

# Solaris Core Australian Equity Fund (Performance Fee Option)

(APIR: WHT0017AU)

## Quarterly Investment Report as at 31 December 2018

### Fund Performance

The fund underperformed its benchmark for the quarter by 0.65%. Overweight holdings in BHP Group Limited, Aurizon Holdings Limited, Northern Star Resources Ltd and Evolution Mining Limited and an underweight position in BlueScope Steel Limited made a positive contribution to relative performance. The main detractors were overweight holdings in Aristocrat Leisure Limited, James Hardie Industries PLC and CYBG PLC together with underweight positions in Lendlease Group and Commonwealth Bank of Australia.

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>	0.02%	-8.67%	-7.53%	-1.40%	8.34%	7.66%	12.01%	11.06%
Benchmark Return <sup>*</sup>	-0.12%	-8.24%	-6.83%	-2.84%	6.69%	5.63%	9.61%	9.82%
<b>Active Return</b>	<b>0.14%</b>	<b>-0.43%</b>	<b>-0.70%</b>	<b>1.44%</b>	<b>1.65%</b>	<b>2.02%</b>	<b>2.39%</b>	<b>1.25%</b>
Fund Net Return <sup>^</sup>	-0.06%	-8.89%	-7.98%	-2.34%	7.30%	6.62%	11.15%	10.41%
Benchmark Return <sup>*</sup>	-0.12%	-8.24%	-6.83%	-2.84%	6.69%	5.63%	9.61%	9.82%
<b>Active Return (After fees)</b>	<b>0.06%</b>	<b>-0.65%</b>	<b>-1.15%</b>	<b>0.50%</b>	<b>0.61%</b>	<b>0.99%</b>	<b>1.54%</b>	<b>0.60%</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

#### Evolution Mining Limited (+39.2%)

The gold producer held its Annual General Meeting during the quarter. Strong operating performance and robust gold prices in (Australian Dollars) supported the share price through the quarter.

#### Aurizon Holdings Limited (+4.1%)

During the quarter the rail operator received the final regulatory decision from the Queensland Competition Authority on the amount it can charge its customers to access its rail network. Additionally, a foreign shareholder with a 9.02% stake exited the register, removing the perception of an overhang on the share price.

#### BlueScope Steel Limited (-35.5%)

The steel making business was impacted by soft steel prices over the quarter. Despite this, the company continues to generate excess cash and embarked on a second \$250 million share buyback during the quarter, following an initial \$250 million buyback completed in mid-August.

### Significant Detractors

#### Clydesdale Bank (-44.0%)

The UK based full service bank provided its preliminary annual results during the month. Investors were concerned at the deterioration in the margins within the newly acquired Virgin Money business. In addition to this, a weak macro outlook due to the ongoing Brexit deliberations continues to weigh on investor sentiment.

#### Lendlease Group (-40.8%)

The company was impacted by further underperformance in three large projects currently under construction by the Engineering and Services business unit. Management has launched a strategic review of the business after flagging a \$350 million provision on the projects.

#### James Hardie Industries (-27.2%)

The manufacturer of building products announced their results for the half year ended 30 September 2018, where volumes and margins were weaker than anticipated by investors. The company noted that inflationary pressures remain in the market costs of raw materials and freight.

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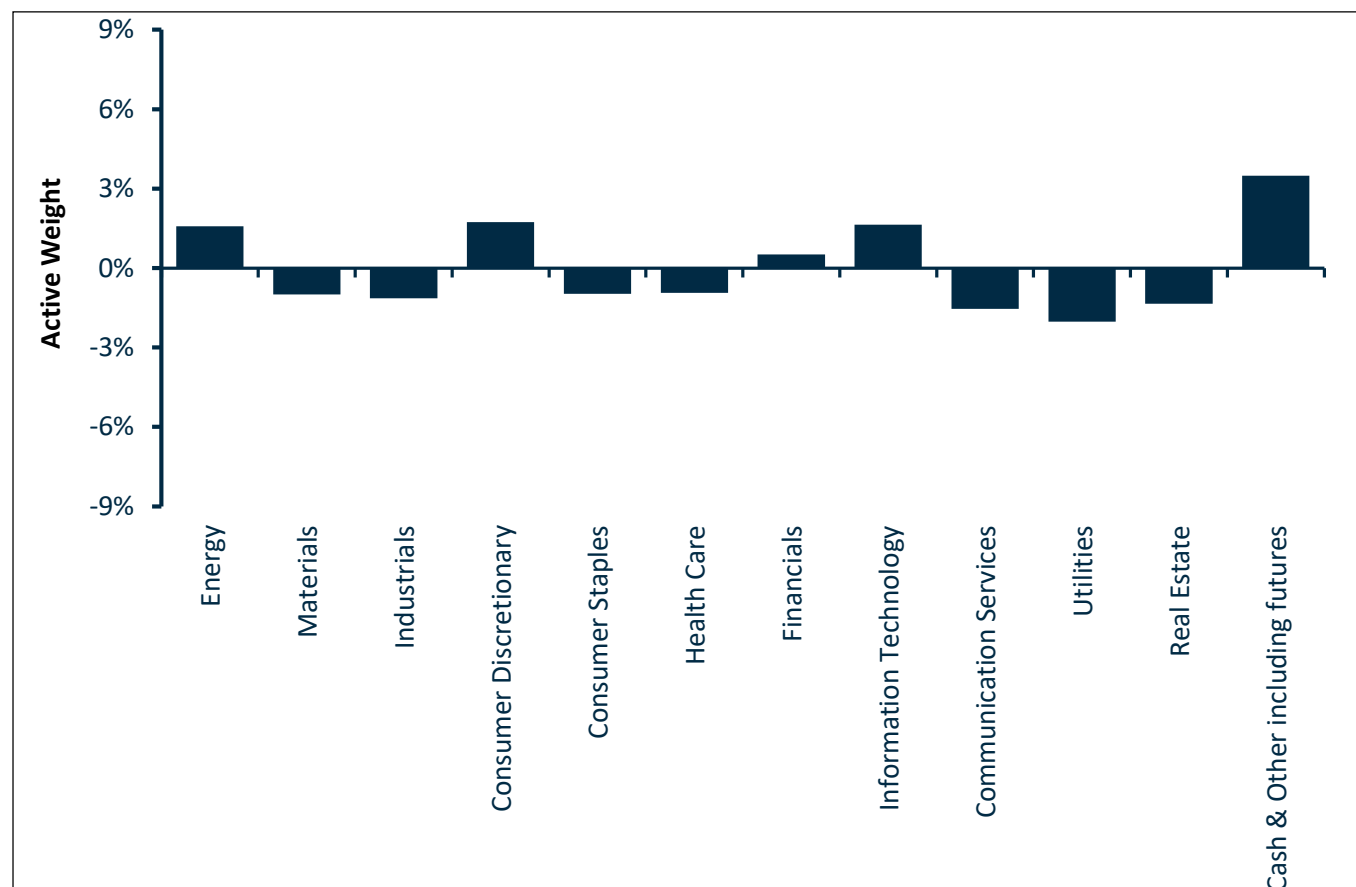
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## Top 10 Stocks

