Talaria Global Equity Fund (Managed Fund)

Quarterly Update December 2022

WINNER 2022 Zenith Fund Awards

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PRI Principles for Responsible Investment

Investment Insights

In this, the last quarterly of 2022, we depart from our usual focus on the market outlook. Instead, we cover some topics from our meetings with investors that are worth thinking about with a longer-term perspective.

These are the dangers of price led investing, the minefield that is adjusted earnings, the fallacy that private assets offer diversification, the dangers of growth traps, and how our downbeat outlook for global equities might be wrong. We conclude by discussing the right sort of equities to own.

Summary

What the FTX?

We have said before that price is a liar. When unanchored from value, price masquerades as something weightier than simply where buyer meets seller, often leading investors to a sticky end. If the only reason you are buying is because others are too, how do you know when to stop or sell?

The collapse of crypto exchange FTX in “one of the biggest financial frauds in American history” is an illustration at scale of the risk of being price led. It is particularly interesting because its founder gave an interview early last year in which he described the risks. He said the trick is not to be left holding “today’s lame box”. He later spectacularly showed that this is easier said than done. There are stark lessons here for equity investors.

Mind the GAAP

Crypto does not have a monopoly on disasters. Stock markets have also had their infamous collapses. But there are also more subtle ways for corporates to destroy value. One of these is to encourage investors to focus on adjusted earnings rather than those from generally accepted accounting principles (GAAP). As the market tends to work out eventually when adjusted earnings are inflated, investors are not rewarded as fully as they might expect. And at the end of a cycle, the difference between adjusted and GAAP profits widens.

The theory behind adjusted numbers is that they more accurately reflect a company’s earnings’ power by placing one-off expenses below the line. The trouble is when these one-offs are regular and a way for management to avoid, for example, taking a margin reset on the chin. The cynicism is especially acute when adjusted earnings drive management remuneration.

Unlisted Numbers

The growth of investment in private assets may be the biggest change in markets so far this century. Opaque financials, illiquidity and sporadic valuations ought to be negatives but somehow these have turned out to be attractions. The lack of transparency and volatility make it easier to hold on to private assets than their more visible and sometimes frenetic listed equivalents.

We do not express an opinion on any Ponzi characteristics but what we do warn against is the idea that unlisted assets offer diversification. Firstly, delay is not diversification; price trends in public assets eventually come through in private assets. Secondly, when private asset funds are not selling to each other or even to themselves, they most often use stock exchanges to exit. That makes it hard to see how they might be uncorrelated.

Value and growth traps

Value traps are those stocks so cheap as to be pricing in a terrible future that still go on to disappoint. They are painful facts of life for value managers, doubly painful when value investing is out of favour. At least they start cheap, though not as cheap as once appeared, and they often pay a dividend.

Since the Nasdaq Composite peaked in November 2021, Beyond Meat, Peloton and even mega caps such as Meta Platforms have highlighted the risk in growth traps. Growth traps are stocks that start expensive, pricing in greater than market growth, and then disappoint by failing to deliver on that growth. Obvious tip number one is do not own traps, but the lesson of the last year or so is that growth traps can do more damage than value traps, and faster.

Arguing with ourselves

Our view is that the outlook for global equities remains bleak. US shares especially are expensive, pricing in a soft or even no landing. Compared with 2007, when the ISM was at a similar level to today, the structure is also unattractive with far fewer good value shares available now than then. Overall, upside is scarce and risk abundant.

An argument against our view might be along these lines: Inflationary recessions are different from their deflationary equivalents. In inflation, nominal growth in sales and earnings can mitigate derating. Higher but still low interest rates can mean it makes sense for consumers and corporates to borrow to spend, thereby supporting growth. The liquidity and solvency crises that accompany recessions in deflation need not come through in their inflationary equivalents. Growth in their lending suggests banks are sanguine about the health of borrowers, and the credit they extend can fill the gap caused by central banks’ tightening. Equities are still more attractive than cash and bonds.

Own different

Although the views in the section above are in opposition, under either scenario it is best not to own those assets that prospered from the March 2009 low to the end of 2021.

Equity investors should prize income, value, short duration and rapid payback periods. Sectors such as large cap healthcare still look good, as do countries like Japan and the UK. Themes like capex growth and onshoring will have positive long-term benefits for countries like Mexico and areas like industrial automation. As always, there will be individual opportunities at the stock level. One of the virtues of these opportunities is that they often offer diversification.

What the FTX?

Equity investors may feel they have little to learn from cryptocurrency. But there are obvious parallels with the price drivers of meme stocks, loss making tech, SPACs, and so-called 'fan club' stocks. More importantly, manipulation and dubious motives across financial markets are not confined to speculative instruments.

