

# Solaris Core Australian Equity Fund (Performance Fee Option)

(APIR: WHT0017AU)

## Quarterly Investment Report as at 30 June 2020

### Fund Performance

The fund underperformed its benchmark for the quarter by 0.23%. Overweight holdings in Macquarie Group Limited, Appen Limited, Scentre Group, Charter Hall Group and James Hardie Industries PLC made a positive contribution to relative performance. The main detractors were overweight holdings in Westpac Banking Corporation and Insurance Australia Group Limited together with underweight positions in Afterpay Limited, Fortescue Metals Group Ltd and Newcrest Mining 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 <sup>^</sup>	1.80%	16.53%	-9.58%	-9.58%	5.55%	6.93%	9.19%	10.28%
Benchmark Return <sup>*</sup>	2.61%	16.48%	-7.68%	-7.68%	5.19%	5.95%	7.48%	9.43%
<b>Active Return</b>	<b>-0.81%</b>	<b>0.05%</b>	<b>-1.90%</b>	<b>-1.90%</b>	<b>0.37%</b>	<b>0.98%</b>	<b>1.70%</b>	<b>0.85%</b>
Fund Net Return <sup>^</sup>	1.72%	16.25%	-10.45%	-10.45%	4.54%	5.90%	8.14%	9.57%
Benchmark Return <sup>*</sup>	2.61%	16.48%	-7.68%	-7.68%	5.19%	5.95%	7.48%	9.43%
<b>Active Return (After fees)</b>	<b>-0.89%</b>	<b>-0.23%</b>	<b>-2.77%</b>	<b>-2.77%</b>	<b>-0.65%</b>	<b>-0.05%</b>	<b>0.66%</b>	<b>0.15%</b>

<sup>^</sup> Performance is for the Solaris Core Australian Equity Fund (APIR: WHT0017AU), also referred to as Class C 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

#### Appen Limited (+72.3%)

The company which provides data solutions and services for machine learning and artificial intelligence applications continued to strengthen its position in a high growth market. Appen confirmed it expects full year underlying EBITDA for the year to 31 December 2020 to be in the range of \$125 - \$130 million.

#### Macquarie Group Limited (+40.4%)

Management published the financial results for the 12 months to 31 March 2020 during the quarter, which included a net profit of \$A2,731 million. The Group continues to maintain a strong capital position and a well-funded balance sheet with term liabilities exceeding term assets.

#### James Hardie Industries (+48.6%)

During the quarter management raised guidance for the quarter ending 30 June 2020. As the North American housing market activity steadily improved during the seven weeks to 22 June, management expects volume and margin to improve.

### Significant Detractors

#### Afterpay Limited (+224.4%)

The "buy-now pay-later" platform continues on a high growth trajectory, both in terms of growth in the underlying business as the platform reached over 9.9m active users during the quarter and in terms of positive share price momentum.

#### Fortescue Metals Group (+38.5%)

The iron ore producer was supported by the strength in the iron ore price which remains elevated due to supply constraints in Brazil arising from a combination of more recent issues with the onset of COVID-19 in Brazil and the longer term issues following the Brumadinho dam disaster in 2019.

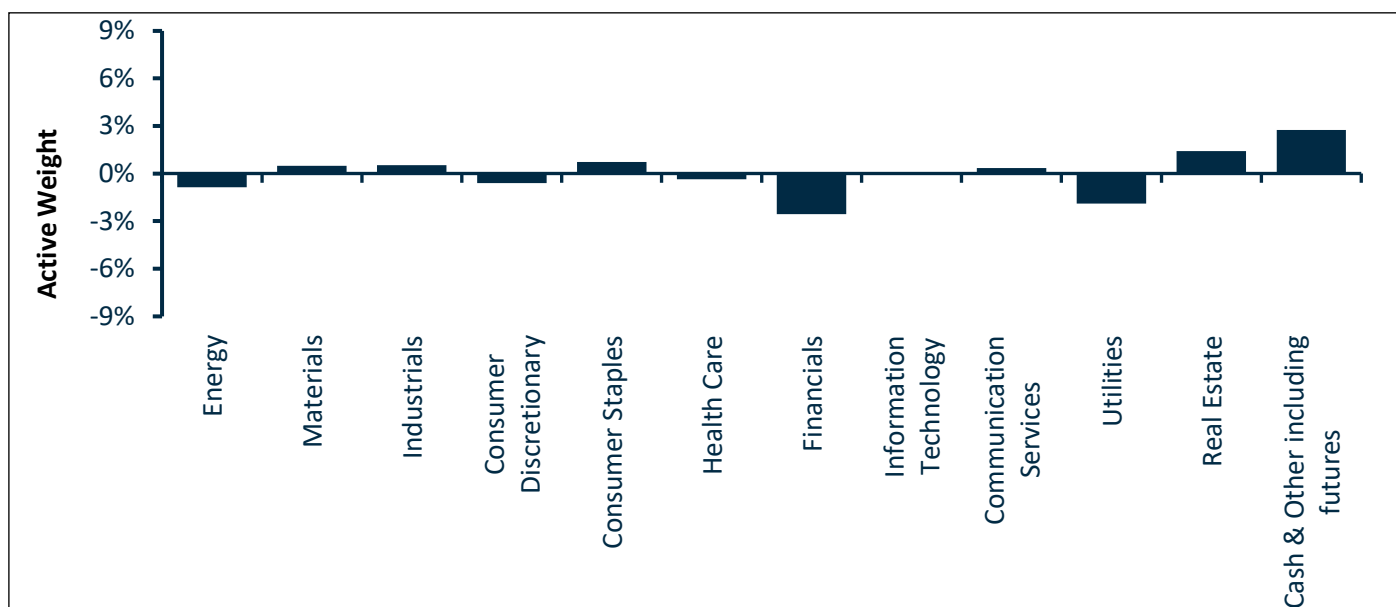
#### Newcrest Mining Limited (+36.8%)

The Australian gold mining company was supported by strength in the price of gold and the completion of a \$A1.0 billion fully underwritten institutional placement which is intended to be used to purchase Fruta del Norte financing facilities and fund future growth options.

