

Solaris Core Australian Equity Fund (Performance Fee Option)

(APIR: WHT0017AU)

Monthly Investment Report as at 31 August 2018

Fund Performance

The Fund outperformed its benchmark for the month by 0.03%. Overweight holdings in The Star Entertainment Group Limited, Altium Limited and Appen Limited and underweight positions in Origin Energy Limited and Newcrest Mining Limited made a positive contribution to relative performance. The main detractors were overweight holdings in BHP Billiton Limited, Reliance Worldwide Corporation Limited and Janus Henderson Group PLC together with underweight positions in Iluka Resources Limited and Telstra Corporation 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 [^]	1.53%	6.43%	2.52%	19.40%	14.14%	11.87%	12.95%	12.70%
Benchmark Return [*]	1.42%	6.19%	2.83%	15.40%	11.46%	8.94%	10.50%	11.34%
Active Return	0.11%	0.24%	-0.30%	3.99%	2.68%	2.93%	2.45%	1.37%
Fund Net Return [^]	1.45%	6.17%	2.35%	18.25%	13.05%	10.79%	12.13%	12.05%
Benchmark Return [*]	1.42%	6.19%	2.83%	15.40%	11.46%	8.94%	10.50%	11.34%
Active Return (After fees)	0.03%	-0.01%	-0.47%	2.85%	1.58%	1.85%	1.63%	0.72%

[^] 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

Altium Limited (+37.4%)

The electronic design software company updated the market with their 2018 half year profit result and an outlook that was above expectations. Profit margins expanded to record levels and the company confirmed it is on track to achieve its 2020 revenue target of US \$200 million.

Origin Limited (-18.6%)

The energy sector was in the headlines during the month as political focus turned to reliable and affordable electricity supply. The company reported its full-year result, which missed guidance due to higher than expected corporate costs, higher than expected hedging costs and ongoing intense competition in retail.

Appen Limited (+41.2%)

The globally focused software company which provides language technology data and services released its half year result that was well received by investors. The company continues to maintain high growth in its core products and services due to the sustained demand for data for artificial intelligence and from the integration of the Leapforce acquisition.

Significant Detractors

Telstra Corporation Limited (+13.0%)

The industry reacted positively to the news of industry consolidation as a merger was announced between two participants TPG Telecom and Vodafone Hutchinson Australia. The merger remains subject to regulatory approval.

Reliance Worldwide Corporation Limited (-10.8%)

In the full-year results, the company reported robust demand from its SharkBite plumbing fittings in the US market, however revealed a more subdued outlook for profits in 2019. In addition, investors took into account other factors including higher costs of copper and other inputs, higher import duties in the US, and a larger than expected additional capital investment in the US operations.

BHP Billiton Limited (-4.7%)

The company reported a strong result in August with a 33% rise in underlying profit, however investors focused on the company's concern about the short term outlook for commodities following ongoing trade tensions between the US and China. Investors remain focused on the timeline for capital returns following the sale of the company's US shale oil assets. The sale is expected to be completed in October, with the expectation that capital management will follow.

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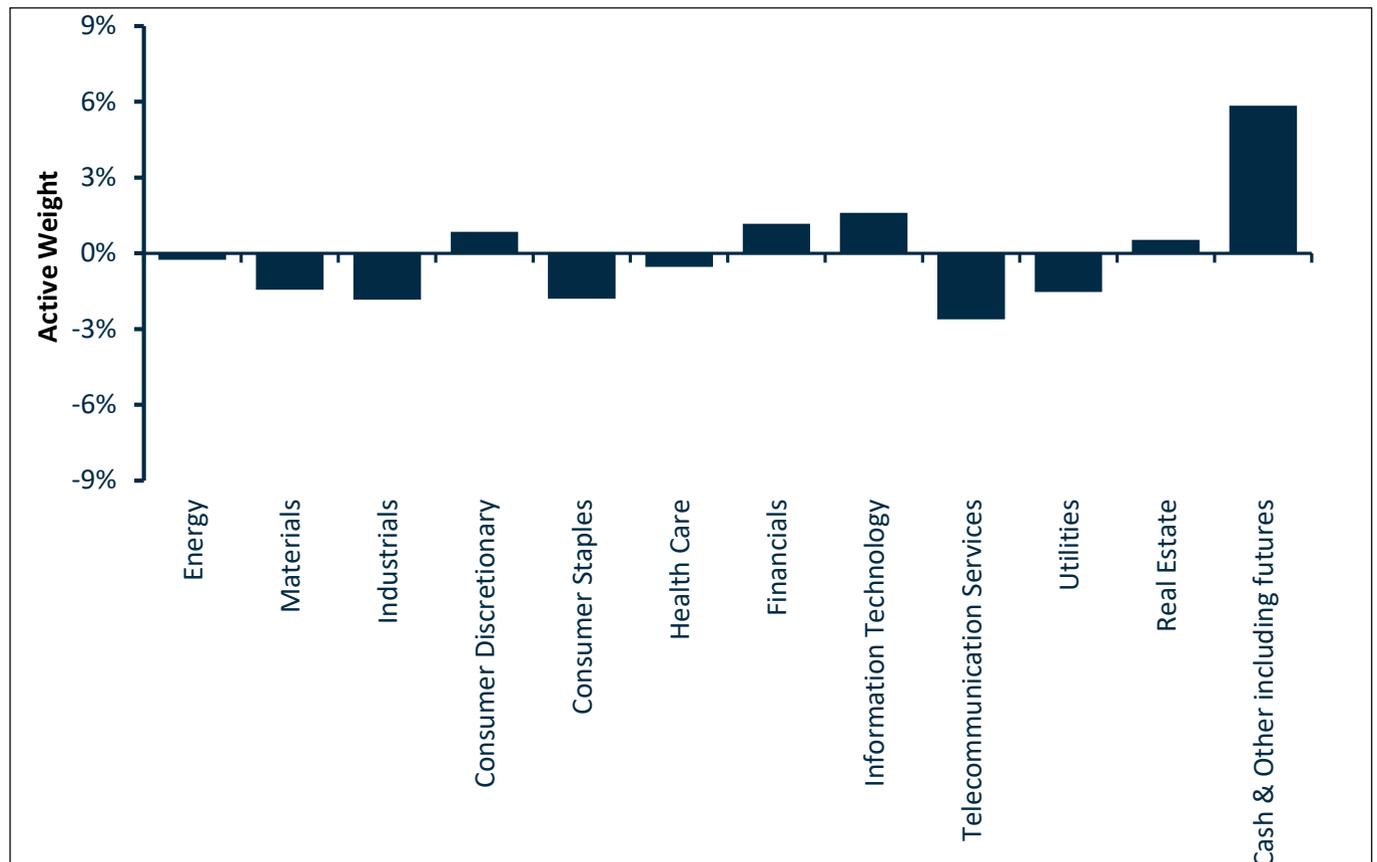
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Top 10 Stocks