In April 2022, only a few months before the rapid, multi-billion dollar collapse of his seemingly brazenly fraudulent FTX crypto exchange, then DeFi superstar Sam Bankman-Fried (SBF) appeared on Bloomberg's Odd Lots podcast. The subject was "how to make money in crypto"; looking back, the irony gods were having a field day with this show.

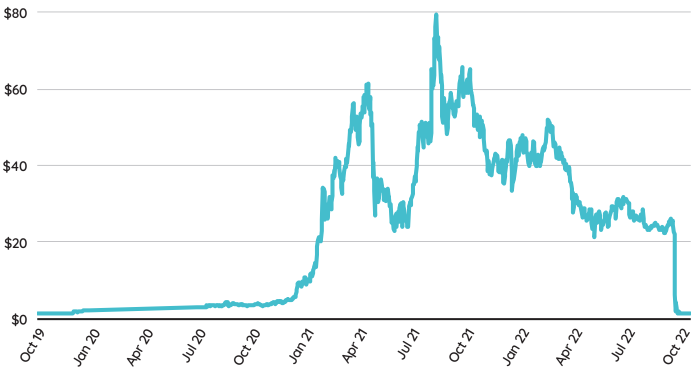
Using erratic, often incoherent language, SBF identifies two general ways to profit from an investment. The first is to buy something because it generates cash flows. He does not explore the proposition, but a listener can infer a relationship between the value of an asset and its returns. The second, which he goes through in detail, is to buy an asset because other people are buying it. He talks about how this approach can build momentum and attract vast sums of money.

In an example, he describes launching a new coin or 'box' that has no use case: the box merely exists, and its attractions come from the fact that other people are putting money into it. To add spice, the box has a yield because its sponsors 'airdrop' x-coins to holders, giving them rights to box benefits, albeit there are none. A combination of promotion, yield, greed and FOMO entice investors to this worthless asset.

When one of the podcast's hosts says to SBF that he seems to be describing a Ponzi scheme, his answer is along the lines of "that's one way to look at it". This is jaw dropping stuff, particularly with the benefit of hindsight.

When asked how people lose money in these circumstances, SBF says one way is when "yesterday's cool box becomes today's lame box". The words he uses are west coast, but the message is important. If you are buying based on the greater fool theory and you end up holding the 'lame box', then the greater fool is you.

FTT Token Price (USD)



Source: Bloomberg

Mind the GAAP

Although FTX existed in the unregulated wild west of crypto, listed equity has not been without its spectacular failures. For example, December 2022 was the twenty-first anniversary of Enron's collapse through management fraud.

Both FTX and Enron were failures of governance, the G in ESG. As we have written elsewhere, governance attracts far less attention than its environmental (E) and social (S) cousins. This is hardly surprising since governance offers no existential threat to the world and its population, no climate catastrophe or icecap endangering ticking time bomb. Nor does it jeopardise the mental health of the vulnerable, subvert the democratic process or impinge on people's privacy.

Nevertheless, the principles, rules, systems, controls, laws and regulations that make-up governance are essential for the protection of all stakeholders. And governance is not just about preventing disasters. It can also encompass more subtle, insidious value destroyers.

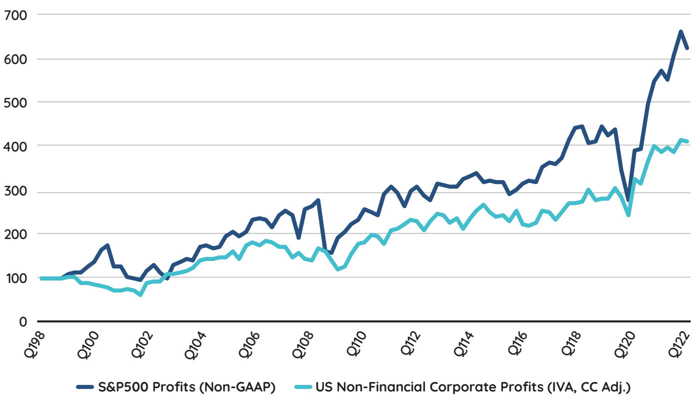
Adjusted earnings is an example of one of these damaging phenomena. The theory behind adjusted earnings is that they more accurately reflect a company's earnings power than the one size fits all generally accepted accounting principles (GAAP) or their equivalent international financial reporting standards (IFRS).

For example, by classifying certain costs as "one-offs" management might argue that they are able to give a more accurate picture of operating margins. The trouble is when the one-offs occur regularly, they are simply ways to avoid margin resets and often to boost remuneration. The market eventually works this out, which means investors in companies employing these "speed of hand deceives the eye" tactics often lose out.

If this all sounds a bit cynical on our part, the chart below shows the difference between adjusted earnings as reported in the US stock market and US whole economy profits going back 25 years. What is evident is that stock market earnings growth compared to whole economy profits widens as the cycle matures. This could be a coincidence, or it could be that businesses are increasingly reclassifying costs to maintain apparent profitability.

