

# Solaris Core Australian Equity Fund

(APIR: WHT0012AU)

## Monthly Investment Report as at 31 May 2019

### Fund Performance

The Fund underperformed its Benchmark for the month by 1.56%. Overweight holdings in Aristocrat Leisure Limited, Aurizon Holdings Limited, Orica Limited and Northern Star Resources Ltd and an underweight position in BlueScope Steel Limited made a positive contribution to relative performance. Detractors from relative performance were overweight holdings in Macquarie Group Limited, Link Administration Holdings Limited, Treasury Wine Estates Limited, Reliance Worldwide Corporation Limited and Costa Group Holdings Limited.

| Returns                           | Month         | Rolling Quarter | FYTD          | 1 Year        | 3 Years p.a. | 5 Years p.a. | 7 Years p.a. | 10 Years p.a. | Inception p.a. (17/09/2008) |
|-----------------------------------|---------------|-----------------|---------------|---------------|--------------|--------------|--------------|---------------|-----------------------------|
| Fund Gross Return <sup>^</sup>    | 0.23%         | 3.54%           | 6.13%         | 10.17%        | 11.89%       | 9.51%        | 13.55%       | 11.26%        | 9.23%                       |
| Benchmark Return <sup>*</sup>     | 1.71%         | 4.88%           | 7.57%         | 11.08%        | 10.60%       | 7.74%        | 11.47%       | 10.05%        | 7.55%                       |
| <b>Active Return</b>              | <b>-1.48%</b> | <b>-1.35%</b>   | <b>-1.44%</b> | <b>-0.91%</b> | <b>1.29%</b> | <b>1.77%</b> | <b>2.08%</b> | <b>1.21%</b>  | <b>1.68%</b>                |
| Fund Net Return <sup>^</sup>      | 0.15%         | 3.29%           | 5.19%         | 9.11%         | 10.82%       | 8.46%        | 12.46%       | 10.19%        | 8.20%                       |
| Benchmark Return <sup>*</sup>     | 1.71%         | 4.88%           | 7.57%         | 11.08%        | 10.60%       | 7.74%        | 11.47%       | 10.05%        | 7.55%                       |
| <b>Active Return (After fees)</b> | <b>-1.56%</b> | <b>-1.60%</b>   | <b>-2.38%</b> | <b>-1.97%</b> | <b>0.22%</b> | <b>0.72%</b> | <b>0.98%</b> | <b>0.14%</b>  | <b>0.65%</b>                |

<sup>^</sup> Performance is for the Solaris Core Australian Equity Fund (APIR: WHT0012AU), also referred to as Class B 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

#### Aristocrat Leisure Limited (12.5%)

Management presented their financial results for the half year ended 31 March 2019 during the month, which was well received by investors. The strong result was driven by continued growth in the company's land-based operations in the United States and its digital offerings, along with a lift in performance in the Australian division.

#### Northern Star Resources Ltd (18.6%)

The gold production and exploration company appreciated over the month assisted by both the strength in the gold price and solid operational performance as the company continues to integrate its new Pogo operation in Alaska.

#### Orica Limited (12.3%)

During the month the global company which manufactures explosives and blasting systems presented its half year result for the six months to 31 March 2019, where improved operating performance and manufacturing reliability helped deliver a strong first half result.

### Significant Detractors

#### Link Administration Holdings Limited (-21.4%)

The company which provides a range of outsourced administration services provided a trading update late in the month which was softer than investors anticipated. Management cited factors including Brexit, regulatory change in the Australian superannuation sector and low activity in corporate markets as causes for the soft trading conditions.

#### Reliance Worldwide Corporation Limited (-24.8%)

During the month the manufacturer of plumbing products provided a trading update that was weaker than investors' expectation due to a range of issues across the global business including weak seasonal factors in the United States, transitional issues in the UK and a decline in new home construction in Australia.

#### Costa Group Holdings Limited (-30.3%)

The Australian horticultural company held its 2019 annual general meeting and revised the earnings guidance outlook lower citing issues impacting the company's Moroccan operation, the mushroom category, the raspberry and citrus categories.

