

# Solaris Core Australian Equity Fund (Performance Fee Option)

(APIR: WHT0017AU)

## Quarterly Investment Report as at 30 June 2018

### Fund Performance

The fund outperformed its benchmark for the quarter by 0.46%. Overweight holdings in Macquarie Group Limited and BHP Billiton Limited and underweight positions in AMP Limited, Brambles Limited and Telstra Corporation Limited made a positive contribution to relative performance. The main detractors were overweight holdings in Link Administration Holdings Limited, National Australia Bank Limited and The Star Entertainment Group Limited together with underweight positions in APA Group and Wesfarmers 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 <sup>^</sup>	3.81%	9.84%	17.76%	17.76%	11.87%	13.12%	11.36%	12.65%
Benchmark Return <sup>*</sup>	3.27%	8.47%	13.01%	13.01%	9.04%	9.98%	9.12%	11.22%
<b>Active Return</b>	<b>0.54%</b>	<b>1.36%</b>	<b>4.75%</b>	<b>4.75%</b>	<b>2.83%</b>	<b>3.14%</b>	<b>2.24%</b>	<b>1.43%</b>
Fund Net Return <sup>^</sup>	3.73%	9.57%	16.63%	16.63%	10.80%	12.04%	10.58%	12.01%
Benchmark Return <sup>*</sup>	3.27%	8.47%	13.01%	13.01%	9.04%	9.98%	9.12%	11.22%
<b>Active Return (After fees)</b>	<b>0.46%</b>	<b>1.10%</b>	<b>3.62%</b>	<b>3.62%</b>	<b>1.75%</b>	<b>2.06%</b>	<b>1.46%</b>	<b>0.79%</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

#### Telstra Corporation Limited (-16.6%)

During the quarter the company downgraded earnings expectations due to intense competition in their mobile and home broadband businesses. Soon after this downward revision, Telstra held a strategy day which resulted in further earnings downgrades for 2019 and 2020 as the company announced a change to their mobile pricing strategy which will see a reduction in revenue.

#### AMP Limited (-28.7%)

The Royal Commission enquiry continued to uncover further misconduct in the Australian financial services industry during the quarter. AMP admitted to several breaches and most notably, failures in regulatory disclosures with regards to their advice business which culminated in the CEO and Chairman resigning.

#### Macquarie Group Limited (+23.3%)

The company announced a record annual profit combined with an increase in the final dividend, which drove the share price to an historic high. The result was buoyed by a pickup in the capital markets facing businesses in conjunction with higher fee and commission revenue in the funds management and financial services divisions.

### Significant Detractors

#### Link Administration Holdings Limited (-12.1%)

During the quarter the Government delivered the Federal budget which included a proposal for inactive superannuation accounts with small balances to be transferred to the Australian Taxation Office. The company advised the proposal in its original form would have a "material impact" on the number of member accounts Link administers.

#### The Star Entertainment Group Limited (-6.8%)

The company provided a relatively soft trading update during the quarter citing weak volumes in Sydney and "mixed results" from the Gold Coast asset during the Commonwealth Games. At the investor day, an expansion in the scope of the Queens Wharf development in Brisbane was announced that will increase project costs from \$1.8 billion to \$2.4 billion.

#### National Australia Bank Limited (-0.3%)

The share price experienced a period of weakness following their first half result and hearings from the Banking Royal Commission. The update included an announcement of their intent to exit their wealth management business by the end of 2019, as the bank focuses on its core business lines.

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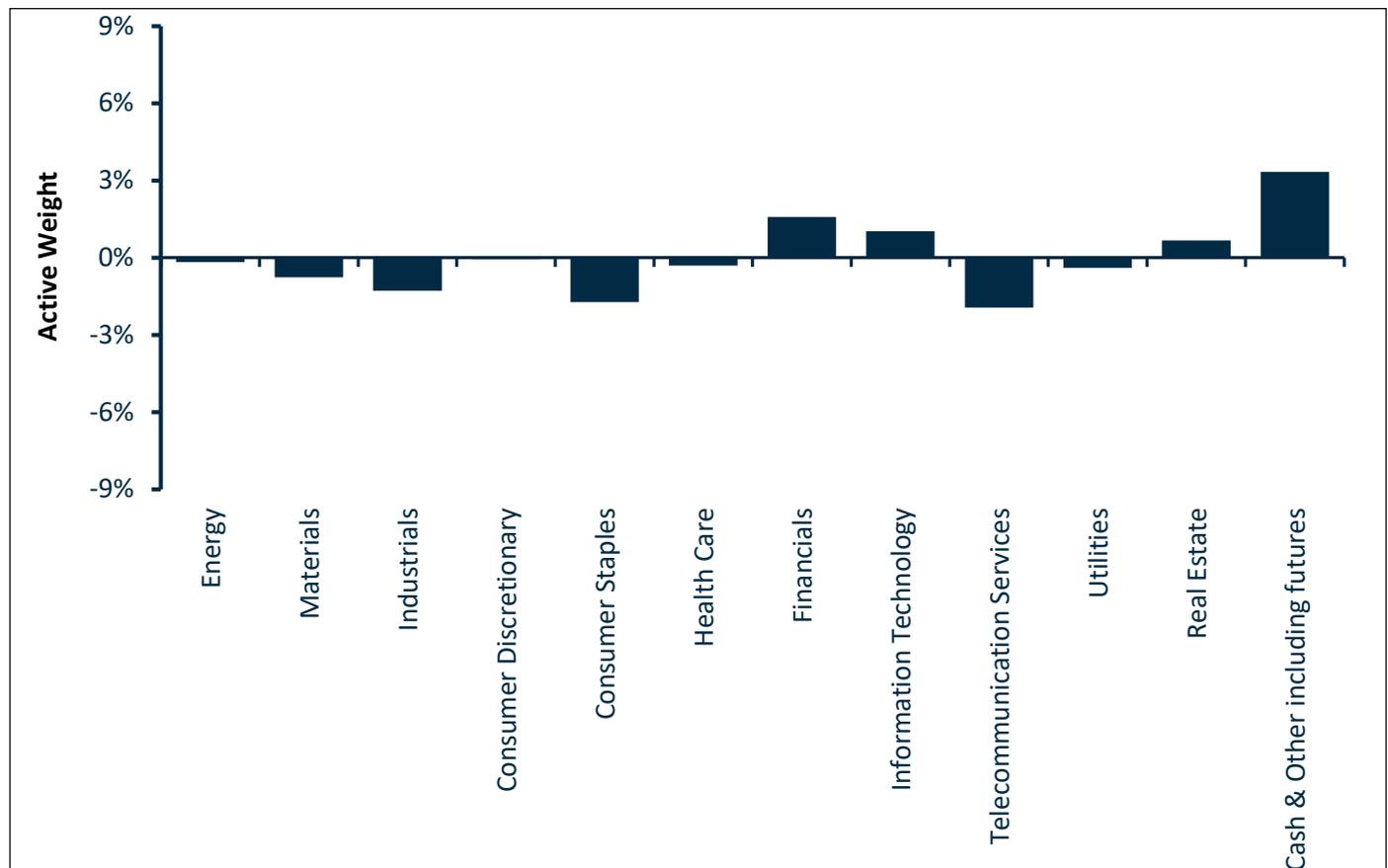
## Quarterly Investment Report