Notably, each downturn over the last 25 years has seen this gap dramatically close.

Corporate Earnings Index ex. Financials (1998 = 100)



Source: Bloomberg, FRED
*IVA - Inventory Valuation Adjustment; CC - Capital Consumption

Unlisted numbers

In an October 2021 speech, SEC Commissioner Allison Herren Lee said, "Perhaps the single most significant development in securities markets in the new millennium has been the explosive growth of private markets."

Few would argue with her. In the US, private market capital raisings were bigger than their public market equivalents in every year of the decade starting in 2010. In Australia there has been strong growth in private market funds, and the asset class is sometimes cited by investors in our meetings with them as a source of stability when public markets have been weak.

Some of the disadvantages of private companies are well known. Commissioner Lee summarises: "there is little public information available about their activities. They are not required to file periodic reports or make the disclosures required in proxy statements. They are not even required to obtain, much less distribute, audited financial statements."

This opacity of financials combined with often high leverage, illiquidity and infrequent valuations ought to be negatives. But, as AQR founder Cliff Asness mischievously puts it, the combination of these characteristics is "a feature not a bug" for many owners. And certainly, unlisted assets' lack of volatility and transparency help holders to be long-term in a way that the second-to-second pricing of listed assets may make sticking with them next to impossible for a nervous or over-leveraged owner.

Against this, there are well-rehearsed arguments that, as Amundi Asset Management's CIO Vincent Mortier put it earlier this year, "some parts of private equity look like a pyramid scheme in a way". You do not have to be a cynic to be concerned by the way private equity groups sell assets to each other. And you would have to be naïve not to see conflicts of interest in the "continuation funds" where private equity groups sell assets to themselves.

Regardless of whether unlisted assets prove to be a financial bubble that goes pop, one thesis that we have trouble with is the idea that they serve to diversify a portfolio.

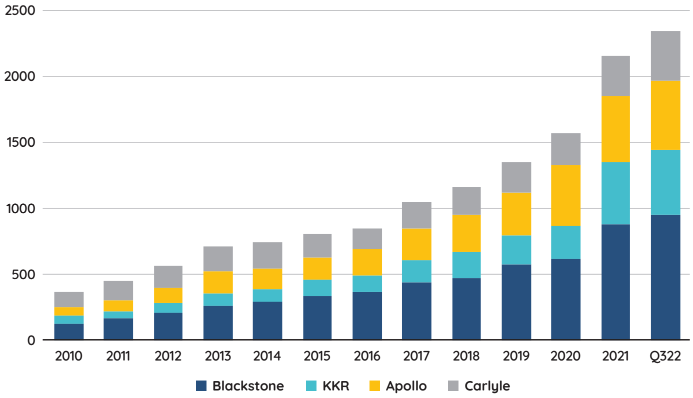
Firstly, delay is not diversification. Just because price changes in public markets can take a while to come through in private markets, this does not mean different dynamics are driving them.

Europe offers an interesting contrast between mark-to-market and mark-to-model valuations. In the UK there are tax mitigating assets called Venture Capital Trusts (VCTs) which are designed to attract investment in young UK companies. Two examples are AIM VCTs, the holdings of which are on the public Alternative Investment Market and General VCTs, the holdings of which are unlisted. According to the Financial Times, in the year to end November 2022 the NAV total return of General VCTs was minus 4% whereas AIM VCTs were down around 28%. It would be a heroic assumption that it is the AIM VCTs that are the wrong price.

Secondly, when owners of unlisted assets are not selling to each other or to themselves, they are usually selling on stock exchanges. There are estimates that in recent years private equity and venture capital owners have sponsored up to 50% of IPOs on various public markets. Such data make a mockery of the idea that unlisted assets are somehow detached from their listed equivalents.

"I see no ships", Admiral Lord Nelson famously said as he put a telescope to his eye patch, and while you do not have to be as brave to turn a blind eye to the risks in private markets, it is usually better to recognise what you are up against. And the battles public and private assets are fighting, if they are different at all, differ only in degree not in kind.

Assets Under Management (USDbn)



Source: Company Reports

Value and growth traps

A value trap is an equity that is so cheap its share price seems to incorporate the worst of outcomes but still goes on to disappoint. UK telecoms company BT is an example. Its share price is lower than it was twenty years ago and its price to sales ratio is down from 0.89 to 0.55 over the period. Its dividend means that it has managed to deliver a paltry positive return, but ownership would have been a miserable experience and a considerable opportunity cost.

When value investing is out of favour, value traps have a high profile. A value manager owning a value trap, and we all have, is deemed doubly foolish for employing an out of favour style and then picking a lousy stock.

