SOLARIS
investment management

Solaris Core Australian Equity Fund (Performance Fee Option)

(APIR: WHT0017AU)

Quarterly Investment Report

as at 31 March 2021

Fund Performance

The fund underperformed its benchmark for the quarter by 0.94%. Overweight holdings in National Australia Bank Limited and Westpac Banking Corporation and underweight positions in Xero Limited, Afterpay Limited and Fortescue Metals Group Ltd made a positive contribution to relative performance. The main detractors were overweight holdings in Atlas Arteria, Altium Limited, Appen Limited and The A2 Milk Company Limited together with an underweight position in Australia and New Zealand Banking Group Limited.

Returns	Month	Rolling Quarter	FYTD	1 Year	3 Years p.a.	5 Years p.a.	7 Years p.a.	Since Inception p.a. (20/03/2009)
Fund Gross Return^	2.27%	3.57%	14.65%	33.61%	7.94%	10.29%	8.21%	10.86%
Benchmark Return*	2.44%	4.26%	18.02%	37.47%	9.65%	10.25%	7.70%	10.32%
Active Return	**-0.17%**	**-0.69%**	**-3.37%**	**-3.86%**	**-1.71%**	**0.04%**	**0.51%**	**0.54%**
Fund Net Return^	2.19%	3.32%	13.83%	32.32%	6.90%	9.23%	7.17%	10.13%
Benchmark Return*	2.44%	4.26%	18.02%	37.47%	9.65%	10.25%	7.70%	10.32%
Active Return (After fees)	**-0.25%**	**-0.94%**	**-4.19%**	**-5.15%**	**-2.75%**	**-1.02%**	**-0.53%**	**-0.19%**

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

Significant Contributors

Westpac Banking Corporation (+26.0%)
The market gained confidence in the turnaround strategy being implement by CEO Peter King. The bank is re-focussing on its core businesses which showed signs of improvement in Westpac's 1st quarter 2021 trading update. The market is now focused on the potential for improving dividends and capital returns looking forward.

Afterpay Limited (-14.0%)
The buy-now pay-later payment provider underperformed the market, following the de-rating of loss-making high growth technology stocks as global bond yields moved sharply higher. Late in the month the company successfully issued AUD $1.5 billion of convertible notes to investors.

Fortescue Metals Group (-9.2%)
Fortescue underperformed the market over the quarter as investors assess the potential for additional iron ore supply to be added by producers including Vale in Brazil. Management presented the financial results for the six months to 31 December 2020 where shipments, earnings and operating cash flow surpassed any half year in Fortescue's history.

Significant Detractors

Appen (-35.7%)
Management presented the 2020 full year result in February where the result was in-line with the preannounced downgraded guidance. The outlook was softer than market expectations largely due to factors that impacted the company in 2020, namely the lower growth in demand for its services due to COVID-19 related impacts on its key clients and a rising Australian dollar.

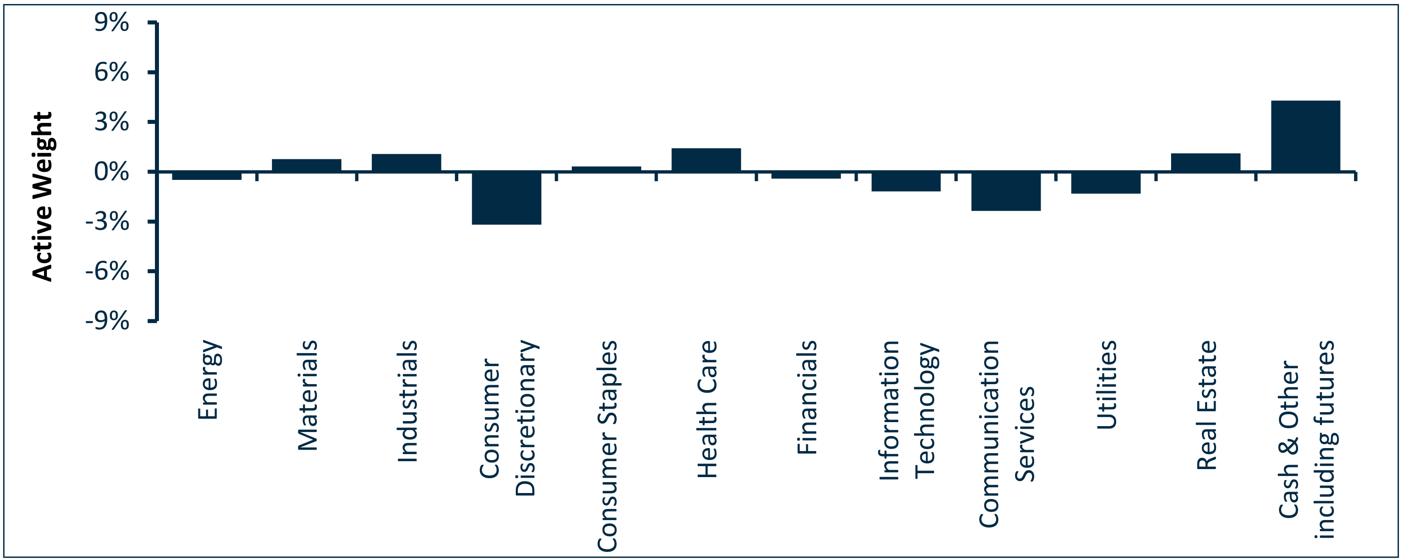
ANZ Banking Group (+24.1%)
ANZ announced an unaudited statutory profit after tax for the quarter to 31 December 2020 of $1,624 million. Margins were up across the bank due to higher volume growth and a disciplined approach to risk and pricing. The share price was further supported by the improving economy and potential for higher dividends in the future.

