

Solaris High Alpha Australian Equity Fund

(APIR: WHT0016AU)

Monthly Investment Report

as at 31 August 2019

Fund Performance

The fund outperformed its benchmark for the month by 0.84%. Overweight holdings in Aurizon Holdings Limited, Atlas Arteria, James Hardie Industries PLC, Link Administration Holdings Limited and TABCORP Holdings Limited made a positive contribution to relative performance.

The main detractors were overweight holdings in BHP Group Limited, Telstra Corporation Limited, Appen Limited and Pandal Group Limited together with an underweight position in Woolworths Group Limited.

Returns	Month	Rolling Quarter	FYTD	1 Year	3 Years p.a.	5 Years p.a.	7 Years p.a.	10 Years p.a.	Since Inception p.a. (17/10/2008)
Fund Gross Return [^]	-1.44%	5.25%	1.44%	7.90%	13.30%	10.15%	13.60%	9.95%	11.65%
Benchmark Return [*]	-2.36%	4.23%	0.52%	9.04%	11.38%	7.90%	11.02%	8.61%	9.56%
Active Return	0.92%	1.02%	0.93%	-1.14%	1.93%	2.25%	2.58%	1.35%	2.09%
Fund Net Return [^]	-1.52%	5.00%	1.28%	6.87%	12.21%	9.09%	12.51%	8.90%	10.46%
Benchmark Return [*]	-2.36%	4.23%	0.52%	9.04%	11.38%	7.90%	11.02%	8.61%	9.56%
Active Return (After fees)	0.84%	0.76%	0.76%	-2.18%	0.84%	1.19%	1.49%	0.29%	0.91%

[^] Performance is for the Solaris High Alpha Australian Equity Fund (APIR: WHT0016AU), 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

James Hardie Industries (+13.4%)

Management released their 1st quarter 2020 result with adjusted earnings before interest and tax of US\$124 million, up 16% compared to the prior corresponding period. Their North American Fiber Cement business deliver strong volume growth which pleased investors given the housing demand has been soft across most geographies.

Aurizon Holdings Limited (+4.8%)

The company announced their 2019 result with underlying earnings before interest and tax of AU\$829 million, down 12% compared to prior corresponding period. Despite the soft result, the CEO is delivering well on the strategy which included the announcement of a \$300 million share buyback.

Link Administration Holdings (+7.7%)

Management announced their 2019 result with operating earnings per share of 37.9 cents, down 9% compared to prior corresponding period. Although the result was soft, the market was pleased with the announcement of an on-market share buyback of up to 10% of issued capital.

Significant Detractors

Woolworths Group Limited (+6.0%)

The company delivered their 2019 financial result and reported net profit after tax of \$1.75 billion, up 7% compared to 2018. Their Australian food business performed well with sales up 3.3% during the year.

BHP Group (-11.0%)

The company reported a broadly in line 2019 financial result which included a strong dividend distribution. The share price fell due to weak iron ore prices which were down during the month after they rose to unsustainable levels post the dam failure in Brazil. The market is closely watching the outlook for Chinese steel production given the pending trade war.

Appen Limited (-15.6%)

The company announced their half year 2019 results with underlying net profit before tax of \$29.6 million, up 67% on the prior corresponding period. Although the core business performed very strongly, the market was concerned with the progress from their recent acquisition of US company, Figure Eight.