Growth traps have been less talked about but are often more damaging. Whilst both have it in common that they disappoint, at least value traps start on a low rating and often pay a dividend. Growth traps, on the other hand, start expensive because they price in higher than market growth and do not offer investors a dividend cushion.

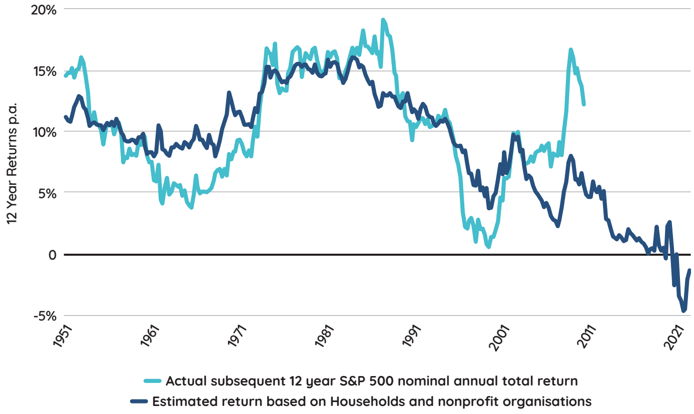
Peloton and Beyond Meat are examples of growth traps. Their share prices are more than 90% off their highs. Estimates for their 2023 sales came down by around half from the end of 2021 halved. However, their problems are not about any single year's downgrades. The question is not whether they will grow so much as whether they will exist. If that seems extreme, consider that, at the time of writing, Peloton's market capitalisation has gone from a peak of about USD 50 billion to less than USD 4 billion. The equivalents for Beyond Meat are USD 12 billion and less than USD 900 million.

With a market capitalisation of USD 364 billion, Meta Platforms still has a long way to go on the existential front, but it qualifies as a growth trap with its share price down some 65% from its high and estimates of sales falling fast.

Arguing with ourselves

1. Our view is that the outlook for global equities is poor

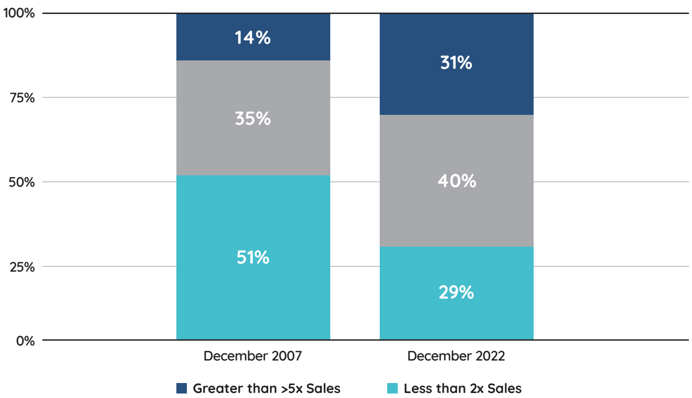
As we again laid out in our last quarterly, the prospective returns for global equities are poor. In the US, shares are still expensive on measures that have a strong predictive capability such as Talaria's "Households and non-profit organisations total financial assets / disposable household income" (chart below)..



Source: Federal Reserve Bank of St Louis

Not only is the index return outlook poor given today's starting valuation – but the breadth of highly priced companies is much larger. Comparing current EV/sales valuations for the S&P500 index with 2007 when the Institute of Supply Management's (ISM) manufacturing index was at a similar level of 50, shows the number of potentially cheap shares is much smaller.

% of Stocks in S&P500 (ex. Financials)



Source: Bloomberg

This is against a backdrop of unusually rapid interest rate increases in developed markets, falling lead indicators such as housing sentiment, and sticky inflation components squeezing near record levels of profitability. Moreover, since World War II, a combination of a more than 5% CPI and Fed tightening has always been followed by a recession. And, if that was not enough, the yield curve is deeply inverted, and inversion has preceded the last eight recessions.

Our bottom-up work also highlights risks, with opportunities at the stock level hard to find.

2. Challenging our view

An argument against our downbeat view might be along these lines:

A recession when there is inflation is different from the deflationary examples of 2000, 2007-2009, and 2020-21. During inflation, nominal growth can see higher sales and profits which go some way to mitigating the derating that follows higher interest rates. It also means that there need not be anywhere near the scale of earnings downgrades that accompanied the deflationary recessions of the noughties. In the recessions of 1969-1970 and 1973-1975, nominal earnings fell only moderately in the first and rose in the second.

Though they are higher than they were, interest rates are still low in absolute terms, and they are certainly low relative to inflation. In this context it can make sense to borrow to spend as opposed to borrow to hoard. This was not the case in the last three recessions and is supportive of growth.

Recessions under inflation tend not to result in the liquidity and solvency challenges that accompany deflationary slowdowns. Bank credit growth is strong in the US, with the largest lenders such as JP Morgan stepping up their conventional lending activities as a tacit vote of confidence in the robustness of borrowers. Bank credit growth mitigates the impact of central bank tightening.