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

Sector Allocation



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Market Review

The S&P/ASX200 Accumulation Index finished up 1.4% in August as company reporting season was in full swing and results were generally well received. Industrial companies (+2.9%) outperformed resource companies (-4.4%), as a range of commodity prices were softer over the month including Copper (-3.1%), Iron Ore (-2.2%) and Gold (-2.1%).

Individual companies that reported results either above or below prevailing market expectations experienced material share price moves. The top three positive moves within the S&P/ASX 200 Index include TPG Telecom (+50.0%) which announced a merger with Vodafone Hutchinson Australia that is subject to regulatory approval, Appen (+41.2%) which released a half year profit result that was well received by the market, and Wisetech Global (+40.1%) which provided a full year update and a positive outlook on future growth. Companies that experienced negative moves included Speedcast International (-31.6%) which announced a first half result that was below investors expectations, Sims Metal Management (-26.8%) reported business activity was impacted by the global trade and tariff uncertainty, and Pact Group Holdings (-23.8%) reported a soft financial year result.

The top sectors in the portfolio to add active performance included Energy (U/W Origin), Software & Services (O/W Altium, O/W Appen), Consumer Services (O/W Star Entertainment Group), while Telecommunication Services (U/W Telstra), Commercial & Professional Services (U/W Brambles) and Capital Goods (O/W Reliance Worldwide) detracted from active performance.

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

The best performing sectors in the S&P/ASX200 Accumulation Index for the month were Consumer Durables & Apparel (+26.4%), Pharmaceuticals & Biotechnology (+15.4%), Telecommunication Services (+13.1%), Software & Services (+12.9%) and Household & Personal Products (+11.0%). The worst performing sectors included Materials (-4.8%), Capital Goods (-2.0%), Energy (-1.2%), Banks (-1.2%) and Automobiles & Components (-0.9%).

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

The top 5 performing stocks in the S&P/ASX200 Accumulation Index for the month were TPG Telecom Limited (+50.0%), Appen Limited (+41.2%), WiseTech Global Limited (+40.1%), Altium Limited (+37.4%) and Afterpay Touch Group Ltd (+27.9%). The bottom 5 performers included Speedcast International Limited (-31.6%), Sims Metal Management Limited (-26.8%), Pact Group Holdings Ltd (-21.7%), Western Areas Limited (-18.8%) and Origin Energy Limited (-18.6%).

Market Valuation & Earnings Estimates:

	Market & Sector EPS Growth			Market & Sector PE's			Marker & Sector Dividend Yield		
	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Pro-rated to June									
All Companies	-1.9%	7.7%	4.2%	17.2x	16.0x	15.4x	4.1%	4.4%	4.6%
Banks	-1.3%	3.5%	2.9%	12.5x	12.0x	11.7x	6.2%	6.2%	6.4%
Listed Property Trusts	3.3%	4.5%	4.5%	18.0x	17.3x	16.6x	4.3%	4.4%	4.6%
Resources	34.8%	12.9%	-1.0%	14.5x	12.8x	13.0x	3.8%	4.2%	4.3%
Industrials ex-Banks	-13.3%	8.0%	7.4%	21.6x	20.1x	18.7x	3.5%	3.7%	3.9%

Source: Solaris Investment Management, August 2018

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Market Outlook

Global growth continues to remain robust however, risks remain including any flow on impacts from the heightened trade frictions between the United States, China and Europe. Focus remains on any potential contagion from the trade friction in emerging markets including Turkey.

Domestically, the political developments in August which resulted in the change of Prime Minister do not help the near term outlook for business confidence. This contributed to a volatile August reporting season. At the index level results were broadly in line with expectations, however, individual company's that exceeded or missed guidance experienced significant volatility. While the Reserve Bank of Australia is expected to maintain its cautious outlook and continue to provide a supportive backdrop for the local economy, the Australian dollar has softened to a level that will give the bank comfort. The health of the Australian housing market remains a concern, as clearance rates remain soft and property prices in the major cities remains flat or negative year on year. In the financial sector a continued area of focus is whether any flow on impacts from the banking royal commission will hurt domestic credit growth. In the resources sector an area of focus is the impact of trade tensions on Chinese demand for Australian commodities, and whether the current heightened price differential between high grade and low grade products is cyclical or structural in nature.

Some sectors of the Australian equity market are looking stretched, as pockets of "growth" and "small cap" companies continue to look expensive. We remain cautiously optimistic, as the economy enters the 27th year of consecutive growth.

Contact Details

For further information, please contact Solaris' distribution partner:

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