

Solaris Core Australian Equity Fund (Performance Alignment)

(APIR: SOL0001AU)

Monthly Investment Report as at 31 October 2021

Market and Fund Performance

The S&P/ASX 200 Accumulation Index fell by 0.1% over the month of October, underperforming global markets including the MSCI All-Country World Index +5.0% and the United States S&P 500 Index +6.9%. The fund outperformed its benchmark for the month by 0.09%. Headlines were dominated by moves in interest rate expectations, where expectations of the timing of cash rate hikes from the Reserve Bank of Australia were brought forward, as the economy continues to improve following the COVID-19 'Delta' lockdowns. Investors continue to debate the transitory versus non-transitory nature of inflation which continues to increase year on year. This drove the Australia 10 year government bond yield +0.59% higher to 2.08%, following a +0.33% increase in September. During the month many companies held their annual general meetings which provided an opportunity to update investors on trading conditions. Companies that were impacted by lockdowns in New South Wales and Victoria were positively exposed to re-opening and provided updates that surprised to the upside, while in general companies that benefitted from lockdown buying generally reported softer sales growth rates. Supply chain issues and rising input costs were cited by many companies and continue to be managed closely. In commodity markets Iron Ore remained weak (-4.6%), while oil and energy markets were strong following a period of underinvestment and a spike in demand as global markets re-open (West Texas +11.4%, Brent +7.5%).

The top three moves within the Index were Silver Lake Resources (+26.5%) and Ramelius (+19.1%) rebounded on positive sentiment in the gold sector following a soft September month along with Appen (+20.0%) which performed well and appointed a new Chairman who brings deep experienced to the board. The bottom three moves were EML Payments (-24.2%) which advised it is in correspondence with the Central Bank of Ireland with respect to concerns raised by the regulator, Codan (-21.3%) which provided an update at the company's Annual General Meeting that was softer than investors expectations and Pental (-19.6%) after management confirmed that the companies investment products remain in net outflow.

A portfolio holding in focus is James Hardie Industries, which is the world's number one producer and marketer of high-performance fiber cement and fiber gypsum building solutions. Management has positioned the company well to benefit from building activity in the United States, Europe and Asia Pacific and is increasingly focused on marketing product directly to homeowners (to create additional demand in a high margin channel), driving profitable growth in new market segments and commercialising global innovations by expanding into new categories. In the United States alone, there are 44 million homes that are more than 40 years old which provides a significant market opportunity for James Hardie products to be used as homeowners renovate, rejuvenate or reconstruct ageing housing stock. In many markets James Hardie benefits from 'lowest cost producer' status and has significant scale advantage, brand value and technological advantage obtained from years of investment in research and development. The business has a very strong balance sheet (conservative levels of debt), good cash flow generation and is led by a high-quality management team which has positioned the company to grow market share through the cycle.

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 [^]	-0.01%	2.23%	3.37%	26.72%	10.02%	10.97%	9.18%	11.61%
Benchmark Return [*]	-0.10%	0.51%	1.61%	27.96%	11.92%	10.88%	8.46%	10.42%
Active Return	0.09%	1.72%	1.76%	-1.24%	-1.90%	0.09%	0.72%	1.19%
Fund Net Return [^]	-0.01%	2.23%	3.37%	26.72%	10.03%	10.63%	8.72%	11.18%
Benchmark Return [*]	-0.10%	0.51%	1.61%	27.96%	11.92%	10.88%	8.46%	10.42%
Active Return (After fees)	0.09%	1.72%	1.76%	-1.24%	-1.89%	-0.25%	0.26%	0.76%

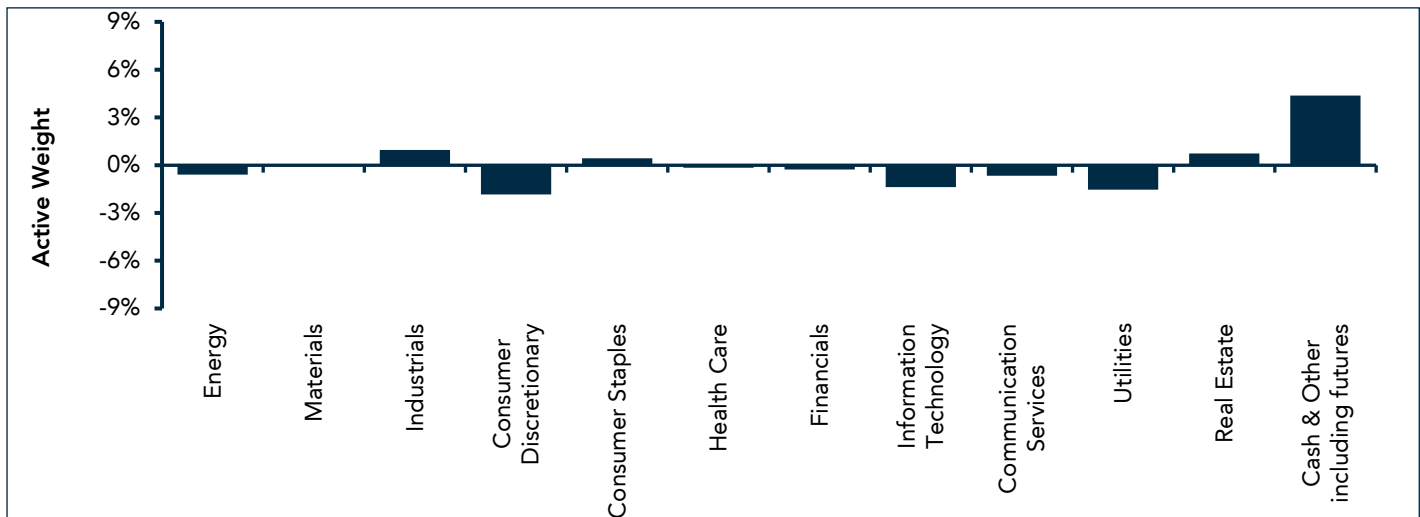
[^] Performance is for the Solaris Core Australian Equity Fund (Performance Alignment) (APIR: SOL0001AU), also referred to as Class D units, and is based on month end prices before tax. Net performance is calculated after management fees and operating costs, excluding taxation. Gross performance is stated 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. All p.a. returns are annualised.

