SOLARIS
investment management

Solaris Core Australian Equity Fund (Performance Alignment)

(APIR: SOL0001AU)

Quarterly Investment Report

as at 30 September 2020

Fund Performance

The fund underperformed its benchmark for the quarter by 0.55%. Overweight holdings in James Hardie Industries PLC, Goodman Group, Charter Hall Group and Aristocrat Leisure Limited and an underweight position in Commonwealth Bank of Australia made a positive contribution to relative performance. The main detractors were overweight holdings in Aurizon Holdings Limited, Woodside Petroleum Limited and The A2 Milk Company Limited together with underweight positions in Afterpay Limited and Fortescue Metals Group Ltd.

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^	-3.56%	-0.99%	-0.99%	-12.68%	4.62%	7.89%	7.35%	9.80%
Benchmark Return*	-3.66%	-0.44%	-0.44%	-10.21%	4.80%	7.31%	5.93%	8.27%
Active Return	**0.10%**	**-0.55%**	**-0.55%**	**-2.47%**	**-0.18%**	**0.58%**	**1.42%**	**1.53%**
Fund Net Return^	-3.56%	-0.99%	-0.99%	-12.68%	4.33%	7.50%	6.80%	9.32%
Benchmark Return*	-3.66%	-0.44%	-0.44%	-10.21%	4.80%	7.31%	5.93%	8.27%
Active Return (After fees)	**0.10%**	**-0.55%**	**-0.55%**	**-2.47%**	**-0.47%**	**0.19%**	**0.87%**	**1.04%**

^ 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 (+28.3%)
Charter Hall announced their full year result for the 2020 financial year, where statutory profit of $345.9 million was up 47% on the prior year. This was driven by $4.3 billion in net inflows, $8.3 billion of transaction activity and growing funds under management to $40.5 billion at 30 June 2020.

Goodman Group (+20.8%)
The industrial property fund manager continued its strong positive momentum by increasing assets under management to $51.6 billion, generating strong returns for its investment partners of 16.6% and producing an operating profit of $1,060.2 million which was up 12.5% on the prior financial year.

Aristocrat Leisure Limited (+17.5%)
The gaming machine company experienced continued positive sentiment over the quarter as the gradual loosening of restrictions in the United States and Australia supports in-venue activity while the company's digital offerings continue to gain traction.

Significant Detractors

Woodside Petroleum Ltd (-17.3%)
Management presented the financial results for the 6 months ended 30 June 2020 during the quarter which despite record production results were significantly impacted by the negative effects on COVID-19 on global oil and gas prices.

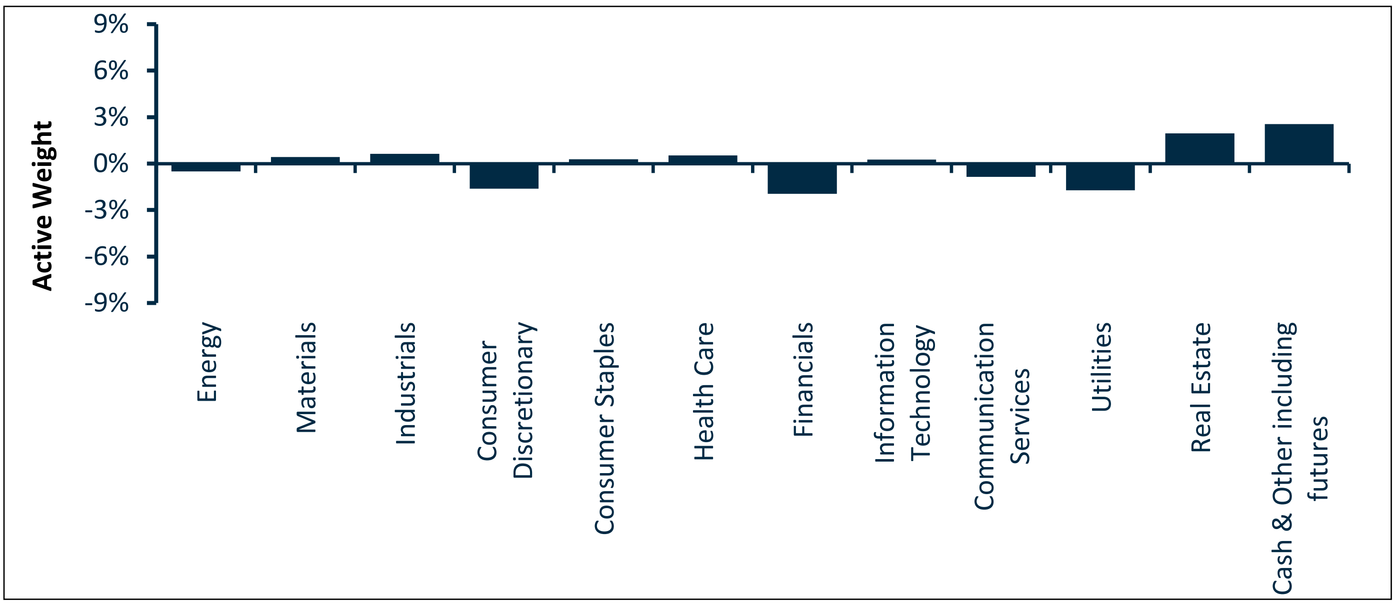
Afterpay Limited (+31.2%)
Management delivered their 2020 result which showed revenue doubled from $247 million in 2019 to $503 million in 2020. The company has been able to execute strong growth in their new markets being US and UK whilst plans are now in place to launch in Europe, Canada and Asia.

