.0%	17.4x	16.5x	15.8x	4.6%	4.8%	5.0%
Resources	3.8%	12.2%	0.1%	12.9x	11.5x	11.5x	5.9%	5.2%	4.8%
Industrials ex-Banks	-0.2%	5.9%	8.6%	22.8x	21.5x	19.8x	3.4%	3.4%	3.7%

Source: Solaris Investment Management, February 2020

# Solaris Core Australian Equity Fund (Performance Alignment)

(APIR: SOL0001AU)

## Monthly Investment Report

as at 29 February 2020

### Market Outlook

---

The Australian equity market (S&P/ASX 200 Accumulation Index) had a strong start to 2020, where the market reached a record high despite the patchy nature of the domestic economy and a series of soft company results. However, the emergence of the coronavirus and the associated impact on health, confidence and economic activity has proved to be the catalyst for a material correction and de-rating of valuations. To support the economy through this period of uncertainty, the Reserve Bank of Australia (RBA) cut the cash rate to a record low of 0.50%. We expect continued monetary support from the RBA combined with a package of government fiscal spending to support households and businesses through this period.

We remain focused on attractive investment opportunities and building robust portfolios to ensure the risk in the portfolios are generated from bottom up stock selection decisions. A key foundation of our investment process is avoiding companies with excess financial leverage (debt) particularly when combined with a business model that is exposed to cyclical cycles. Despite looking cheaper, a range of over-gearred companies will find it harder to weather this period of uncertainty. In volatile environments all stocks can be treated with the same selling pressure, leading to mispricing. We are seeing attractive investment opportunities and remain focused on companies with the balance sheet strength to manage through uncertain times.

### Contact Details

---

For further information, please contact Solaris' distribution partner:

Pinnacle Investment Management Limited on 1300 010 311,

alternatively, please email: [distribution@pinnacleinvestment.com](mailto:distribution@pinnacleinvestment.com)

Interests in the Solaris Core Australian Equity Fund ('Fund') (ARSN 128 859 898) are issued by Pinnacle Fund Services Limited, ABN 29 082 494 362, AFSL 238371, as responsible entity of the Fund. Pinnacle Fund Services Limited is not licensed to provide financial product advice. You should consider the Product Disclosure Statement of the Fund available at [www.solariswealth.com.au](http://www.solariswealth.com.au) in its entirety before making an investment decision. Solaris Investment Management Limited ('Solaris') (ABN 72 128 512 621 AFSL 330505) is the investment manager of the Fund. Pinnacle Fund Services Limited and Solaris believe the information contained in this communication is reliable, however its accuracy, reliability or completeness is not guaranteed. Any opinions or forecasts reflect the judgment and assumptions of Solaris and its representatives on the basis of information at the date of publication and may later change without notice. The information in this communication is not intended as a securities recommendation or statement of opinion intended to influence a person or persons in making a decision in relation to investment. This communication is for general information only. It has been prepared without taking account of any person's objectives, financial situation or needs. Any persons relying on this information should obtain professional advice before doing so. Past performance is not a reliable indicator of future performance.