SOLARIS
investment management

Solaris High Alpha Australian Equity Fund

(APIR: WHT0016AU)

Monthly Investment Report

as at 30 April 2020

Fund Performance

The fund outperformed its benchmark for the month by 1.60%. Overweight holdings in Macquarie Group Limited, The Star Entertainment Group Limited and Scentre Group and underweight positions in Australia and New Zealand Banking Group Limited and Commonwealth Bank of Australia made a positive contribution to relative performance. Detractors from relative performance were overweight holdings in AUD Cash, Westpac Banking Corporation, QBE Insurance Group Limited, Telstra Corporation Limited and Insurance Australia 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^	10.46%	-21.22%	-14.20%	-11.26%	2.63%	5.11%	7.72%	7.27%	9.34%
Benchmark Return*	8.78%	-20.32%	-13.78%	-9.06%	1.92%	3.46%	5.38%	5.96%	7.54%
Active Return	**1.68%**	**-0.90%**	**-0.42%**	**-2.19%**	**0.71%**	**1.65%**	**2.34%**	**1.31%**	**1.80%**
Fund Net Return^	10.38%	-21.41%	-14.89%	-12.11%	1.64%	4.10%	6.69%	6.24%	8.19%
Benchmark Return*	8.78%	-20.32%	-13.78%	-9.06%	1.92%	3.46%	5.38%	5.96%	7.54%
Active Return	**1.60%**	**-1.09%**	**-1.11%**	**-3.05%**	**-0.28%**	**0.64%**	**1.30%**	**0.28%**	**0.65%**

^ 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

Scentre Group (+48.9%)
The company which owns and operates Westfield shopping centres across Australia experienced a boost in sentiment during April as many retailers began to re-open stores. The company obtained additional unsecured bank facilities to increase available liquidity to $3.1 billion as at 1 April 2020.

Commonwealth Bank of Australia (+1.4%)
CBA underperformed as the market became concerned the forthcoming bank reporting season would see large provisions taken for bad and doubtful debt along with dividends cuts. The market is also concerned on future profitability of the sector given the likelihood low rates will be a feature for some time which adversely affects bank's net interest margin.

Australia and New Zealand Banking Group (-0.4%)
The company reported their 1st half 2020 result which was disappointing especially with regards to capital. The company also took a large provision for future bad and doubtful debts as a result of the COVID-19.

Significant Detractors

Westpac Banking Corporation (-1.3%)
The company unperformed along with the bank sector in April given the risk around dividend cuts and asset quality deterioration. Looking forward, the market is concerned that future capital raisings and dividend cuts could be feature for the sector over the next 6 to 12 months.

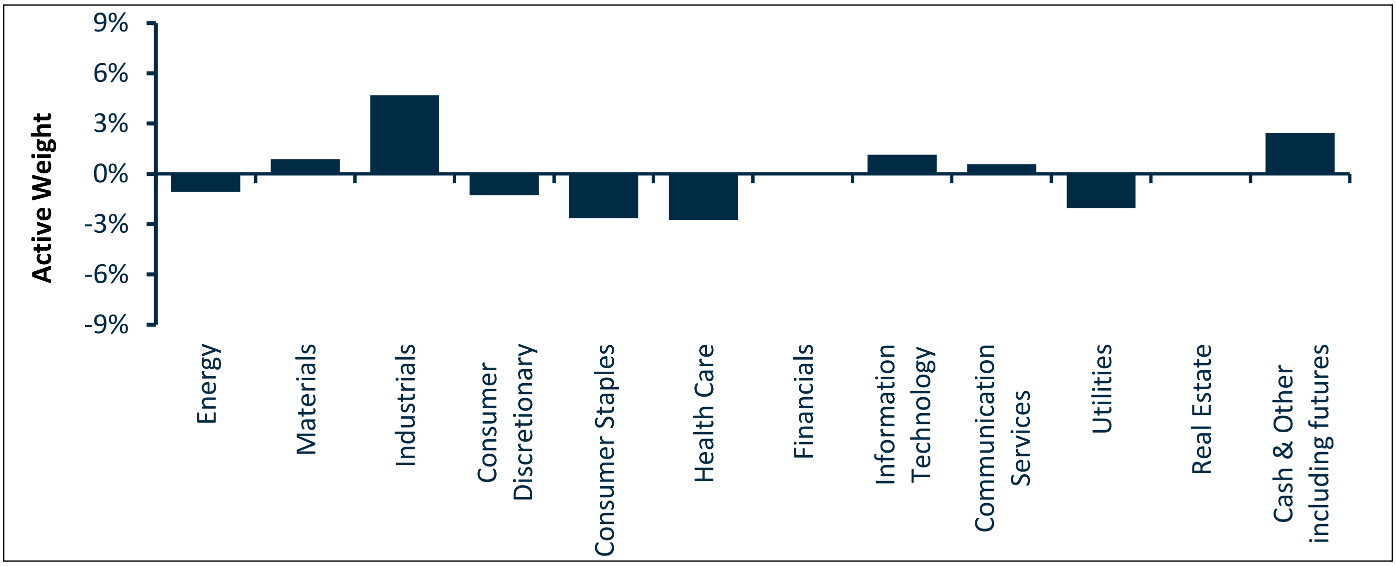
Insurance Australia Group Limited (-6.8%)
The insurance company announced underlying business performance remained strong, although overall year-to-date profitability has been impacted by natural peril claim costs and the volatility in global markets has impacted investment returns.