Fortescue Metals Group Ltd (+24.4%)
The company delivered their 2020 financial result which resulted in a record dividend payment. The record dividend was a result of their strong operational performance and resilient iron ore price. China has delivered high levels of stimulus which has been directed towards iron ore hungry infrastructure projects to kick start their economy.

Top 10 Stocks

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

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	-17.0%	3.8%	12.1%	19.2x	18.5x	16.5x	3.5%	3.5%	4.0%
Banks	-27.4%	-3.3%	17.7%	13.1x	13.6x	11.5x	4.6%	4.0%	5.5%
Listed Property Trusts	-10.0%	1.4%	6.8%	15.3x	15.1x	14.1x	5.2%	5.2%	5.5%
Resources	-6.4%	8.9%	-1.6%	14.2x	13.1x	13.3x	4.4%	4.4%	4.2%
Industrials ex-Banks	-16.0%	4.8%	17.0%	25.1x	24.1x	20.6x	3.0%	3.1%	3.6%

Market Review

The S&P/ASX 200 Accumulation Index fell -3.7% over the month and finished -0.4% down for the quarter. After a large snap back in the June quarter from the initial COVID-19 market meltdown in March, markets have stabilised somewhat as investors begin to look through the severe impacts COVID-19 has had on the economy, companies, and households. The large stimulus programs in place combined with the ability of the government (despite the second wave) to suppress the virus has put Australia in a strong position to manage through this uncertain period. While impacts of the Victorian second wave lockdowns continued to be felt across the nation, the sugar hit from stimulus programs including Job Keeper, mortgage deferrals and superannuation withdrawals was been evident in the discretionary retail sector as the share prices of several beneficiaries were propelled to record highs during the quarter.

Over the quarter the top three moves within the Index were Corporate Travel Management (+80.6%) which announced the acquisition of a transport and travel company in the United States, Netwealth (+70.2%) after recording record net inflows of $9.1 billion during the 2020 financial year and Mesoblast (+56.3%) after investors priced in the prospects of FDA approval one of the companies key products RYONCIL. The bottom Index performers were Unibail Rodamco Westfield (-40.1%) after announcing a €9.0 billion reset plan that includes a large capital raise and asset sale program, IOOF Holdings (-30.4%) after announcing the acquisition of MLC from National Australia Bank for $1.440 billion funded via a large capital raise and Whitehaven Coal (-26.9%) which was impacted by the continued weakness in coal prices.

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

The best performing sectors in the S&P/ASX200 Accumulation Index for the quarter were Automobiles & Components (+30.9%), Software & Services (+12.6%), Consumer Services (+12.5%), Consumer Durables & Apparel (+11.4%) and Real Estate Investment Trusts (+7.0%). The worst performing sectors included Household & Personal Products (-19.1%), Energy (-14.1%), Insurance (-11.4%), Real Estate Management & Development (-10.6%) and Food Beverage & Tobacco (-10.5%).

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

The top 5 performing stocks in the S&P/ASX200 Accumulation Index for the quarter were Corporate Travel Management Ltd (+80.6%), Netwealth Group Limited (+70.2%), Mesoblast Limited (+56.3%), ARB Corporation Limited (+54.0%) and ALS Limited (+40.4%). The bottom 5 performers included Unibail-Rodamco-Westfield (-40.1%), IOOF Holdings Limited (-30.4%), Whitehaven Coal Limited (-26.9%), Origin Energy Limited (-24.9%) and AMP Limited (-24.7%).

Market Outlook

The macro economic environment continues to remain challenging and unpredictable with COVID-19 second waves appearing in Europe and the US, combined with the US Federal elections taking centre stage. Closer to home, government stimulus has continued to surprise to the upside with the budget exceeding already positive expectations. The economic indicators continue to surprise with house prices, employment data and GDP growth rates continuing to positively surprise.

The Banks reporting season commences at the end of October and will be closely watched, especially with regards to provisions and the severity of the coming bad and doubtful debts. It’s a delicate time as the economy transitions away from the Job seeker and Job Seeker programs. Net interest margins will also be closely watched given the continued pressure from near zero RBA interest rates and intense mortgage pricing competition. In time, the sector will need to rationalise their cost base to help support return on equity however we think it’s too early to expect large scale cost out programs.

Company “Annual General Meeting” season is approaching and will be important given a number of companies during August “Reporting Season” were not in a position to give the market guidance. We remain focussed on picking stocks with sound balance sheet, attractive valuations and strong management teams.

Source: Solaris Investment Management, September 2020

Contact Details

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