In the long bear market of 1966 – 1982, when the S&P 500 fell by over 60%, parts of the equity market delivered positive total returns in real terms. Value and small cap stocks did especially well and even losers like growth stocks did better in real terms than cash and bonds. There are those that argue we have moved from TINA (there is no alternative) to TARA (there are alternatives) but equities still look a better bet than other asset classes.

Own different

Although the two views above are in opposition, they have it in common that the desirable equities under both scenarios are not those that outperformed from the 2009 low to the end of 2021.

In terms of components of return, equity investors should prize income, good value, short duration, and rapid payback periods.

In terms of sectors, large cap healthcare remains attractive, especially pharma majors. In terms of regions, Japan and the UK offer value. From a thematic point of view, capex growth and onshoring are likely to have positive long-term benefits for countries like Mexico and industries like industrial automation.

As always, there will be individual opportunities at the stock level that fall outside the general observations made above. One of the virtues of these opportunities is that they can offer diversification.

December 2022 Quarterly Performance

Global equities gained in the fourth quarter, snapping their worst losing streak since the GFC. Investor sentiment improved from near all-time lows and the risk-on trade was back with cyclical sectors that provide high yields performing the strongest. But with no change to hawkish central banks' policies, sticky inflation and a slowing global economy, the medium-term outlook continues to be challenging.

The fourth quarter finally brought some respite to financial markets. Improvement in sentiment from the September lows and easing energy prices in Europe renewed a risk-on trading environment. Equity markets were up across the globe with cyclical sectors outperforming. Volatility eased and the US dollar declined against a basket of major currencies. Inflationary pressures and central bank hawkishness remained but the market shrugged off their impact on economic activity.

Across all regions, old economy, high cash yielding cyclicals outperformed while tech underperformed. This dichotomy was most evident in the US where the broad-based S&P500 (up 7.1%) significantly outperformed the tech-heavy NASDAQ (down 1.0%). Indices in Europe, dominated by old economy stocks and helped by easing gas prices, gained the most in absolute terms. Germany's DAX and France's CAC were up 14.9% and 14.3%, respectively. Asia lagged, partly driven by lockdown induced economic uncertainty in China (Shanghai index up 2.1%). Japan's NIKKEI was up just 0.6% after several quarters of stronger relative performance earlier in the year.

Talaria's Global Equity Fund delivered a positive quarter, gaining +4.65% while maintaining lower market risk. The 12-month performance of +8.27%, is a more than 20% outperformance of the global index benchmark (down -12.52% in 2022).

Distributions: The Talaria Global Equity Fund paid a December 2022 quarterly distribution of 7 cents per unit taking its 12-month income return to 7.28%.

Higher-beta sectors (energy, industrials, materials, and financials) outperformed in the quarter, gaining between 15.4% and 18.6%. Growthier sectors underperformed with IT up just 4.9%. Defensive sectors were all up low double digits. The standout underperformer and the only sector in the red was consumer discretionary (down 2.5%), driven by the terrible performance of its two largest constituents – Amazon (16% weight, down 25.7%) and Tesla (6.6% weight, down 53.6%).

Investor sentiment improved in the fourth quarter, helped perhaps by a loss of 4.7% in the value of the USD against a trade-weighted basket of currencies. The VIX dropped 10 points from 31.6 to 21.6, near the lows of 2022 and in line with its 30-year average. The US 10-year yield at 3.87% remained elevated but almost unchanged versus Q3 as monetary policy remained hawkish in the face of high inflation. The broad-based commodities index and oil specifically were both up by just one percent but gas futures, particularly important in Europe, came down by 35%.

The fund's holding in Mexican-based retailer, Fomento Mexicano Economico (FEMSA) was the biggest contributor to performance this quarter. In addition to its strategic holdings in global brewer Heineken (14.8%) and the world's largest Coke bottler, Coca-Cola FEMSA (47.2%), FEMSA owns one of the world's largest convenience store networks with some 20,000 'OXXO' branded sites across Mexico. This network delivers strong same-store sales and good margin expansion. We still see upside to the stock, even after share price strength.

Japan-based security provider SECOM was the biggest detractor this quarter. While recent results have been disappointing, the company remains a leader in the Japanese security market (online monitoring). There is an opportunity to optimise the P&L while the balance sheet remains strong. The company is attractively priced, and we have added further to our position in the past three months.

During the quarter, the Fund initiated new positions in US-based distributor Henry Schein and UK-based distributor Bunzl and made no exits.

