

# Solaris Core Australian Equity Fund (Performance Fee Option)

(APIR: WHT0017AU)

## Quarterly Investment Report as at 31 December 2019

### Fund Performance

The fund outperformed its benchmark for the quarter by 0.50%. Overweight holdings in James Hardie Industries PLC, Aristocrat Leisure Limited and Virgin Money UK PLC and underweight positions in Newcrest Mining Limited and Australia and New Zealand Banking Group Limited made a positive contribution to relative performance. The main detractors were overweight holdings in Aurizon Holdings Limited, Westpac Banking Corporation, Treasury Wine Estates Limited and National Australia Bank Limited together with an underweight position in 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 <sup>^</sup>	-2.02%	1.18%	3.75%	23.92%	12.01%	10.92%	12.36%	12.20%
Benchmark Return <sup>*</sup>	-2.17%	0.68%	3.06%	23.40%	10.26%	8.97%	10.02%	11.01%
<b>Active Return</b>	<b>0.15%</b>	<b>0.50%</b>	<b>0.69%</b>	<b>0.52%</b>	<b>1.76%</b>	<b>1.94%</b>	<b>2.34%</b>	<b>1.19%</b>
Fund Net Return <sup>^</sup>	-2.10%	0.93%	3.25%	22.73%	10.94%	9.85%	11.36%	11.50%
Benchmark Return <sup>*</sup>	-2.17%	0.68%	3.06%	23.40%	10.26%	8.97%	10.02%	11.01%
<b>Active Return (After fees)</b>	<b>0.07%</b>	<b>0.25%</b>	<b>0.18%</b>	<b>-0.67%</b>	<b>0.68%</b>	<b>0.88%</b>	<b>1.34%</b>	<b>0.49%</b>

<sup>^</sup> 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.

<sup>\*</sup> Benchmark refers to the S&P/ASX 200 Accumulation Index.

### Significant Contributors

#### Virgin Money UK PLC (+67.8%)

The bank reported financial results for the year to 30 September 2019 during the quarter. Investors were pleased with the “net interest margin” of 1.66% which was in line with guidance, combined with a 6% reduction in underlying costs. Later in the quarter the conclusive UK election result provided a path forward and removed ongoing uncertainty.

#### Newcrest Mining Limited (-12.9%)

The Australian gold mining company had a soft quarter after management published its September 2019 Quarterly Report, which highlighted lower production and higher costs of production due to several major planned maintenance shutdowns over the quarter. Management expects improved performance in the coming quarters.

#### James Hardie Industries PLC (+12.7%)

The building materials company appreciated during the quarter after reporting results for the half year to 30 September 2019 that were higher than investors’ expectations, combined with an upward revision to earnings guidance for the 2020 financial year.

### Significant Detractors

#### Westpac Banking Corporation (-15.8%)

During the quarter AUSTRAC commenced civil proceedings in relation to alleged contraventions of Westpac’s obligations under the Anti-Money Laundering and Counter-Terrorism Financing Act. News of the contraventions culminated in the resignation of several senior staff members including the CEO Brian Hartzler and Chairman of Board Lindsay Maxsted.

#### Aurizon Holdings Limited (-11.4%)

The rail freight company published the September quarter volumes for the above rail business during the month, where volumes in the Central Queensland Coal Network were softer than expected being 4% lower than the prior comparable period due to lower than expected demand for a key client.

#### Treasury Wine Estates (-12.5%)

The global wine business underperformed over the quarter after news of staff changes including the planned retirement of the CEO Michael Clarke in fiscal year 2021, and the release of industry data on US wine sales that was softer than investors anticipated.

