

Solaris Core Australian Equity Fund

(APIR: WHT0012AU)

Monthly Investment Report

as at 31 May 2020

Fund Performance

The fund underperformed its benchmark for the month by 0.22%. Overweight holdings in Goodman Group, Northern Star Resources Ltd, James Hardie Industries PLC, Appen Limited and Charter Hall Group made a positive contribution to relative performance. Detractors from relative performance included an overweight holding in CSL Limited and underweight positions in Stockland, Afterpay Limited, Fortescue Metals Group Ltd and Newcrest Mining Limited.

Returns	Month	Rolling Quarter	FYTD	1 Year	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 [^]	4.22%	-11.32%	-11.17%	-7.56%	5.02%	5.53%	8.58%	8.46%	7.68%
Benchmark Return [*]	4.36%	-9.92%	-10.03%	-6.70%	4.35%	4.27%	6.73%	7.25%	6.25%
Active Return	-0.13%	-1.40%	-1.14%	-0.86%	0.67%	1.26%	1.85%	1.22%	1.43%
Fund Net Return [^]	4.14%	-11.54%	-11.95%	-8.45%	4.01%	4.51%	7.54%	7.42%	6.67%
Benchmark Return [*]	4.36%	-9.92%	-10.03%	-6.70%	4.35%	4.27%	6.73%	7.25%	6.25%
Active Return (After fees)	-0.22%	-1.62%	-1.93%	-1.75%	-0.34%	0.25%	0.81%	0.17%	0.42%

[^] 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.

^{*} Benchmark refers to the S&P/ASX 200 Accumulation Index.

Significant Contributors

Charter Hall Group (+26.7%)

The property sector performed strongly in May however Charter Hall outperformed the sector after management reaffirmed earnings guidance for the year to 30 June 2020 of 40% growth in post-tax operating earnings per security.

Appen Limited (+19.2%)

Management at the global data solutions company hosted the 2020 Annual General Meeting and confirmed the pandemic is expected to have negligible impact on the company's earnings based on the current available information and reaffirmed financial guidance for the 2020 financial year.

Northern Star Resources Ltd (+15.7%)

The gold mining company performed strongly over the month assisted by the strength in the gold price combined with positive operating momentum. The company moved early to implement a suit of COVID-19 mitigation measures at both the Australian and Alaskan operations.

Significant Detractors

Afterpay Limited (+52.0%)

The "buy now pay later" payment provider appreciated materially with news of the Chinese technology giant, Tencent, joining the shareholder register combined with news the platform has now achieved over 5 million active users in the USA.

Fortescue Metals Group Ltd (+16.2%)

The strength in the iron ore price due to supply disruptions in Brazil provided continued support to Fortescue. The iron ore price strength has enabled Fortescue to move from a net debt position to a position of USD \$0.1 billion net cash.

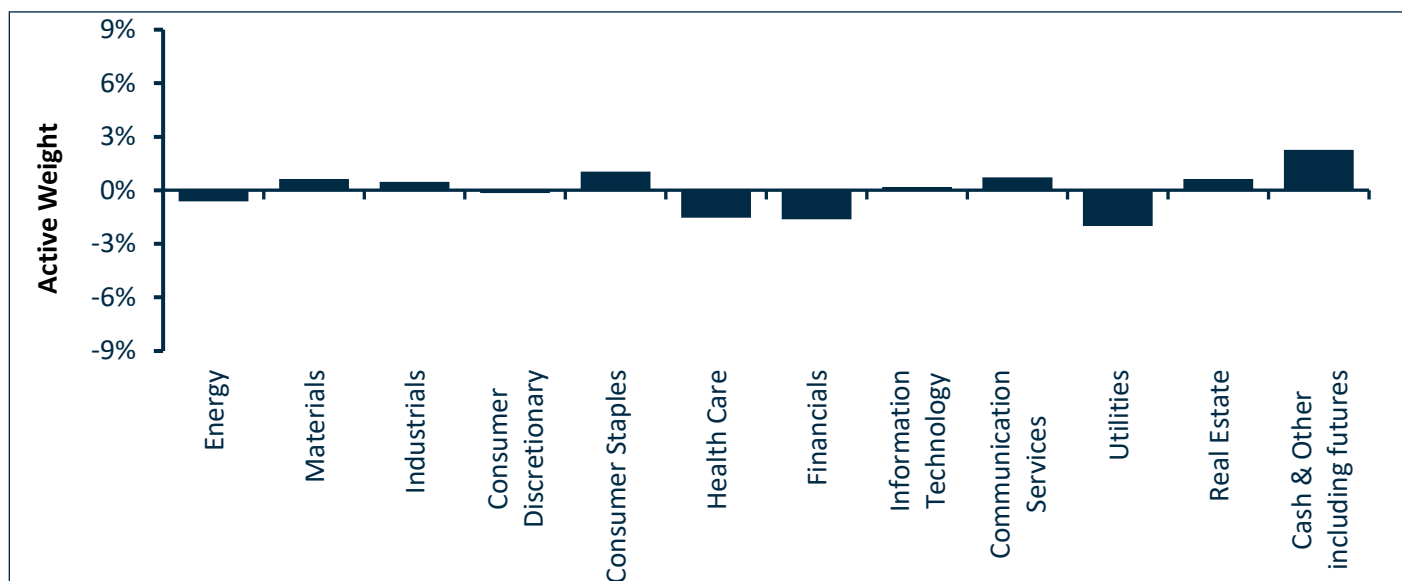
CSL Limited (-10.7%)

After outperforming the market significantly in March and April, the company didn't keep pace with the market return of +4.4%. Early in the month management issued a USD 750 million private debt facility with a 11.5-year average life, strengthening the maturity profile.

