Talaria Global Equity Fund Foundation Units

Quarterly Update June 2023

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Signatory of:

Investment Insights

The trouble with birdwatching is that often what matters is just outside one's field of vision.

A mob wearing raincoats focuses binoculars on a commonplace honeyeater just as a noisy scrub-bird, once thought extinct, fossicks around the corner. The unseen rarity pauses now and then to hold its sides laughing.

Investment is like this. Crowds jostle to gain exposure to the same asset while missing the greater prize.

The late real estate investor Sam Zell sold his business for US$ 36 billion in 2006 before the bust of the GFC. He said of his approach, "I like to zig when everyone else zags". People looked one way; he looked the other.

Mr. Zell was a one-off. His words would carry less weight if they came from the many contrarians who have lost by being wrong or being right too soon, which amounts to the same thing.

Nevertheless, whatever weight you attribute to this sentiment, it has the virtue of being consistent with economic intuition. Who does not believe that a hunter is more likely to find treasure where other hunters have not been before, or at least where they have not been for a long time?

Talaria is not a contrarian investor. We look for what is below fair value not what is out of favour, but both value and contrarian approaches can take you to the same neglected places.

On which note, we spend most of this quarter's investment insights talking about Japanese shares. These have been strong this year, reaching more than thirty-year highs, but they are still 19% below where they were nearly 35 years' ago, having spent most of those intervening years as a sideshow for global equity investors.

We went into this year with 17.1% of our capital exposed to Japan. Our most recent initiation was early last year - we are not latecomers. As always, our rationale was stock specific rather than thematic, relating to the bird not the habitat. But we are far from blind to the bigger story and wanted to share our thoughts.

Away from Japan we consider the gap that has opened between the recently rising S&P 500 and the still falling index of leading economic indicators (LEIs). The two normally closely correspond. Just seven stocks, Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA, and Tesla have driven the rally in the S&P. Absent their strength, the gap would be indiscernible because the rest of the index's constituents have contributed barely anything.

Despite the narrowness of the market and the weight of evidence pointing towards recession, our sense is that many investors have made a substantial cognitive leap. Tired of waiting, they have concluded that the strength in the headline index is a sign that weak economic growth is off the table. They believe the recession train has left the station because, in fact, it never arrived.

Our thinking is simpler, the seven mega cap stocks that drive the S&P 500 were down last year because analysts cut forecasts materially. Investors were forced to recognize that the revenues of the biggest growth stocks were less robust than they had thought.

The same stocks have bounced this year because forecasts have stabilized and because there has been excitement around Artificial Intelligence. AI especially has allowed investors to overlook sticky inflation and treasury yields close to year-end 2022's levels. AI, to state the obvious, has little or nothing to do with the likelihood of a feeble economy. More relevant is the weakness in financials, materials, and energy which are the parts of the market that usually underperform ahead of a recession.

Nowadays, the latest innovation seems to be on our screens and moving prices before even being thought of. Given this, it is difficult to be patient, and easier to look for the quick answer. But, as we described in our last quarterly, the outlook for global equities is as bad as we have seen for years. Now is a time to let things play out, protect capital, and hold assets that allow you to stand back from the crowd.

Japan

Equity investors are used to false dawns rather than new ones in the land of the rising sun.

For years the government, the Bank of Japan and the exchange have coordinated efforts to build a healthier environment at both macro and micro levels. Most importantly, of course, this has been for the sake of the country. But it has also been for the sake of the domestic and foreign investors who can supply the capital to support the innovation, productivity, and investment targeted by 'Abenomics'.

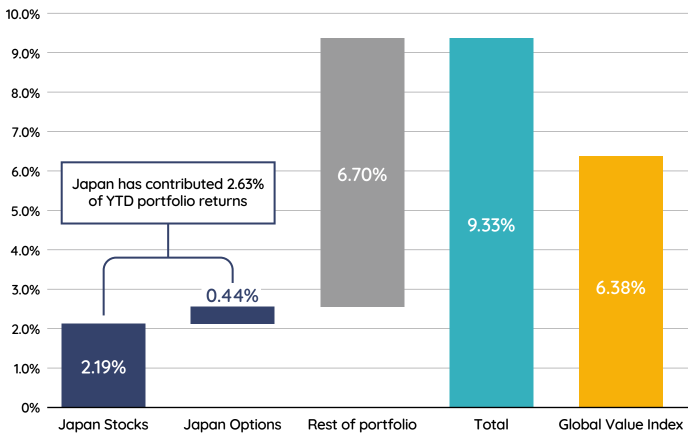
Until recently these efforts have promised more than they have delivered. Moreover, with its mid-single digit weighting in global equity indices, companies' arm's length stance towards outsiders, and low levels of corporate profitability, Japan has been an easy market to ignore.

However, at long last, things are changing for the better and in ways that look sustainable. We discuss this in more detail later in this section, but the upshot solely in terms of price is that Japanese shares have been strong in 2023, with the broad Topix index up 21.0% in the first half.

In a period when value has struggled, this has been helpful for the Fund because we started the year with 17.1% of the portfolio exposed to Japanese shares, 11.5% in direct equity and 5.6% in cash backing options. The charts below give an analysis of the impact; the table shows our holdings at the end of the first half.