Henry Schein is the largest distributor of consumables, equipment, and software to dental practices globally. In addition to its dominant market position (~35% share), its excellent track record on M&A, a strong balance sheet, very stable customer base and ability to pass on inflationary pressures are all reasons we believe Henry Schein can continue delivering EPS growth consistent with its long-term average of ~13%. Given an attractive starting valuation (currently trading on a 7% Free Cash Flow yield), we think the stock is well placed to deliver good upside for shareholders.

Stock in focus: Wheaton Precious Metals

Wheaton Precious Metals (WPM) is the biggest precious metals streaming company in the world and a major holding for the fund. The business model and financials of these types of companies are attractive but well known only to specialists. WPM makes a very high margin and generates strong cashflows with few of the risks associated with traditional mining companies. The share's valuation is attractive assuming flat gold/silver prices. Any increase in the price of gold/silver gives an additional boost to valuation.

Canada-based Wheaton is the largest precious metals streamer globally. The streaming industry is concentrated with the top three players controlling 89% of production (49% WPM; 22% Franco-Nevada; and 18% Royal Gold). Two precious metals dominate - gold and silver streams are 96% of the total.

Wheaton invented the precious metals streaming business model. It conceived the idea in 2004 when exploring ways to fund its San Dimas gold mine in Mexico.

But what is precious metals streaming? Under a streaming agreement, the streaming company provides an upfront payment to acquire the right to future deliveries of a predefined percentage of metal production of a mining operation. Once a mine becomes operational, the streaming company pays the mining company an ongoing payment for each ounce of metal delivered, usually well below the market price of the metal. The price can be set as a fixed sum (say, $400/oz gold) or as a percentage (25% of the prevailing gold price).

Precious metals streaming comes with several major advantages over traditional gold/silver mining. Perhaps the most crucial is that streamers take no cost overruns risk of the mining operation. Also important is that streamers make significantly higher margins - the break-even price per oz of gold for WPM is only $400 compared with $1,200-$1,300 for Newmont, the largest global gold miner. This results in significant leverage to increasing precious metals prices. And finally, any future expansions of existing mines come with all the benefits of larger volumes at no extra cost.

As an industry executive aptly put it "We get a free perpetual option on the discoveries made on the land by the operators, and we get a free perpetual option on the price of gold."

A streaming contract benefits the mining operator, too. The main advantage is a cost of capital arbitrage – streaming companies that typically command a lower cost of capital provide an upfront payment for the development of a mine, which typically carries a much higher cost of capital. And, since streaming contracts for secondary metals (e.g. a copper mine will typically have gold or silver as a secondary metal), streaming allows the miner to arbitrage the value of a peripheral activity that would be otherwise more expensive to fund.

WPM operating model

Wheaton has a large and diversified portfolio of mine streaming contracts including 21 mines that are in operation and a further 14 mine projects that are under development. A large majority are in North and South America and counterparties include some of the largest global mining companies (Glencore and Vale to name two). Over 90% of these mines fall in the lowest half of the cost curve, implying less chance of cost driven production disruptions. And the portfolio has a collective estimated remaining life of 40 years.

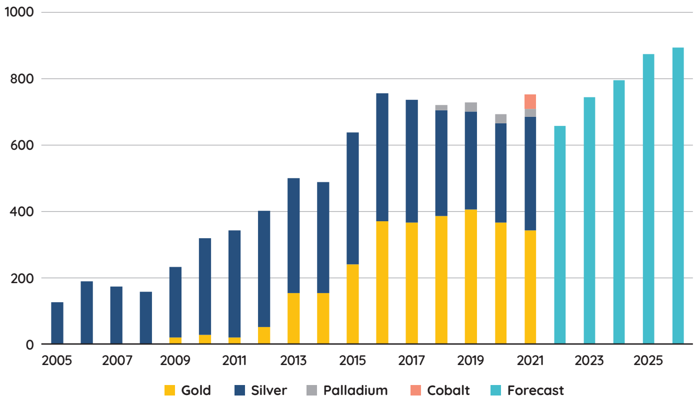
Growth

Wheaton reached revenues of $1.2bn in 2021, growing at a CAGR of 9% since 2014. Growth has been driven predominantly by the increase in gold and silver prices over the period while production has remained flat since 2016.

The next decade will be very different. With 14 out of 35 mines currently under development there is a significant ramp up in expected production. We forecast Gold Equivalent Ounce (GEO) production to reach 900,000 oz by 2026, up from 660,000 oz in 2022 (Exhibit 1). Even if gold and silver prices remain flat, revenues are poised to increase by 36%.

No additional dollars need to be spent to unlock this ramp up in production. WPM has already paid for it by making upfront payments of over two billion US dollars since 2018 (this represents over a third of total streaming contracts on the balance sheet).