# Solaris Core Australian Equity Fund (Performance Fee Option)

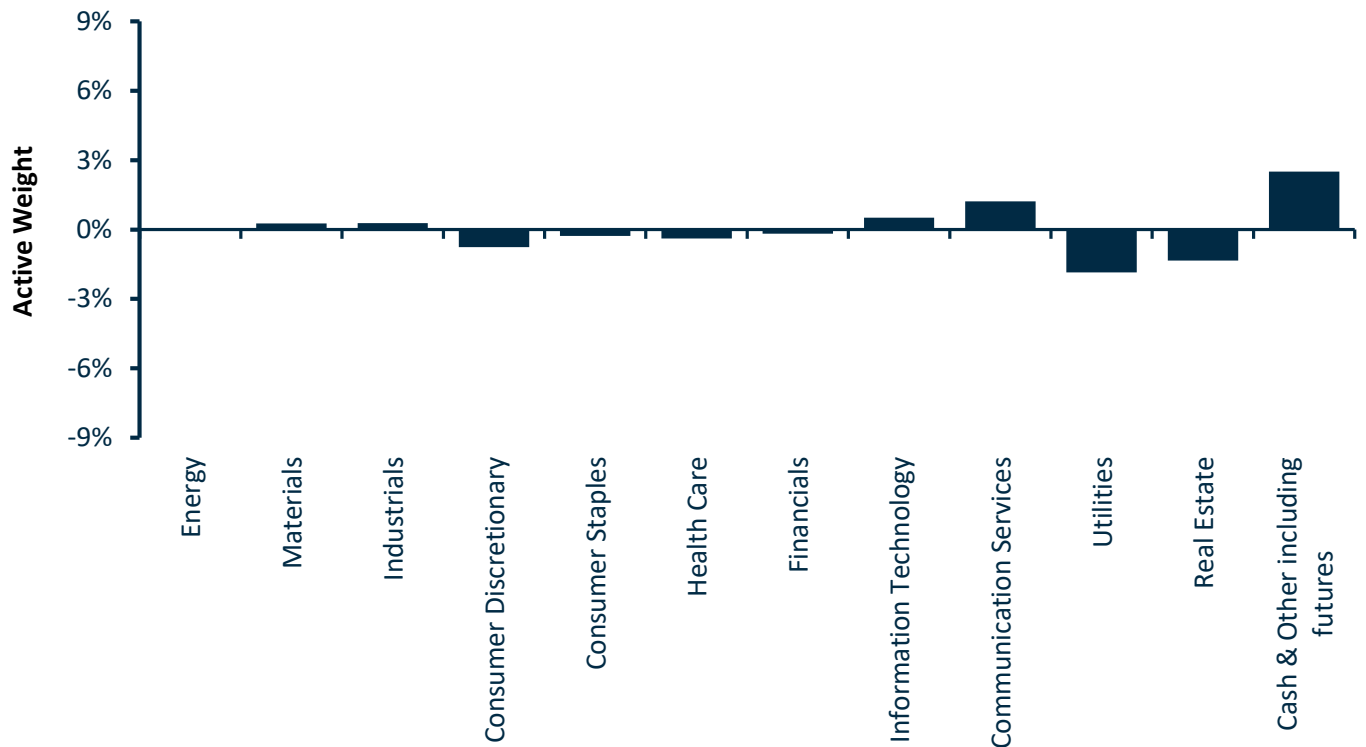
(APIR: WHT0017AU)

**Quarterly Investment Report**  
as at 31 December 2019

## Top 10 Stocks

Name	Sector
BHP Group Limited	Materials
CSL Limited	Health Care
Westpac Banking Corporation	Financials
Commonwealth Bank of Australia	Financials
National Australia Bank Limited	Financials
Macquarie Group Limited	Financials
Telstra Corporation Limited	Communication Services
Woodside Petroleum Limited	Energy
Rio Tinto Limited	Materials
Australia and New Zealand Banking Group Limited	Financials

## Sector Allocation



# Solaris Core Australian Equity Fund (Performance Fee Option)

(APIR: WHT0017AU)

## Quarterly Investment Report as at 31 December 2019

### Market Review

The S&P/ASX 200 Accumulation Index climbed +0.7% over the quarter, finishing the calendar year with a strong +23.4% return. Offshore markets outperformed over the quarter (MSCI World ex Australia +8.3%) driven by several developments including the conclusive UK election result where Conservative Party leader Boris Johnson was re-elected providing a path forward for Britain's exit from the European Union and news of a potential agreement between the United States and China on trade issues. Key commodity prices strengthened (Iron Ore +15.5%, Oil +13.2%, Copper +7.5%) providing support to the Australian Dollar which rallied versus the US Dollar (+3.9%).

The top three moves within the Index included Virgin Money UK (+67.8%) after reporting results for the year ended 30 September 2019 that were stronger than investors' expectations and positive sentiment following the UK election result, Silver Lake Resources (+43.3%) after management announced in October that gold production is expected to deliver in the upper range of guidance for the 2020 financial year and NRW Holdings (+40.2%) after acquiring BGC Contracting during the quarter. The bottom three moves within the Index were Smart Group (-43.2%) which announced future earnings from the sale of insurance products are expected to be lower due to changes to terms with its underwriter, Speedcast International (-39.2%) after management issued a profit downgrade in September leading to concerns around the company's debt levels and Jumbo Interactive (-38.4%) after management at the internet lottery business provided a trading update for the six months to 31 December 2019 where increased expenses are expected to result in earnings that were lower than investors' prevailing expectations.