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

Top 10 Stocks (Alphabetical Order)

Name	Sector
Aristocrat Leisure Limited	Consumer Discretionary
BHP Group Limited	Materials
Commonwealth Bank of Australia	Financials
CSL Limited	Health Care
Goodman Group	Real Estate
James Hardie Industries PLC	Materials
Macquarie Group Limited	Financials
National Australia Bank Limited	Financials
Westpac Banking Corporation	Financials
Woolworths Group Limited	Consumer Staples

Sector Allocation



Market Valuation & Earnings Estimates:

	Market & Sector EPS Growth			Market & Sector PEs			Market & Sector Dividend Yield		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Pro-rated to June									
All Companies	30.8%	11.4%	1.1%	19.9x	17.9x	17.7x	3.6%	3.8%	3.8%
Banks	27.6%	12.2%	5.1%	17.4x	15.5x	14.7x	3.7%	4.3%	4.6%
Listed Property Trusts	-3.2%	7.3%	9.8%	18.8x	17.5x	16.0x	3.7%	3.9%	4.3%
Resources	79.9%	8.6%	-20.2%	9.6x	8.9x	11.2x	7.7%	6.9%	5.5%
Industrials ex-Banks	7.7%	13.3%	15.8%	30.1x	26.7x	23.0x	2.5%	2.7%	3.0%

Estimate only

The securities presented on this slide are for illustrative purposes only and are not the complete holdings of the fund.

Market Outlook

The 2021 AGM season is in full swing with a high proportion of investee companies (approximately 80% of holdings) convening their AGMs in this quarter. Solaris analysts assess each company's resolutions on their merits and ensure that each resolution is voted upon. Where Solaris determines to vote against the Board's recommendation, we endeavour to communicate our rationale to the company prior to lodging the vote. An additional part of Proxy Voting season (that has become more regular) is the consideration of shareholder resolutions – these are similarly considered on a case-by-case basis and our thoughts communicated to the companies.

The ESG space is an ever evolving one with increasing focus on climate change encompassing emissions, company targets, offsets, renewable energy opportunities (green hydrogen in particular), company's transition plans, board capability to deal with these challenges, impacts and opportunities that arise as companies progress along the decarbonisation pathway. Solaris is actively assessing companies with respect to their progress in relation to climate change with a focus on the credibility of their transition plans and the challenges being faced by some industries. COP26 has brought additional focus to this topic with approximately 30 companies in the S&P/ASX300 announcing updated or new Net Zero targets in the last two weeks. Modern Slavery is also forming an additional discussion piece with our investee companies as we seek to gain a deeper understanding of their supply chains and the challenges being faced.

As we approach the end of calendar year 2021, there is a flurry of activity in the Initial Public Offering (IPO) market. Many company's have plans to list, as the market remains supportive of new listings. Over 140 companies have listed on the ASX this calendar year which when combined with further listings in the pipeline is expected to take the capital raised to over \$7 billion in 2021. This level of activity is a seven-year high, with similar levels of activity not seen since 2014. We apply a rigorous framework to the analysis of IPO's and undertake the same extensive qualitative and quantitative analysis as we do for the analysis of listed companies, with an additional overlay of vendor analysis. Investors need to be selective, as despite the average return of this years IPO's being broadly similar to the market return, approximately 1 in 3 IPO's in 2021 have underperformed the market by over 10% since listing.

Volatility in the market remains high, which is conducive to stock selection. We remain steadfast in our investment approach and believe it is incredibly important to remain disciplined and focussed while also staying nimble through this uncertain and volatile investing environment.

Source: Solaris Investment Management, October 2021

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