Top 10 Stocks

Name	Sector
CSL Limited	Health Care
BHP Group Limited	Materials
National Australia Bank Limited	Financials
Westpac Banking Corporation	Financials
Commonwealth Bank of Australia	Financials
Macquarie Group Limited	Financials
Telstra Corporation Limited	Communication Services
Atlas Arteria	Industrials
Woolworths Group Limited	Consumer Staples
Rio Tinto Limited	Materials

Sector Allocation



Market Valuation & Earnings Estimates:

Pro-rated to June	Market & Sector EPS Growth			Market & Sector PE's			Market & Sector Dividend Yield		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
All Companies	-13.9%	0.2%	13.8%	18.3x	18.3x	16.1x	3.7%	3.6%	4.2%
Banks	-28.0%	-7.4%	22.9%	13.6x	14.6x	11.9x	4.7%	4.3%	5.5%
Listed Property Trusts	-1.4%	-2.9%	7.1%	13.8x	14.2x	13.3x	5.6%	5.6%	6.0%
Resources	-5.8%	-6.3%	3.8%	14.1x	15.0x	14.5x	4.3%	3.6%	3.7%
Industrials ex-Banks	-9.5%	7.1%	14.5%	22.8x	21.3x	18.6x	3.2%	3.5%	3.9%

Market Review

The S&P/ASX 200 Accumulation Index rallied +4.4% over the month, continuing on from the +8.8% bounce in April. The Australian market started May with a negative backdrop, falling 5% in its largest single-day drop in five weeks as China threatened an economic boycott after the Australian government called for an inquiry into the outbreak of the COVID-19 virus. Sentiment improved throughout the month as countries started easing stay at home restrictions, and investors began to look through the current uncertainty and assess what the “new normal” business operating conditions will look like.

The top three moves within the S&P/ASX 200 Accumulation index were Southern Cross Media (+67.9%) which performed strongly following the completion of an equity raising in early May, Afterpay Limited (+52.0%) after the company reached 5 million active subscribers in the USA and Nearmap (+50.2%) as the company moves toward a cash breakeven position in June which is earlier than investors had anticipated. The bottom three moves were Incitec Pivot Limited (-15.9%) after completing an equity raise to strengthen the position of its balance sheet, Alumina Limited (-14.4%) underperformed due to a soft commodity price and Unibail-Rodamco-Westfield (-14.3%) due to restricted mall traffic from the various social distancing measures in place globally.

S&P/ASX 200 Top & Bottom performing sectors for the quarter ending 31 May:

The best performing sectors in the S&P/ASX200 Accumulation Index for the month were Consumer Durables & Apparel (+27.3%), Software & Services (+14.5%), Media & Entertainment (+13.5%), Automobiles & Components (+12.7%) and Diversified Financials (+9.9%). The worst performing sectors included Pharmaceuticals & Biotechnology (-10.4%), Food & Staples Retailing (-0.7%), Food Beverage & Tobacco (+0.1%), Consumer Services (+2.4%) and Transportation (+2.5%).

S&P/ASX200 Top & Bottom performing stocks for the quarter ending 31 May:

The top 5 performing stocks in the S&P/ASX200 Accumulation Index for the month were Southern Cross Media Group Limited (+67.9%), Afterpay Limited (+52.0%), Nearmap Limited (+50.2%), Janus Henderson Group PLC (+35.8%) and Webjet Limited (+35.3%). The bottom 5 performers included Incitec Pivot Limited (-15.9%), Alumina Limited (-14.4%), Unibail-Rodamco-Westfield (-14.3%), New Hope Corporation Limited (-12.6%) and CSL Limited (-10.7%).

Market Outlook

From the depths of the Australian market in March to the current point in time we have seen an incredibly sharp recovery, continually doubted by many market commentators. The measures in place to “flatten the curve” have resulted in one of the best health outcomes globally. These government-imposed restrictions on activity have driven a sharp contraction in economic activity and to assist, Australia has been granted the second highest level of stimulus per head of population when comparing on a global basis. The improving virus management combined with the large economic stimulus has given investors’ confidence that corporates and households will be able to successfully ‘build a bridge’ through this period of uncertainty.

This remains unprecedented times, with a significant level of both fiscal and monetary stimulus and support in place. We are not predicting the path to recovery from here – ‘V’ shaped, ‘L’ shaped, ‘W’ shaped or ‘Tick’ shaped as this is not our area of expertise. We remain convinced that this crisis, like crises past, will end. We remain aggressively focused on the task of assessing the value of a company’s future cash flows and following the bounce in all parts of the market we believe this environment creates significant opportunities for stock selection.

Four strategies are being deployed:

1. Buying quality companies sold below fair value due to short term operating issues – so long as they have a strong balance sheet;
2. Selling companies that have rallied to the point of having perfection priced into the future outlook;
3. Avoiding companies with weak balance sheets – as these companies are likely to have to raise dilutive equity to survive;
4. Selectively participating in capital raisings for balance sheet repair – if debt is the issue, an equity raising can be a positive as it fixes the problem and often occurs at an attractive discount.

We do warn the strategies may not maximise short-term performance as we, like most, have no intelligent prediction on the duration of the crisis. It will, however, be a powerful way of maximising medium-term performance. Taking advantage of extreme levels of fear & panic has historically and will currently prove to be effective in acquiring quality oversold companies.

Source: Solaris Investment Management, May 2020

Contact Details

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