#### S&P/ASX 200 Top & Bottom performing sectors for the quarter ending 31 December:

The best performing sectors in the S&P/ASX200 Accumulation Index for the quarter were Pharmaceuticals & Biotechnology (+17.7%), Consumer Durables & Apparel (+8.4%), Health Care Equipment & Services (+6.7%), Energy (+6.4%) and Diversified Financials (+5.8%). The worst performing sectors included Banks (-9.4%), Food & Staples Retailing (-3.5%), Insurance (-3.2%), Media & Entertainment (-1.5%) and Household & Personal Products (-1.0%).

#### S&P/ASX200 Top & Bottom performing stocks for the quarter ending 31 December:

The top 5 performing stocks in the S&P/ASX200 Accumulation Index for the quarter were Virgin Money UK PLC (+67.8%), Silver Lake Resources Limited (+43.3%), NRW Holdings Ltd (+40.2%), Fisher & Paykel Healthcare (+32.3%) and Caltex Australia Limited (+29.0%). The bottom 5 performers included Smartgroup Corporation Ltd (-43.2%), Speedcast International Limited (-39.2%), Jumbo Interactive Ltd (-38.4%), Southern Cross Media Group Limited (-32.8%) and WiseTech Global Limited (-32.7%).

### Market Valuation & Earnings Estimates:

Pro-rated to June	Market & Sector EPS Growth			Market & Sector PE's			Market & Sector Dividend Yield		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
All Companies	1.4%	2.1%	3.9%	17.8x	17.5x	16.8x	4.5%	4.1%	4.2%
Banks	-8.5%	-3.8%	0.8%	13.0x	13.5x	13.4x	6.3%	6.2%	5.9%
Listed Property Trusts	0.0%	6.9%	2.8%	17.5x	16.5x	16.0x	4.6%	4.8%	5.0%
Resources	12.6%	3.1%	1.1%	14.1x	13.8x	13.6x	5.9%	4.1%	4.0%
Industrials ex-Banks	2.6%	5.1%	6.9%	22.5x	21.5x	20.1x	3.4%	3.4%	3.6%

Source: Solaris Investment Management, December 2019

## Solaris Core Australian Equity Fund (Performance Fee Option)

(APIR: WHT0017AU)

### Quarterly Investment Report as at 31 December 2019

#### Market Outlook

---

With global equity markets at or close to all-time highs, unprecedented monetary policy action from global central banks, bond yields racing to zero and governments consumed by politics, what will 2020 have in store for investors? While predicting macroeconomic events is not our strength, we remain focused on attractive investment opportunities and building robust portfolios to ensure the risk in the portfolio's are generated from bottom up stock selection decisions rather than macroeconomic factors. Pockets of high growth stocks continue to look expensive however, we continue to find attractive investment opportunities in this low rate environment.

#### Contact Details

---

For further information, please contact Solaris' distribution partner:

Pinnacle Investment Management Limited on 1300 010 311,  
alternatively, please email: [distribution@pinnacleinvestment.com](mailto:distribution@pinnacleinvestment.com)

Interests in the Solaris Core Australian Equity Fund ('Fund') (ARSN 128 859 898) are issued by Pinnacle Fund Services Limited, ABN 29 082 494 362, AFSL 238371, as responsible entity of the Fund. Pinnacle Fund Services Limited is not licensed to provide financial product advice. You should consider the Product Disclosure Statement of the Fund available at [www.solariswealth.com.au](http://www.solariswealth.com.au) in its entirety before making an investment decision. Solaris Investment Management Limited ('Solaris') (ABN 72 128 512 621 AFSL 330505) is the investment manager of the Fund. Pinnacle Fund Services Limited and Solaris believe the information contained in this communication is reliable, however its accuracy, reliability or completeness is not guaranteed. Any opinions or forecasts reflect the judgment and assumptions of Solaris and its representatives on the basis of information at the date of publication and may later change without notice. The information in this communication is not intended as a securities recommendation or statement of opinion intended to influence a person or persons in making a decision in relation to investment. This communication is for general information only. It has been prepared without taking account of any person's objectives, financial situation or needs. Any persons relying on this information should obtain professional advice before doing so. Past performance is not a reliable indicator of future performance.