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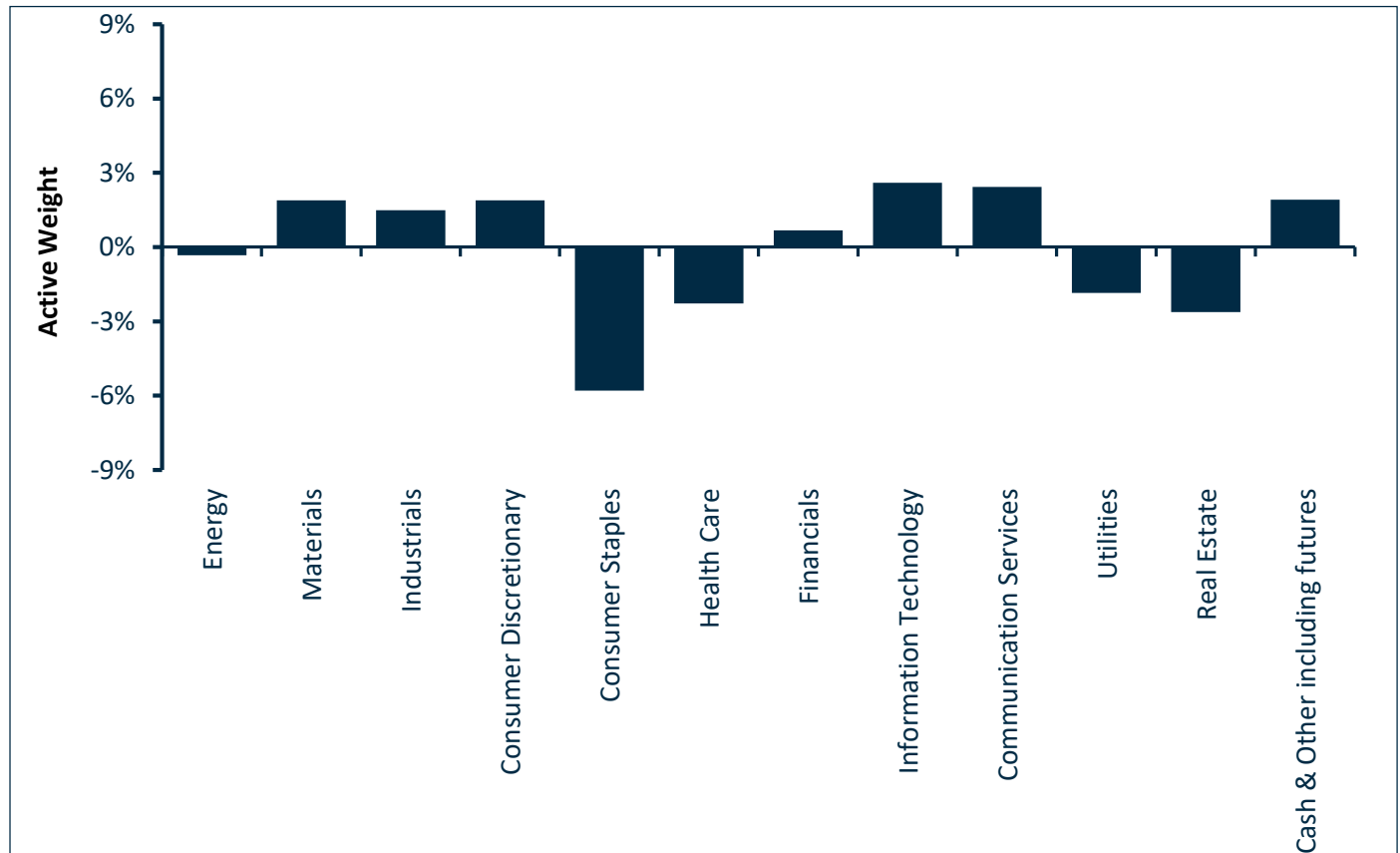
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Top 10 Stocks

Name	Sector
Westpac Banking Corporation	Financials
BHP Group Limited	Materials
National Australia Bank Limited	Financials
CSL Limited	Health Care
Macquarie Group Limited	Financials
Aurizon Holdings Limited	Industrials
QBE Insurance Group Limited	Financials
Insurance Australia Group Limited	Financials
Aristocrat Leisure Limited	Consumer Discretionary
Atlas Arteria	Industrials

Sector Allocation



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Market Review

The S&P/ASX 200 Accumulation Index finished 2.40% lower in August driven by the company reporting season which largely disappointed relative to expectations. The number of companies exceeding market earnings expectations was low, especially given expectations were rebased after the large number of profit warnings delivered from companies in the months preceding August. The mining sector disappointed due to cost inflation pressures and plans to moderately increase capital expenditure, whilst the banking sector also disappointed due to soft revenue growth from margin pressure and lower fee income. The standout sector from reporting season was healthcare (+3.6%) where results were broadly in line with expectations and the outlook commentary pleased investors.

