

Solaris Core Australian Equity Fund (Performance Alignment)

(APIR: SOL0001AU)

Monthly Investment Report

as at 31 August 2020

Fund Performance

The fund underperformed its benchmark for the month by 0.44%. Overweight holdings in Altium Limited, Charter Hall Group and Qantas Airways Limited and underweight positions in Newcrest Mining Limited and Commonwealth Bank of Australia made a positive contribution to relative performance. The main detractors were overweight holdings in Northern Star Resources Ltd, The A2 Milk Company Limited and Saracen Mineral Holdings Limited together with underweight positions in Stockland and Afterpay Limited.

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 [^]	2.40%	4.52%	2.67%	-8.22%	6.06%	8.24%	8.32%	10.41%
Benchmark Return [*]	2.83%	6.04%	3.35%	-5.08%	6.10%	7.47%	6.83%	8.87%
Active Return	-0.44%	-1.52%	-0.68%	-3.14%	-0.04%	0.77%	1.49%	1.54%
Fund Net Return [^]	2.40%	4.52%	2.67%	-8.22%	5.71%	7.78%	7.77%	9.92%
Benchmark Return [*]	2.83%	6.04%	3.35%	-5.08%	6.10%	7.47%	6.83%	8.87%
Active Return (After fees)	-0.44%	-1.52%	-0.68%	-3.14%	-0.39%	0.31%	0.94%	1.05%

[^] 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.

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

Significant Contributors

Charter Hall Group (+18.9%)

Management presented the 2020 full year result which showed strong net inflows, underlying fund performance and transaction volume. Guidance was provided for the 2021 financial year of post-tax operating earnings per share of approximately 51.0cps.

Commonwealth Bank of Australia (-2.8%)

The full year result disappointed against market expectations particularly with regards to revenue. The net interest margin was down from 211 basis points in the first half of the financial year to 204 basis points in the second half the financial year. The company also reported a reduction in other operating income which was down 4% due to lower fees.

Altium Limited (+11.2%)

The software provider reported their 2020 full year result during the period and announced revenue growth of 10% year on year, a record EBITDA Margin of 40% and underlying profit before tax growth of 12%. The subscriber base grew 17% to 51,006, making significant progress towards managements medium term target of 100,000 subscribers by 2025.

Significant Detractors

Afterpay Limited (+33.4%)

The 'buy-now-pay-later' provider continued its positive momentum during the month as it reported a high growth in sales and users for the year to 30 June 2020 along with plans to expand into multiple European markets and Asia in the 2021 financial year.

Northern Star Resources (-11.7%)

The gold mining company reported a record net profit after tax of AUD \$258.3 million for the 12 months to 30 June 2020, which was up 67% on 2019. Despite this, the soft Australian-dollar gold price weighed on the share price over the month.

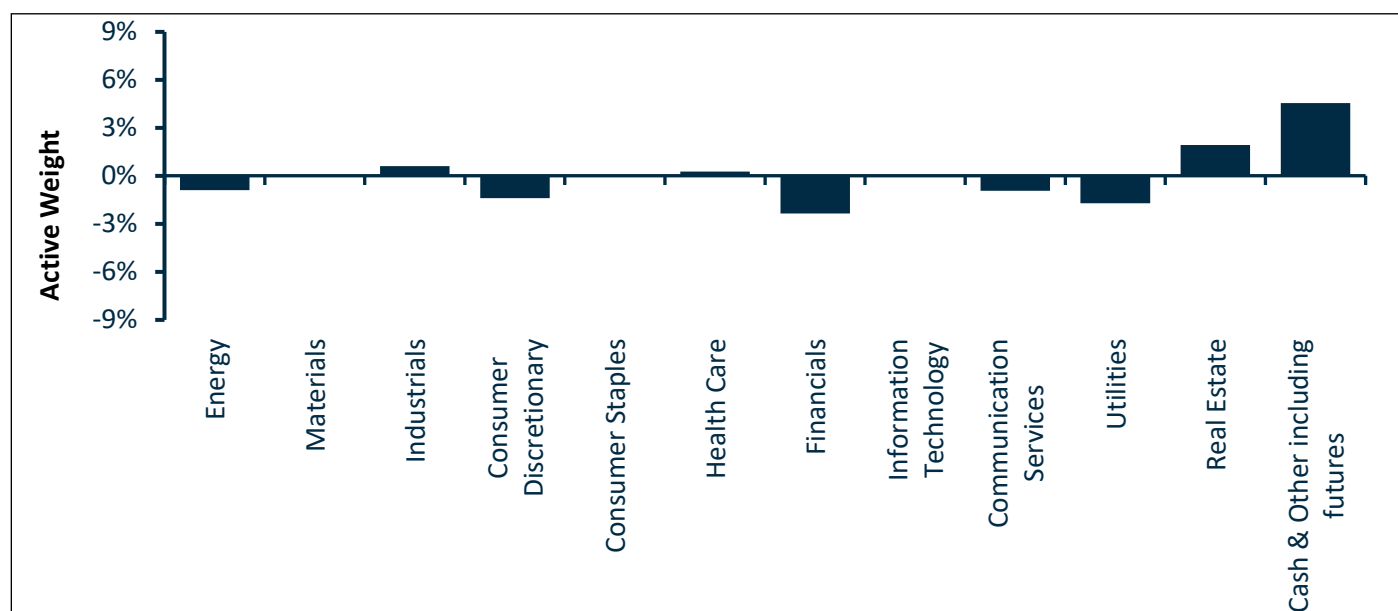
Saracen Mineral Holdings (-13.0%)