Altium (-21.6%)
During the quarter management presented the results for the six months through to 31 December 2020 where revenue was 4% lower to US $89.6 million due to extreme COVID-19 conditions in the US and challenging economic conditions in China.

Top 10 Stocks

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

Sector Allocation



Market Valuation & Earnings Estimates:

	Market & Sector EPS Growth			Market & Sector PEs			Market & Sector Dividend Yield		
Pro-rated to June	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
All Companies	-21.1%	23.8%	12.4%	23.9x	19.5x	17.4x	3.0%	3.6%	4.1%
Banks	-30.3%	19.9%	10.9%	19.9x	16.6x	15.0x	3.6%	3.9%	4.7%
Listed Property Trusts	-11.2%	-5.6%	7.4%	15.8x	16.8x	15.6x	4.4%	4.2%	4.4%
Resources	-13.1%	66.4%	4.0%	19.3x	11.6x	11.2x	3.5%	6.0%	6.1%
Industrials ex-Banks	-19.2%	4.6%	19.9%	28.4x	27.6x	23.0x	2.7%	2.7%	3.1%

Estimate only

Market Review

The market continued higher over the quarter despite significant underlying volatility, with the S&P/ASX 200 Accumulation Index rallying +4.3%. Movements in bond yields dominated headlines and drove significant volatility within stocks, sectors and factors during the quarter. Bond yields moved aggressively higher during January and February, with the Australian 10 year Commonwealth Government Bond yield jumping from 0.97% at 31 December to 1.88% at 28 February before finishing March at 1.79% which led to a significant outperformance of companies with "value" characteristics and underperformance of companies with "growth" characteristics. Despite a significant pickup in market expectations for inflation and economic growth, central banks remained committed to their forward guidance of stimulatory monetary policy settings and the Reserve Bank of Australia committing to a 0.1% cash rate until 2024, providing record low lending rates for most borrowers.

Over the quarter the top three moves were Lynas (+55.0%) which reported a jump in profits due to improved pricing for rare earth commodities, Virgin UK (+44.7%) which reported a profitable and positive first quarter of 2021 and Zip Co (+39.5%) which is experiencing solid momentum from new product launches. The bottom three moves over the quarter were Resolute Mining (-44.7%) which was impacted by the soft gold price and the termination of a mining lease in Ghana, Kogan (-36.1%) experienced a pull back after strong performance in 2020 and Appen (-35.7%) which downgraded guidance due to COVID-19 impacts on its key clients. Both Kogan and Appen were affected by the de-rate of growth companies as bond yields pushed higher.

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

The best performing sectors in the S&P/ASX200 Accumulation Index for the quarter were Banks (+15.6%), Telecommunication Services (+13.7%), Consumer Services (+11.4%), Automobiles & Components (+8.5%) and Retailing (+7.1%). The worst performing sectors included Software & Services (-11.4%), Pharmaceuticals & Biotechnology (-5.8%), Capital Goods (-3.7%), Utilities (-1.8%) and Food Beverage & Tobacco (-1.6%).

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

The top 5 performing stocks in the S&P/ASX200 Accumulation Index for the quarter were Lynas Rare Earths Limited (+55.0%), Virgin Money UK PLC (+44.7%), Zip Co Ltd (+39.5%), News Corporation (+36.2%) and Vocus Group Ltd (+34.9%). The bottom 5 performers included Resolute Mining Ltd (-44.7%), Kogan.Com Ltd (-36.1%), Appen Ltd (-35.7%), Service Stream Ltd (-32.4%) and The A2 Milk Company Ltd (-31.6%).

Market Outlook

The February 2021 results season was strong, which is a positive change, and it was in fact the best reporting season since the Global Financial Crisis in terms of earnings per share (EPS) revisions. The earnings expectations for the 2021 financial year were upgraded by ~8% (market consensus is now EPS growth of ~25% in FY21) and there were approximately 50% more beats than misses. Generally, the stronger earnings were driven by better-than-expected margins rather than higher sales revenues. What we witnessed was that many businesses responded to COVID-19 and the challenging conditions by significantly cutting back on expenses, while also benefitting directly or indirectly from support whether that was the Government Jobkeeper program or rent relief. The other feature was that despite overall strong results, share price reactions were relatively muted. This was particularly the case in the COVID-19 winners and those at the high growth end of the spectrum. This suggests the market had very high expectations in these names coming into reporting season and that the market is beginning to look through to the eventual recovery post COVID-19.

We approach the period ahead with the knowledge that leading vaccine candidates are in the process of being rolled out globally and will begin to roll out in scale domestically over the following months. We expect this to lead to increasingly supportive conditions for a range of companies within our portfolio that remain impacted by COVID-19 movement restrictions and also those that are exposed to an improvement in general economic activity. Overall, we see attractive opportunities in a wide range of companies including those exposed to a recovery in the real economy, a number of cyclical and inflation-sensitive names combined with holdings in a range of sensibly priced growth companies.

Source: Solaris Investment Management, March 2021

Contact Details

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