Telstra Corporation Limited (-0.7%)
The company outperformed in March but struggled to keep up with the market rally in April. The company did give an update in March where they maintained guidance but pointed to increased costs given call centre volumes had spiked.

Top 10 Stocks

Name	Sector
CSL Limited	Health Care
BHP Group Limited	Materials
National Australia Bank Limited	Financials
Westpac Banking Corporation	Financials
Macquarie Group Limited	Financials
Aurizon Holdings Limited	Industrials
Atlas Arteria	Industrials
Telstra Corporation Limited	Communication Services
Rio Tinto Limited	Materials
Aristocrat Leisure Limited	Consumer Discretionary

Sector Allocation



Market Valuation & Earnings Estimates:

	Market & Sector EPS Growth			Market & Sector PE's			Market & Sector Dividend Yield		
Pro-rated to June	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
All Companies	-9.5%	3.0%	11.3%	16.7x	16.2x	14.5x	4.2%	4.3%	4.7%
Banks	-23.1%	-11.6%	22.1%	12.2x	13.8x	11.3x	5.8%	5.4%	6.3%
Listed Property Trusts	2.0%	1.8%	4.9%	12.8x	12.5x	12.0x	6.3%	6.6%	6.8%
Resources	0.0%	5.4%	-1.8%	12.1x	11.5x	11.7x	5.0%	4.9%	4.7%
Industrials ex-Banks	-6.2%	8.9%	13.6%	21.3x	19.6x	17.3x	3.5%	3.9%	4.3%

Market Review

The S&P/ASX 200 Accumulation Index bounced +8.8% over the month, recovering some of the losses from the meltdown in March as fiscal and monetary support of unprecedented breadth and depth provided the launchpad for a rally in equity markets. The Australian market posted its best monthly return since 1988 but still underperformed the S&P 500 (+12.7%) and NASDAQ (+15.4%), as the local market digested 29 capital raisings totalling over $16 billion.

The top three moves within the Index were dominated by companies that had been under significant pressure in March including AP Eagers (+69.6%) which has taken proactive steps to reduce costs in light of reduced new car sales activity, Afterpay (+66.0%) reported strong underlying sales activity through to 31 March and Ooh Media Limited (+61.7%) performed strongly after completing a capital raising to strengthen the balance sheet. The bottom three moves over the month were Metcash (-21.0%) which retraced after shares in the company outperformed in March and management tapped investors for capital in April, Fisher & Paykel Healthcare (-12.3%) experienced a soft month after performing strongly in March due to expectations of a lift in demand for respiratory devices and Avita Medical (-8.8%) provided a trading update that was softer than investor expectations.

S&P/ASX 200 Top & Bottom performing sectors for the quarter ending 30 April:

The best performing sectors in the S&P/ASX200 Accumulation Index for the month were Energy (+24.9%), Consumer Services (+23.0%), Software & Services (+22.5%), Media & Entertainment (+20.1%) and Diversified Financials (+15.0%). The worst performing sectors included Insurance (-1.1%), Banks (+0.7%), Telecommunication Services (+0.8%), Food & Staples Retailing (+1.0%) and Utilities (+2.7%).

S&P/ASX200 Top & Bottom performing stocks for the quarter ending 30 April:

The top 5 performing stocks in the S&P/ASX200 Accumulation Index for the month were AP Eagers Limited (+69.6%), Afterpay Limited (+66.0%), Ooh!Media Limited (+61.7%), Perenti Global Limited (+49.2%) and Scentre Group (+48.9%). The bottom 5 performers included Metcash Limited (-21.0%), Fisher & Paykel Healthcare (-12.3%), Avita Medical Ltd (-8.8%), Insurance Australia Group Ltd (-6.8%) and McMillan Shakespeare Limited (-6.2%).

Market Outlook

As mentioned last month, the stunning and brutal decline in markets seen during the March quarter revealed a plethora of attractive investment opportunities the likes of which we haven't seen for many many years.

Many quality companies are being priced as if this dislocated environment we are living and working in currently is semi-permanent or permanent. The reality is this crisis, like every crisis before it, will end. Buying quality companies that have been indiscriminately and aggressively sold below fair value has proved a lucrative strategy in crises of the past and is likely to prove so now.

Some of these opportunities bore fruit in April, as the market experienced the strongest monthly performance since 1988. Many of the most oversold companies and sectors experienced the strongest positive moves. Despite this bounce, we remain aggressively focused on assessing underlying value and three strategies are being deployed:

1. Avoiding companies with weak balance sheets – as these companies are likely to have to raise dilutive equity to survive
2. Buying quality companies sold below fair value due to short term operating issues – so long as they have a strong balance sheet
3. 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.

As for the turning point – we have no sensible prediction except to that the low in the market is likely to coincide with the peak level of fear (when it feels darkest and most hopeless).

Source: Solaris Investment Management, April 2020

Contact Details

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