Management reported underlying net profit after tax was up 173% to a record AUD \$257.5 million for the 12 months to 30 June 2020, driven by rising production and a strong Australia-dollar gold price. The softer Australian-dollar gold price over August weighed on the share price.

Top 10 Stocks

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

Sector Allocation



Market Valuation & Earnings Estimates:

	Market & Sector EPS Growth			Market & Sector PE's			Market & Sector Dividend Yield		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Pro-rated to June									
All Companies	-16.6%	2.9%	12.2%	19.9x	19.4x	17.3x	3.4%	3.4%	3.9%
Banks	-26.5%	-4.2%	17.3%	13.7x	14.2x	12.1x	4.4%	3.8%	5.2%
Listed Property Trusts	-10.2%	2.2%	7.7%	15.6x	15.3x	14.2x	5.1%	5.3%	5.7%
Resources	-7.4%	8.1%	-1.1%	15.6x	14.5x	14.7x	4.0%	4.0%	3.8%
Industrials ex-Banks	-14.9%	4.0%	16.7%	25.4x	24.6x	21.1x	2.9%	3.1%	3.5%

Market Review

With reporting season in full swing, the S&P/ASX 200 Accumulation Index rallied +2.8% over the month of August. Global markets continued to factor in the positive news flow for COVID-19 vaccine prospects, while technology companies in the United States propelled the S&P 500 to record highs. Coming into domestic reporting season large earnings downgrades had already been factored in since the onset of COVID-19 in March (with calendar year 2021 earnings per share revised by -18%). Reporting season resulted in further downward revisions (a further -2.4%) as the impacts of COVID-19 continue to weigh on the economy.

Over the month the top three moves within the S&P/ASX 200 Accumulation Index were Corporate Travel (+80.8%) after management confirmed activity has materially bounced from April lows, IDP Education (+50.9%) which confirmed the digital strategy and disciplined capital management have helped navigate COVID-19 disruptions and Reliance Worldwide Corporation (+42.5%) which reported a positive momentum in the US retail and hardware channels and the successful integration of its John Guest acquisition. The bottom three performers were Whitehaven Coal (-32.9%) which has been impacted by soft coal prices, Resolute Mining (-15.0%) and Gold Road Resources (-15.0%) which both had a soft month as the Gold price in Australian Dollars softened.

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 Automobiles & Components (+23.5%), Software & Services (+15.5%), Capital Goods (+14.8%), Consumer Services (+11.5%) and Real Estate Investment Trusts (+7.9%). The worst performing sectors included Household & Personal Products (-10.5%), Telecommunication Services (-8.6%), Food Beverage & Tobacco (-5.6%), Utilities (-4.8%) and Health Care Equipment & Services (-0.8%).

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 Corporate Travel Management Ltd (+80.8%), IDP Education Limited (+50.9%), Reliance Worldwide Corp Ltd (+42.5%), Mesoblast Limited (+40.5%) and Ooh!Media Limited (+37.3%). The bottom 5 performers included Whitehaven Coal Limited (-32.9%), Resolute Mining Limited (-15.0%), Gold Road Resources Limited (-15.0%), Treasury Wine Estates Limited (-14.4%) and ResMed Inc (-13.7%).

Market Outlook

Following a volatile reporting season, many companies have been reluctant to provide any form of earnings or dividend guidance to investors. Companies have generally taken a conservative approach to accounting for uncollected income, have reduced the level of dividends due to the high level of uncertainty and have taken steps to raise capital (66 companies raised capital through to 31 August). As the economy continues to progress through the following months and trading conditions evolve, we expect that companies will be in a more informed position to provide guidance to investors.

Although the suppression of the spread of the virus in Victoria has had significant economic impacts, the improving virus management, the potential for a vaccine and the large economic stimulus in place has given investors' confidence that corporates and households will be able to successfully 'build a bridge' through this period of uncertainty. During this next phase, it is important an appropriate level of Federal, State and Council stimulus remains to support impacted areas of the economy and avoid a "fiscal cliff". As such, we expect that a level of fiscal and monetary support will remain in place for the foreseeable future and we expect that in time this crisis, like crises of the past, will end.

Against this backdrop, we remain focused on companies with strong balance sheets, strong market positions and strong management teams that will be able to see through this volatile period and take advantage of opportunities that arise in the future. We expect this environment will create significant opportunities for stock selection.

Contact Details

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