## Top 10 Stocks

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

## Sector Allocation



## Market Valuation & Earnings Estimates:

Pro-rated to June	Market & Sector EPS Growth			Market & Sector PE's			Market & Sector Dividend Yield		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
All Companies	-13.9%	2.1%	13.9%	18.9x	18.6x	16.3x	3.5%	3.6%	4.1%
Banks	-26.1%	-2.8%	20.3%	14.0x	14.3x	11.9x	4.5%	4.5%	5.7%
Listed Property Trusts	-2.1%	-1.9%	8.8%	13.0x	13.3x	12.2x	5.5%	5.4%	6.0%
Resources	-2.4%	-2.0%	0.1%	14.4x	14.7x	14.7x	4.1%	3.8%	3.7%
Industrials ex-Banks	-12.1%	6.7%	17.6%	23.9x	22.5x	19.1x	3.1%	3.3%	3.8%

## Market Review

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The S&P/ASX 200 Accumulation Index rallied +2.6% over the month, taking the recovery over the quarter to +16.5%. From the depths of the COVID-19 led market drawdown in March, the sharp recovery has exceeded most investors expectations. Unprecedented government stimulus programs, low and supportive cash rate settings and a successful virus suppression strategy have helped the Australian stock market and investor sentiment recover significantly. Given the government lifelines in place for households and businesses, investors are looking ahead to determine which corporates will be able to thrive and which will come under further pressure. Companies with strong balance sheets, strong market positions and strong management teams will be able to take advantage of opportunities that arise in the future. Company “reporting season” begins in August and we expect July to be a volatile period with companies providing trading updates and financial guidance ahead of reporting in August.

Over the quarter the top three moves within the Index were Afterpay (+224.4%) which continues to perform strongly as the platform reached over 9.9m active users during the quarter, AP Eagers (+122.8%) was supported by rising new vehicle sales which lifted to 110,234 in June from 59,894 in May and Nearmap (+99.1%) pleased investors with growth in its annualised contract value to over \$102 million. The bottom Index performers were Whitehaven Coal (-25.7%) which has been impacted by weak metallurgical and thermal coal prices, Nufarm (-19.8%) which published a soft trading update and Metcash (-13.7%) which underperformed the market after raising capital in April.

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

The best performing sectors in the S&P/ASX200 Accumulation Index for the quarter were Software & Services (+48.7%), Media & Entertainment (+42.7%), Consumer Durables & Apparel (+34.8%), Retailing (+33.7%) and Diversified Financials (+29.8%). The worst performing sectors included Pharmaceuticals & Biotechnology (-3.4%), Insurance (+2.0%), Telecommunication Services (+5.0%), Utilities (+5.5%) and Household & Personal Products (+6.9%).

### **S&P/ASX200 Top & Bottom performing stocks for the quarter ending 30 June:**

The top 5 performing stocks in the S&P/ASX200 Accumulation Index for the quarter were Afterpay Limited (+224.4%), AP Eagers Limited (+122.8%), Nearmap Limited (+99.1%), Perenti Global Limited (+89.3%) and Boral Limited (+84.9%). The bottom 5 performers included Whitehaven Coal Limited (-25.7%), Mesoblast Limited (-21.5%), Nufarm Limited (-19.8%), Metcash Limited (-13.7%) and Cooper Energy Limited (-11.8%).

## Market Outlook

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From the depths of the Australian market in March to the current point in time we have seen an incredibly sharp recovery, continually doubted by many market participants. The measures in place to “flatten the curve” have resulted in one of the best health outcomes globally. These government-imposed restrictions on activity have driven a sharp contraction in economic activity and to assist, Australia has been granted the second highest level of stimulus per head of population when comparing on a global basis.

Although the risk of the virus spread in Australia remains elevated (particularly in Victoria), the improving virus management combined with the large economic stimulus has given investors’ confidence that corporates and households will be able to successfully ‘build a bridge’ through this period of uncertainty. This remains unprecedented times, with a significant level of both fiscal and monetary stimulus and support in place. We are not predicting the path to recovery from here – ‘V’ shaped, ‘L’ shaped, ‘W’ shaped or ‘Tick’ shaped as this is not our area of expertise. We remain convinced that this crisis, like crises past, will end.

This environment of uncertainty creates significant opportunities for stock selection. The August reporting season and the lead up to the reporting season are expected to be volatile. We expect companies with strong balance sheets, strong market positions and strong management teams will be able to take advantage of opportunities that arise in the future. As we progress through this environment, our investment process remains unchanged. Our focus on balance sheet strength remains intense, as we stress test the ability of companies to withstand unprecedented times.

## Contact Details

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For further information, please contact Solaris' distribution partner:

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