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

## Sector Allocation



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### Market Review

The S&P/ASX 200 Accumulation Index finished 8.2% lower in the December quarter, as the ongoing trade tensions with the United States and China continued to dominate headlines. Global markets experienced heightened volatility, with the S&P500 Index in the United States registering the worst quarterly performance since the Global Financial Crisis in 2008. The pullback was broad based with industrial companies (-8.3%) experiencing a similar shock to resource related companies (-8.2%). Key commodities were materially weaker including Oil (-34.0%), Alumina (-29.7%), and Thermal Coal (-10.7%).

The top three moves within the S&P/ASX 200 Index included Saracen Mineral Holdings Limited (+57.1%) which was supported by the strong domestic gold price, G8 Education (+41.5%) after releasing a positive trading update, and Evolution Mining Limited (+39.2%) which was also supported by the strong domestic gold price. The bottom three moves were Seven West Media (-45.0%) which reported soft conditions in September and October, Clydesdale Bank Limited (-44.0%) where ongoing Brexit deliberations continued to weigh on investor sentiment and Emeco Holdings Limited (-42.8%) which is focusing on debt reduction and improving the utilization of its assets.

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

The best performing sectors in the S&P/ASX200 Accumulation Index for the quarter were Transportation (+1.9%), Real Estate Investment Trusts (-1.9%), Utilities (-3.1%), Materials (-4.9%) and Banks (-6.0%). The worst performing sectors included Real Estate Management & Development (-39.2%), Media & Entertainment (-25.4%), Automobiles & Components (-21.6%), Energy (-21.3%) and Capital Goods (-20.6%).

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

The top 5 performing stocks in the S&P/ASX200 Accumulation Index for the quarter were Saracen Mineral Holdings Limited (+57.1%), G8 Education Limited (+41.5%), Evolution Mining Limited (+39.2%), St Barbara Limited (+34.7%) and Regis Resources Limited (+29.8%). The bottom 5 performers included Seven West Media Limited (-45.0%), CYBG PLC (-44.0%), Emeco Holdings Limited (-42.8%), WorleyParsons Limited (-41.1%) and Bingo Industries Limited (-40.9%).

### Market Valuation & Earnings Estimates:

	Market & Sector EPS Growth			Market & Sector PE's			Market & Sector Dividend Yield		
	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Pro-rated to June									
All Companies	11.2%	6.9%	3.9%	15.0x	14.1x	13.5x	4.7%	5.3%	5.1%
Banks	-4.1%	3.4%	2.4%	11.6x	11.2x	10.9x	6.8%	6.9%	6.9%
Listed Property Trusts	8.3%	0.9%	6.9%	15.0x	14.7x	13.7x	5.3%	5.5%	5.8%
Resources	31.8%	13.1%	-0.6%	13.3x	11.8x	11.9x	4.4%	6.0%	4.7%
Industrials ex-Banks	9.3%	4.6%	8.2%	18.3x	17.5x	16.1x	4.0%	4.3%	4.5%

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### Market Outlook

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Global growth continues to remain robust however, risks remain heightened including any flow on impacts from the heightened trade frictions between the United States, China and Europe. Domestically, the Australian economy continues to remain resilient. 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 remains in a range that will give the central bank comfort. The health of the Australian housing market remains a concern, as clearance rates continue to remain soft and property prices in the major cities are 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.

In the recent pullback areas of value have emerged, however some sectors of the Australian equity market continue to look stretched including pockets of "growth" and "small cap" companies. We remain cautiously optimistic, as the economy completes its 27th year of consecutive growth.

### Contact Details

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For further information, please contact Solaris' distribution partner:

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

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