

Solaris High Alpha Australian Equity Fund

(APIR: WHT0016AU)

Quarterly Investment Report as at 31 December 2018

Fund Performance

The fund underperformed its benchmark for the quarter by 1.93%. Overweight holdings in Aurizon Holdings Limited, Orica Limited, Goodman Group, Northern Star Resources Ltd and Evolution Mining Limited made a positive contribution to relative performance. The main detractors were overweight holdings in James Hardie Industries PLC, Aristocrat Leisure Limited 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.	10 Years p.a.	Since Inception p.a. (17/10/2008)
Fund Gross Return [^]	-0.67%	-9.94%	-8.16%	-2.45%	9.00%	7.51%	12.12%	10.63%	10.36%
Benchmark Return [*]	-0.12%	-8.24%	-6.83%	-2.84%	6.69%	5.63%	9.61%	9.00%	8.23%
Active Return	-0.55%	-1.71%	-1.33%	0.39%	2.31%	1.88%	2.51%	1.63%	2.14%
Fund Net Return [^]	-0.75%	-10.16%	-8.60%	-3.39%	7.95%	6.48%	11.04%	9.54%	9.18%
Benchmark Return [*]	-0.12%	-8.24%	-6.83%	-2.84%	6.69%	5.63%	9.61%	9.00%	8.23%
Active Return (After fees)	-0.63%	-1.93%	-1.77%	-0.55%	1.26%	0.84%	1.43%	0.54%	0.96%

[^] Performance is for the Solaris High Alpha Australian Equity Fund (APIR: WHT0016AU), 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.

^{*} Benchmark refers to the S&P/ASX 200 Accumulation Index.

Significant Contributors

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.

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.

Orica Limited (+3.0%)

The chemical and explosives business held its annual general meeting late in the quarter and continues to focus on achieving operational availability at its Burrup ammonium nitrate plant in Western Australia.

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.

Commonwealth Bank of Australia (+1.4%)

During the quarter the bank held its Annual General Meeting and published a trading update for the first quarter of financial year 2019. The bank remains focused on delivering a response to the APRA Prudential Inquiry and simplifying its business model through the sale of its asset management and life insurance businesses.

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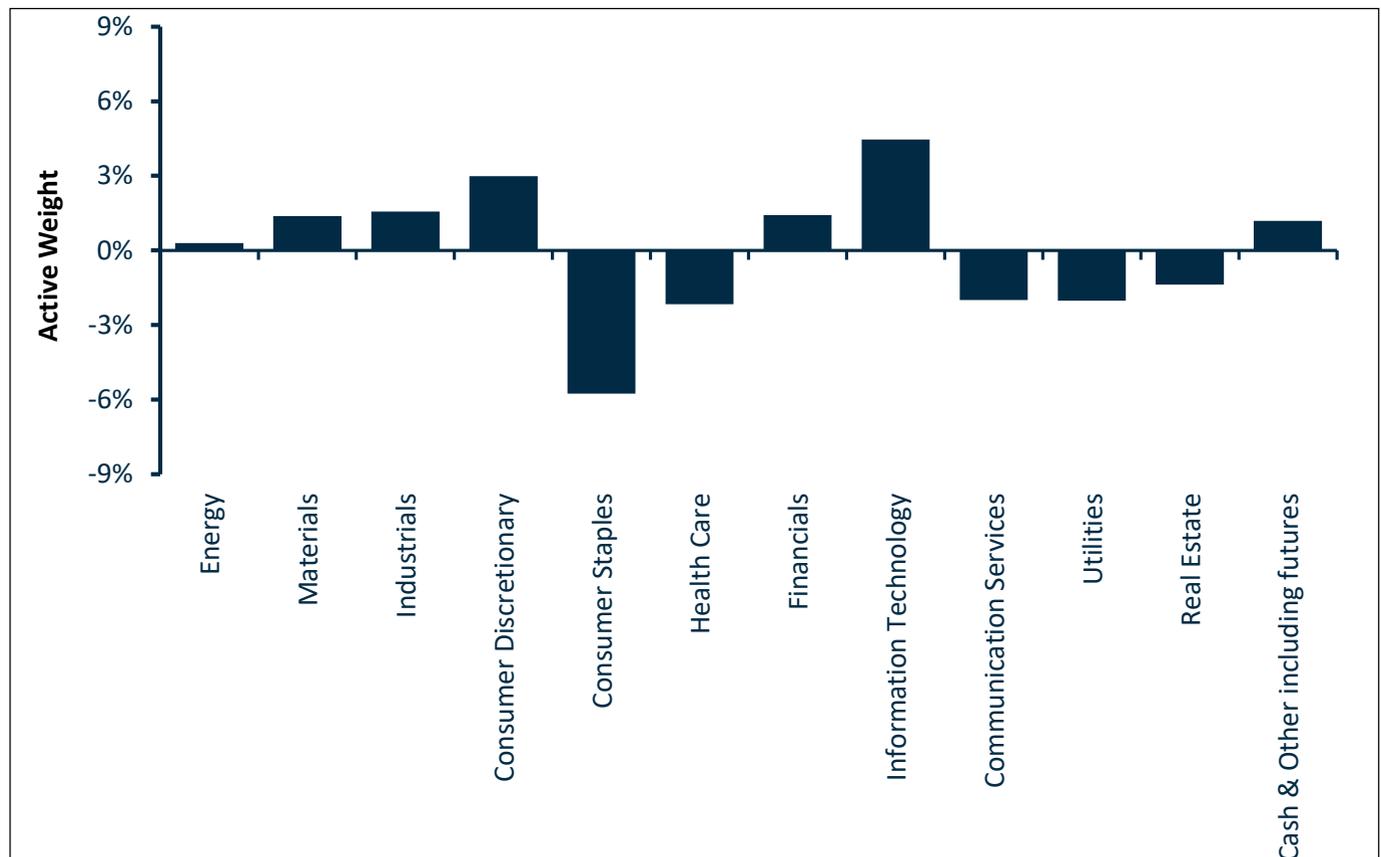
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Top 10 Stocks

Name	Sector
Westpac Banking Corporation	Financials
BHP Group Limited	Materials
National Australia Bank Limited	Financials
CSL Limited	Health Care
Macquarie Group Limited	Financials
Link Administration Holdings Limited	Information Technology
Atlas Arteria	Industrials
Insurance Australia Group Limited	Financials
Aurizon Holdings Limited	Industrials
Rio Tinto Limited	Materials

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

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

For further information, please contact Solaris' distribution partner:

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alternatively, please email: distribution@pinnacleinvestment.com

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