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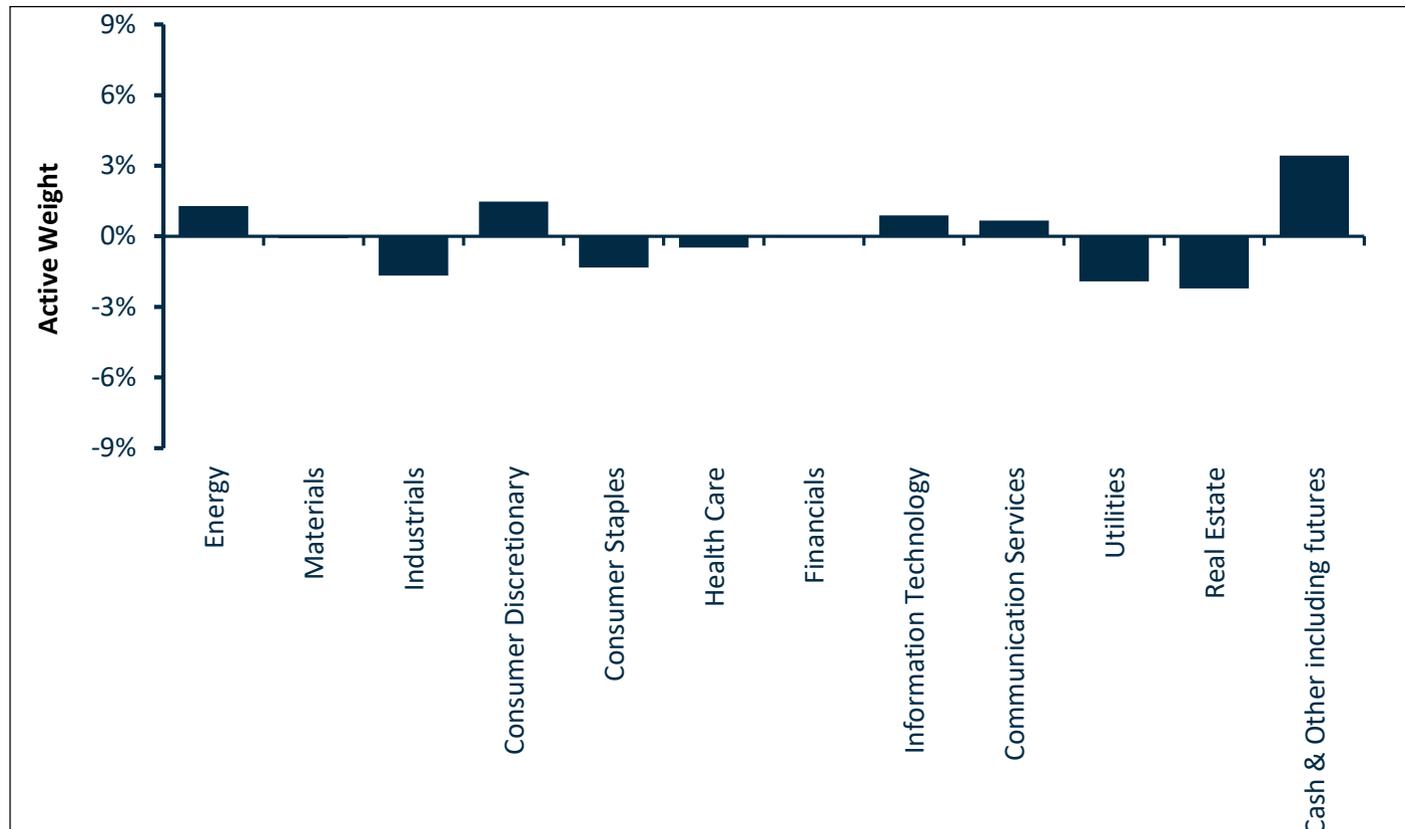
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as at 31 May 2019

## Top 10 Stocks

| Name                            | Sector                 |
|---------------------------------|------------------------|
| BHP Group Limited               | Materials              |
| Westpac Banking Corporation     | Financials             |
| CSL Limited                     | Health Care            |
| Commonwealth Bank of Australia  | Financials             |
| National Australia Bank Limited | Financials             |
| Macquarie Group Limited         | Financials             |
| Telstra Corporation Limited     | Communication Services |
| Aristocrat Leisure Limited      | Consumer Discretionary |
| Rio Tinto Limited               | Materials              |
| Woodside Petroleum Limited      | Energy                 |

## Sector Allocation



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### Market Review

The S&P/ASX200 Accumulation Index returned +1.7% in May outperforming key international markets including the S&P 500 Index (-6.6%) and the MSCI World Ex-Australia Index (-6.2%). While the global markets were dominated by escalating trade war developments, the Australian market responded positively to several factors including the unexpected federal election result where the incumbent Coalition party was re-elected with a majority, news that APRA is considering relaxing lending standards for mortgage serviceability assessments and the continued strength in Iron Ore prices.