The top three moves within the Index included Nanosonics (+21.1%) which saw strong growth in their infection control products, Smartgroup (+21.0%) delivered a resilient result despite the slowdown in new vehicle sales and Lendlease (+19.4%) which reported a solid net profit result in their core business and a strong pipeline of major urbanisation projects. The bottom three moves were Speedcast International (-58.9%) which reported weak cashflow in a profit result that has highlighted investor concerns around their leveraged balance sheet, Ooh!Media (-30.5%) after announcing a material decline in overall media advertising spend and general economic uncertainty impacting their business, Bellamy's Australia (-25.7%) which cited an increase in competition in China and pushed out their medium term revenue target.

S&P/ASX 200 Top & Bottom performing sectors for the month ending 31 August:

The best performing sectors in the S&P/ASX200 Accumulation Index for the month were Real Estate Management & Development (+17.9%), Pharmaceuticals & Biotechnology (+4.5%), Food & Staples Retailing (+4.4%), Retailing (+2.0%) and Health Care Equipment & Services (+1.9%). The worst performing sectors included Household & Personal Products (-18.8%), Consumer Durables & Apparel (-15.4%), Materials (-7.5%), Food Beverage & Tobacco (-7.2%) and Capital Goods (-6.8%).

S&P/ASX200 Top & Bottom performing stocks for the month ending 31 August:

The top 5 performing stocks in the S&P/ASX200 Accumulation Index for the month were Pro Medicus Limited (+45.1%), Nanosonics Limited (+21.1%), Smartgroup Corporation Ltd (+21.0%), Lendlease Group (+19.4%) and McMillan Shakespeare Limited (+17.9%). The bottom 5 performers included Speedcast International Limited (-58.9%), Ooh!Media Limited (-30.5%), Bellamys Australia Limited (-25.7%), Iluka Resources Limited (-25.7%) and Pilbara Minerals Limited (-25.5%).

Market Valuation & Earnings Estimates:

	Market & Sector EPS Growth			Market & Sector PE's			Market & Sector Dividend Yield		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Pro-rated to June									
All Companies	3.1%	7.9%	0.0%	17.2x	16.0x	16.0x	4.5%	4.4%	4.4%
Banks	-4.7%	0.9%	0.3%	13.4x	13.3x	13.3x	6.0%	6.1%	5.9%
Listed Property Trusts	-0.4%	5.8%	4.5%	18.4x	17.4x	16.6x	4.4%	4.6%	4.8%
Resources	17.1%	18.4%	-11.7%	12.7x	10.7x	12.1x	5.8%	5.3%	4.5%
Industrials ex-Banks	1.3%	6.4%	6.7%	22.1x	20.7x	19.5x	3.5%	3.5%	3.8%

Source: Solaris Investment Management, August 2019

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Market Outlook

The Reserve Bank of Australia (RBA) has recently recalibrated the benchmark cash rate to the record low level of 1.00%. We expect the RBA to provide ongoing support to assist the economy through the challenges of the softer residential property market, the US–China trade war developments and the impacts of the 2018/19 drought. The low interest rate outlook has driven the Australian 10-year Commonwealth Government bond yield to 0.89% during August and provided record low borrowing costs for Australia households and businesses.

Despite these supportive settings alongside federal income tax cuts, signs of improvement from the Australian consumer during August “reporting season” were mixed. For example, August 2019 was the 17th consecutive month where new car sales fell relative to the corresponding month in the previous year. However, in the retail space positive signs were evident in the trading of JB Hifi and Baby Bunting which reported robust sales over the recent periods. In the property market signs of improvement were seen in auction clearance rates which continued to improve in Sydney and Melbourne.

Given this low interest rate backdrop we continue to search for attractive investment opportunities.

Contact Details

For further information, please contact Solaris’ distribution partner:

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alternatively, please email: distribution@pinnacleinvestment.com

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