Exhibit 1: WPM, Production in GEO (k oz)



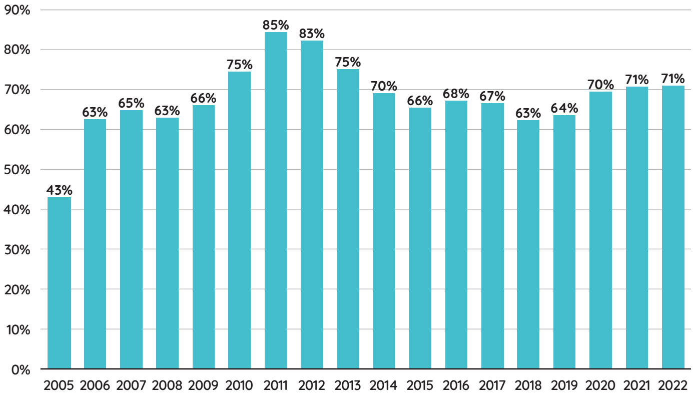
Source: Company Reports. Talaria estimates.

Margins

WPM makes a very high EBITDA margin (Exhibit 2). Two factors drive this. One, streaming contracts set the purchase price of the metal at a level typically between just 20% and 25% of the spot price, locking in a significant gross margin with virtually guaranteed positive profitability. Two, the remaining cost base is extremely lean – there are hardly any Selling and Marketing expenses, and WPM employs only 44 full time staff, a staggering $27m of revenue per employee.

Bold though it may be, we see no risk to the margin going forward.

Exhibit 2: WPM, EBITDA Margin



Source: Bloomberg

Cashflows

The Free Cash Flow (FCF) generation closely approximates EBITDA. There is not any net debt. There are no large and complex movements in working capital. Any CAPEX is considered growth – once spent to purchase a streaming contract it requires no further maintenance and lasts until a mine is depleted.

In 2021WPM generated ~$850m of FCF and EBITDA. This is equivalent to a yield of ~5% today. Assuming gold/silver prices remain flat FCF will increase to $1.2bn or a yield of ~7% by 2026.

Valuation and sensitivity to gold/silver price increases

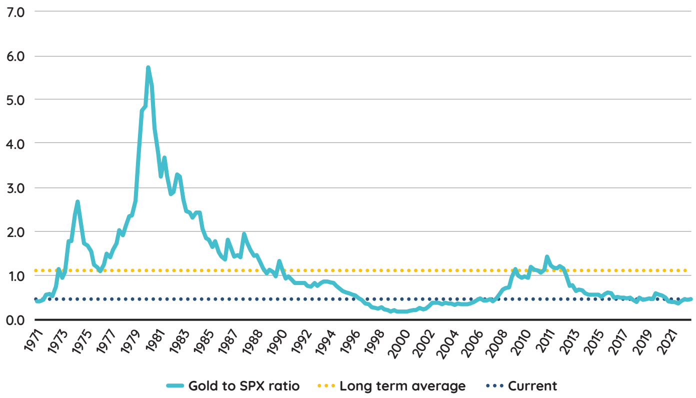
Since FCF is so closely aligned with EBITDA we use an EV/EBITDA multiple to value the business. It has traditionally traded between 15x and 25x (currently at 20x, ~5% FCF yield).

Our valuation scenario of no changes to the gold/silver price and growth in production only from existing investments implies an exit EV of $25.9bn (using a 20x EV/EBITDA exit multiple, the average since 2016) and additional cashflows of $5.4bn. Discounted at 8%, this implies a fair value of $42 per share.

This estimate does not reflect any positive optionality from higher precious metal prices or higher production. For every $100 increase in the price of gold/oz, EBITDA would grow by ~$100m, and exit EV would grow by ~$1.5bn (an additional 7% of value).

While our investment case does not depend on it, we believe there is a positive skew to the price of gold. In the very long-term, the ratio of the price of gold per oz over the price of a unit in the S&P500 index has averaged 1.13x (see Exhibit 3). Today, this ratio is sitting at just 0.47, near the bottom of the historic range.

Exhibit 3: Gold vs SPX



Source: Bloomberg

Risks

There are three key risks that could drive the shares lower. Firstly, the price of gold/silver may decline. For every $100 drop in gold per oz Fair Value drops by ~$3 per share (7% on current price). Secondly, disruptions to production at the various mines directly impact volumes procured under the streaming contract and the revenues generated. Importantly, this has negligible impact on the margin as costs associated with mining disruptions are borne by the mining operator and not Wheaton.

Finally, competition is intensifying. Precious metals streaming is a lucrative business that is less than two decades old. The market is rife with new entrants. However, the industry continues to be dominated by the big three, and with existing contracts locked in for decades to come there is little immediate threat.

