

Media release: 6 August 2008

Solaris - New boutique with a time-honoured past

Brisbane based boutique funds manager, Solaris Investment Management has finally come up for air since hanging up its shingle in January this year. After leaving Suncorp, the team set a strong pace establishing their style neutral, Australian Equities funds management business. Solaris has outperformed the S&P/ASX200 Accumulation Index by 4.1% for the Core portfolio and 6.2% on their High Alpha offering (since inception to 31 July 2008). Add to this, one of Australia's most respected investment research houses awarding Solaris with the highest possible rating and the result is a new business off to a fine start.

The entire team set up shop hoping to gradually raise funds and maintain the performance they were renowned for during their years at Suncorp. Client numbers have grown, with Solaris winning some former mandates, in addition to gaining new clients including recent mandate win; the Electrical Industry Superannuation Scheme of South Australia. With an additional mandate win to flow in this week, FUM will be \$400m.

Amid various reports on the reasons why boutiques prosper, Will Earnshaw and Sean Martin, both analysts and Executive Directors of Solaris Investment Management, are quick to point out that Solaris portfolios' performance may not be attributed to some of the factors widely held to be drivers for early boutique outperformance.

"It's been suggested boutiques do extremely well in their early years because of the increased risk they're willing to take. However, we haven't increased the risk and are effectively managing the portfolio on the same basis we always have. We're not investing in any less liquid or lower quality stocks than we have in the past," said Earnshaw.

With respect to taking advantage of IPOs as an alpha generator for low FUM boutiques, Martin commented "Since our inception, there haven't been any IPOs we could draw alpha from. Lower FUM does make you nimble, insofar as we can alter our position faster at a good price which is a good reason to invest with boutiques early. That said, prior to Solaris, the team demonstrated consistent top quartile performance with \$5-6 billion, so regardless of the FUM, the focus should be on a manager's ability to outperform both now and in the future."

Both analysts agree the reasons behind Solaris' solid results lie in what boutiques are generally regarded to be superior in providing, Earnshaw commenting,

“Incentive is paramount. The sense of ownership in this business drives us to excel at what we all enjoy doing – outperforming the benchmark. We are career analysts and our process is designed to generate alpha regardless of how the market behaves.”

Martin added, “The entire team coming across is an advantage. We’ve benefitted from the kind of team stability that only comes when you’ve worked together for several years. As a result of the infrastructure and support provided by incubator, Pinnacle Investment Management, we haven’t been distracted by business development. It’s an excellent foundation for a start-up business.”

The time is now suggests Martin, “Capacity is an issue. More so with high performance funds such as High Alpha & 130/30 where we are likely to run short. There’s enough evidence to suggest that investing in a boutique in the first few years of operation is typically rewarding but the boutique should also have the ability to outperform beyond those early years.”

Solaris’ key business objectives are to maintain focus on delivering outperformance for their select range of core, high alpha and 130/30 products and revisiting after-tax management, a specialty gained over many years of managing tax aware portfolios.

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Background on Solaris Investment Management

Solaris Investment Management is a boutique, style neutral, Australian Equities funds manager. The Solaris team has a successful, demonstrated investment management and performance history spanning many years, despite having only recently established the funds management business in January 2008. Solaris analysts are empowered as the portfolio managers for their sectors and engage in pure, bottom up stock picking unfettered by top-down overlays. Solaris’ product offering includes Core, High Alpha and 130/30 strategies. After-tax investment is a specialty, having gained experience in this area for over 10 years. Solaris employees are majority equity partners in the business, with the remainder owned by experienced boutique incubator, Pinnacle Investment Management.

Sean Martin, Analyst & Executive Director, Solaris Investment Management

Sean was a member of the 9 person Suncorp team responsible for managing equity investments in excess of \$5.5bn from 2001 until December 2007. As an Equities Analyst, he currently has full portfolio responsibility for all investments in the insurance, telecommunications, IT, paper, chemicals, diversified financials and segments of the small industrials sectors.

During his time in the Suncorp equities team, the funds' performance was in the top quartile of Australian equity managers for 1, 2, 3, 4, 5, 6, 7, 8, 9 and 10 consecutive years to 30/06/07. Prior to his time at Suncorp, Sean was an Equities Analyst for Schroder Investment Management (Australia) Ltd for four years, where he had full portfolio responsibility for all investments in the banking and finance, insurance, developers, diversified industrials, alcohol, energy and segments of the small industrial sectors.

Sean spent the first years of his career working in the Chartered Accounting profession, before gaining international experience with a major international bank. He holds a Bachelor of Commerce from the University of Queensland and a Diploma in Applied Finance through the Securities Institute of Australia. He is a member of the Institute of Chartered Accountants.

Will Earnshaw, Analyst & Executive Director, Solaris Investment Management

Will was a member of the 9 person Suncorp team responsible for managing equity investments in excess of \$5.5b from 2000 until December 2007. As an Equities Analyst, he has full portfolio responsibility for investments in the banking, healthcare, media, retail and commercial services sectors.

During his time in the Suncorp equities team, the funds' performance has been in the top quartile of Australian equity managers for 1, 2, 3, 4, 5, 6, 7, 8, 9 and 10 consecutive years to 30/06/07*. Will spent the first 5 years of his career working in the Chartered Accounting profession, before gaining international financial markets experience as a risk analyst with Robert Fleming & Co and NatWest Equities in their OTC equity derivatives businesses.

Will holds a Bachelor of Commerce and Bachelor of Economics from the University of Queensland, and is an Associate of the Institute of Chartered Accountants in Australia. He also holds a Graduate Diploma of Applied Finance and Investment from FINSIA and is a CFA charter holder.

*[Intech performance data Australian Shares (Specialist)]