The top three moves within the Index included Lynas Corporation (+54.0%) after China threatened to halt rare earth exports to the United States and the company received positive news flow in regards to its Malaysian operation, Domain Holdings (+21.9%) which experienced a boost in sentiment following the federal election result and Evolution Mining (+21.3%) which was supported by the strength in the gold price. The bottom three moves were Costa Group Holdings (-30.3%) after management announced that production has been impacted by a weak operating environment, Reliance Worldwide (-24.8%) which lowered financial year 2019 earnings guidance during the month and Nufarm (-22.1%) which remains under pressure due to weather conditions and working capital challenges.

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

The best performing sectors in the S&P/ASX200 Accumulation Index for the month were Media & Entertainment (+8.0%), Telecommunication Services (+7.1%), Real Estate Management & Development (+6.4%), Banks (+5.3%) and Health Care Equipment & Services (+3.4%). The worst performing sectors included Consumer Durables & Apparel (-12.3%), Capital Goods (-10.9%), Food Beverage & Tobacco (-9.1%), Diversified Financials (-5.8%) and Software & Services (-4.0%).

#### S&P/ASX200 Top & Bottom performing stocks for the month ending 31 May:

The top 5 performing stocks in the S&P/ASX200 Accumulation Index for the month were Lynas Corporation Limited (+54.0%), Domain Holdings Australia Limited (+21.9%), Evolution Mining Limited (+21.3%), Fortescue Metals Group (+20.6%) and Syrah Resources Limited (+19.4%). The bottom 5 performers included Costa Group Holdings Limited (-30.3%), Reliance Worldwide Corp Ltd (-24.8%), Nufarm Limited (-22.1%), BlueScope Steel Limited (-21.6%) and Link Administration Holdings Ltd (-21.4%).

### Market Valuation & Earnings Estimates:

|                        | Market & Sector<br>EPS Growth |       |       | Market & Sector<br>PE's |       |       | Market & Sector<br>Dividend Yield |       |       |
|------------------------|-------------------------------|-------|-------|-------------------------|-------|-------|-----------------------------------|-------|-------|
|                        | FY19E                         | FY20E | FY21E | FY19E                   | FY20E | FY21E | FY19E                             | FY20E | FY21E |
| Pro-rated to June      |                               |       |       |                         |       |       |                                   |       |       |
| All Companies          | 4.2%                          | 7.2%  | 1.0%  | 16.6x                   | 15.5x | 15.3x | 4.7%                              | 4.5%  | 4.5%  |
| Banks                  | -3.8%                         | 3.5%  | 0.3%  | 13.2x                   | 12.8x | 12.7x | 6.1%                              | 6.0%  | 6.0%  |
| Listed Property Trusts | -0.6%                         | 5.7%  | 4.2%  | 17.7x                   | 16.7x | 16.1x | 4.5%                              | 4.7%  | 4.9%  |
| Resources              | 17.8%                         | 9.8%  | -7.1% | 13.0x                   | 11.8x | 12.7x | 6.0%                              | 4.7%  | 4.3%  |
| Industrials ex-Banks   | 3.0%                          | 8.0%  | 5.7%  | 20.5x                   | 18.9x | 17.9x | 3.7%                              | 3.8%  | 4.0%  |

Source: Solaris Investment Management, May 2019

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## Market Outlook

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Ongoing trade friction between the United States and its key trading partners, combined with the Brexit deliberations continues to add uncertainty to global markets. Global bond yields have continued to press markedly lower, as any expectations for a normalisation of policy settings have reversed to expectations the major central banks will provide supportive settings for the major economies.

Domestically, the Australian economic conditions have softened however the Reserve Bank of Australia remains committed to a supportive monetary policy to help achieve employment and inflation objectives. The re-election of the Coalition government with its lower tax agenda has improved investor sentiment and we remain focused on signs of improvement in domestic credit growth and the residential property market.

Given this backdrop we continue to see attractive investment opportunities across the market.

## Contact Details

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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)

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