as at 30 June 2018

### Top 10 Stocks

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

### Sector Allocation



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### Market Review

The S&P/ASX200 Accumulation Index finished up 8.5% for the quarter to 30 June, with the Resources sector (+16.4%) again outperforming Industrials (+6.7%). Resources benefitted from continued positive momentum in earnings expectations and commodity prices. Oil (+14.5%), Thermal Coal (+27.9%) and Aluminium (+9.3%) prices remained buoyant.

A number of company announcements impacted the performance of Industrials. Telstra (-16.6%) was in the headlines following the release of a profit warning citing a step up in competition in their mobile and fixed line businesses, while Brambles (-11.0%) was impacted by rising input prices. On the positive side, CSL Limited (+23.9%) continued its rally after a positive trading update citing better than expected sales of their haemophilia drug and stronger flu earnings. Wesfarmers (+18.8%) formalised their exit from the UK, announcing the sale of Homebase to Hilco Capital.

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

The best performing sectors in the S&P/ASX200 Accumulation Index for the quarter were Pharmaceuticals & Biotechnology (+23.6%), Energy (+19.7%), Automobiles & Components (+17.4%), Food & Staples Retailing (+16.4%) and Media (+16.2%). The worst performing sectors included Telecommunication Services (-13.7%), Consumer Durables & Apparel (-0.1%), Food Beverage & Tobacco (+0.3%), Retailing (+0.5%) and Commercial & Professional Services (+1.0%).

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

The top 5 performing stocks in the S&P/ASX200 Accumulation Index for the quarter were WiseTech Global Limited (+66.2%), Seven West Media Limited (+55.6%), Beach Energy Limited (+44.4%), Apn Outdoor Group Limited (+35.3%) and Xero Limited (+34.6%). The bottom 5 performers included Retail Food Group Limited (-41.4%), Ausdrill Limited (-32.0%), AMP Limited (-28.7%), Bellamy's Australia Limited (-21.7%) and Automotive Holdings Group Limited (-18.8%).

### Market Valuation & Earnings Estimates:

	Market & Sector EPS Growth			Market & Sector PE's			Market & Sector Dividend Yield		
	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
Pro-rated to June									
All Companies	8.3%	8.0%	3.7%	16.8x	15.6x	15.1x	4.2%	4.4%	4.6%
Banks	-1.5%	3.5%	2.1%	12.5x	12.1x	11.8x	6.2%	6.3%	6.4%
Listed Property Trusts	3.0%	3.9%	4.3%	17.4x	16.8x	16.1x	4.5%	4.6%	4.8%
Resources	33.8%	9.1%	0.0%	15.3x	14.1x	14.1x	3.6%	3.7%	3.9%
Industrials ex-Banks	5.9%	10.4%	6.4%	20.4x	18.5x	17.4x	3.6%	4.0%	4.2%

Source: Solaris Investment Management, June 2018

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### Market Outlook

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Global growth continues to strengthen, however risks remain including potential flow on impacts from the heightened trade frictions between the United States, China and Europe. This concern has contributed to heightened volatility in global financial markets and commodity prices, and weakness in currencies that are linked to trade for growth including the Australian dollar.

Domestically, the Reserve Bank of Australia is expected to maintain its cautious outlook and continue to provide a supportive backdrop for the local economy. The health of the Australian housing market remains a concern, as clearance rates soften. These concerns feed through to the markets view for the cash rate, which is expected to remain on hold for the foreseeable future.

An area of focus in the near term is the impact from the banking royal commission on domestic credit growth, as revelations of poor lending standards in the major banks may lead to tighter and more conservative lending practices. Some sectors of the Australian equity market are looking stretched, as pockets of "growth" and "small cap" companies look expensive. We remain cautiously optimistic, as the economy enters the 27th year of consecutive growth. The S&P/ASX 200 Industrials Excluding Banks Index is trading on a price to earnings ratio around 18.5x, which is high in an historical context.

### Contact Details

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For further information, please contact Solaris' distribution partner:

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alternatively, please email: [distribution@pinnacleinvestment.com.au](mailto:distribution@pinnacleinvestment.com.au)

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