Talaria Global Equity Fund (Managed Fund)

Top 10 Holdings*

Company name	(% weight)
Wheaton Precious Metals	6.1%
Sanofi	5.9%
Sodexo	5.2%
Nippon Telegraph & Telephone Corp	5.0%
Novartis	4.2%
Femsa	4.2%
Johnson & Johnson	4.2%
Roche	4.1%
Secom	4.0%
Mitsubishi Electric	3.9%

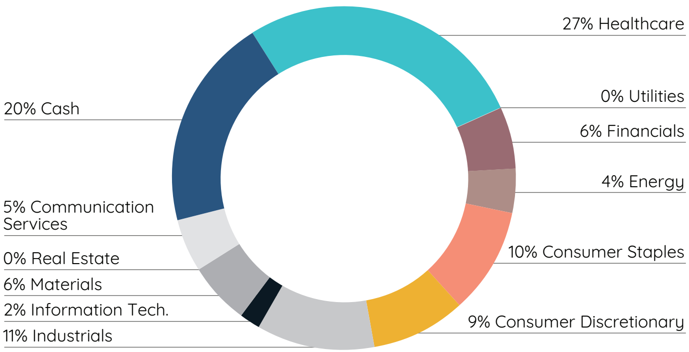
* Weightings include option positions held and cash backing put options. It assumes that put options will be exercised.

Performance at 31 December 2022

Period	Income Return	Growth Return	Total Return	Average Market Exposure
1 month	1.44%	-1.98%	-0.54%	58%
3 months	1.51%	3.14%	4.65%	54%
6 months	3.08%	2.43%	5.51%	53%
1 year	7.28%	0.99%	8.27%	54%
3 years p.a.	7.83%	-0.53%	7.30%	54%
5 years p.a.	8.22%	0.54%	8.76%	57%
7 years p.a.	7.39%	0.09%	7.48%	58%
10 years p.a.	9.17%	1.43%	10.60%	59%
Since Inception p.a.	7.41%	-0.34%	7.06%	61%

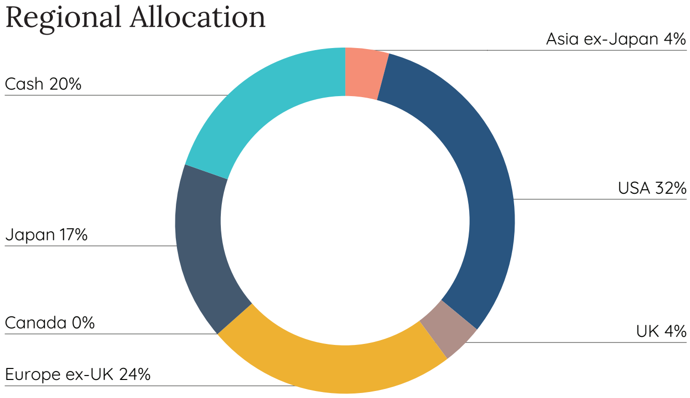
1 Fund Returns are calculated after fees and expenses and assume the reinvestment of distributions
2 Inception date for performance calculations is 18 August 2008
3 Income Return includes realised capital gains
4 Past performance is not a reliable indicator of future performance
5 Average Market Exposure based on delta-adjusted exposure of underlying portfolio

Sector Allocation



* Weightings include option positions held and cash backing put options. It assumes that put options will be exercised.

Regional Allocation



Quarterly distribution

Period	Cents per Units	Reinvestment price
December 2022	7.000	$4.8288
September 2022	7.000	$4.6234
June 2022	11.564	$4.6553
March 2022	7.250	$4.6553
December 2021	7.000	$4.7216
September 2021	7.000	$4.6565
June 2021	10.766	$4.5745
March 2021	6.000	$4.4270
December 2020	6.000	$4.2305

Asset allocation

Asset allocation	% weight
Global equity	46.0%
Cash – put option cover	34.0%
Cash	20.0%
Total	**100.0%**

Portfolio contributors	Portfolio detractors
Fomento	Secom
Sanofi	Roche
Sodexo	Bunzl
Wheaton Precious Metals	Ambev

1 Portfolio contributors and detractors are based on absolute quarterly contributions to return, including option positions

Talaria Global Equity Fund (Managed Fund)

Fund snapshot

APIR Code	AUS0035AU	**Inception Date**	18 August 2008
Management Fee	1.16% p.a. of the net asset value of the Fund plus Recoverable Expenses	**Liquidity**	Daily
Recoverable Expenses	Estimated to be 0.12% of net asset value of the Fund each Financial Year	**Exit Price**	$4.8288 (31 Dec 2022)
		Buy / Sell Spread	0.20% / 0.20%
Platform Availability	AMP North, Asgard, Ausmaq, BT Wrap/Panorama, CFS Firstwrap, Escala, Evans & Partners, Freedom of Choice, Hub24, IOOF, Linear, Macquarie, Mason Stevens, MLC Wrap, MLC Navigator, Morgan Stanley, Netwealth, Powerwrap, Praemium, Xplore Wealth	**Distributions**	Quarterly
		Minimum Investment	$5,000