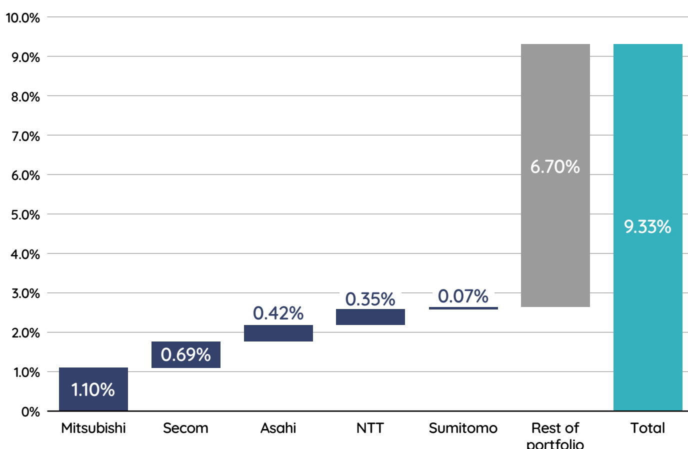
Japan's contribution to Talaria's returns year-to-date

YTD portfolio returns (by category)



Source: Talaria

YTD portfolio returns (by stock)



Source: Talaria

Talaria Japanese Equity Holdings 30 June 2023

	Industry	Initiated position	Normalised earnings yield (%)	Credit rating
NTT	Telecoms	Q1 2022	10.9	AA+
Secom	Commercial Services	Q2 2021	7.5	AA+
Mitsubishi Electric	Industrials	Q2 2021	9.0	AA-
Sumitomo Mitsui Trust	Banks	Q2 2019	12.5	AA-

Source: Talaria

There are a couple of things worth highlighting.

Firstly, we were able to gain exposure to Japanese stocks that offered an average 10% earnings yield and no balance sheet risk. As a rule, it is hard to make money out of the shares of companies that have poor credit ratings, but there is often a price to pay for the reduced risk that comes with sound finances. These stocks offered an attractive combination of high cash returns and strong balance sheets.

Secondly, the yields are after Japan's combined corporate tax rate of 29.7% which compares with the 23.7% OECD average.

Prime Minister Fumio Kishida said in a speech (October 2021), "The corporate tax rate is too high, and we need to make it more competitive…We will lower the corporate tax rate to 20% by 2025." Compare this with President Biden (April 2021) when he said: "We need to make sure that corporations pay their fair share…We need to raise the corporate tax rate to 28%".

With both leaders yet to execute on their plans, the balance of probabilities in the two countries stands in direct opposition. As we said in our last quarterly, "rising tax on corporates is likely to be one more challenge to US margins". That can be turned on its head for Japan.

It has been tough for a long time for investors in Japanese equities

The defining event for Japanese financial markets over the last 35 years or so was the bursting of the bubble in the early 1990s. Assets had reached extraordinary valuations because of loose monetary policy, deregulation and speculation. At its peak in December 1989, the Nikkei 225 was trading on more than 60x earnings. Prices for modest apartments in upmarket districts of Tokyo were 250x the average annual salary.

The subsequent bust and the 'lost decade' with its stagnant economic growth, banking crisis and diminished competitiveness left its mark on domestic and international investors. Japanese equity indices became bywords for the country's declining population, poor economic growth, corrosive deflation, huge public debt, vast private savings and weak corporate governance.

To make matters worse, Japanese companies have been more inefficient and less leveraged than those in the United States and Europe.

Even if they generated comparable sales, poor returns on capital have come from lower profit margins, asset turns, and asset to equity ratios. Particularly versus Europe, the margin gap has been exacerbated recently by higher inflation in the west.

The broader challenges have not been lost on the Japanese themselves. Since 2012, when the late Shinzo Abe introduced policies that became known as 'Abenomics', there have been coordinated efforts of monetary easing, fiscal stimulation, and structural reform.

Narrower challenges have been a focus for the Tokyo Stock Exchange (TSE), which has updated its market structure, imposed targets for listed companies, and required them to improve engagement with shareholders.

It is looking better

There are positive changes on several fronts.

The Economy

It has been some time since we have heard talk of a goldilocks economy, not too hot or too cold, but it is a description that Japan may deserve.

After decades of deflation there are signs that the country is breaking out of its downward spiral. In May core inflation was 3.2% year-on-year, which is the highest level since 1991. Whilst rampant inflation is a problem, moderate inflation can encourage businesses and consumers to spend.

This is a key challenge for a country where private sector gross savings averaged 29% of GDP between 2010 – 2019 versus 22% for the US, and where, despite robust investment (21% of GDP on average over the same period), surplus savings are 8% of GDP versus 6% for the US.

With higher prices feeding through, Japan should see higher nominal growth. For example, Morgan Stanley forecasts average nominal GDP growth between 2021 and 2025 of 2.2%, a higher average than the preceding 15 years. There is more than just price behind these improvements, with dynamism in both productivity and capital expenditure.

Although there may be an imminent adjustment to the central bank's yield curve control policy (YCC, a form of quantitative easing), the challenges for monetary authorities are very different from those in the United States and Europe. In the west inflation is high and sticky which means there remains upward pressure on interest rates, whereas whether to tighten is still a matter for debate in Japan.

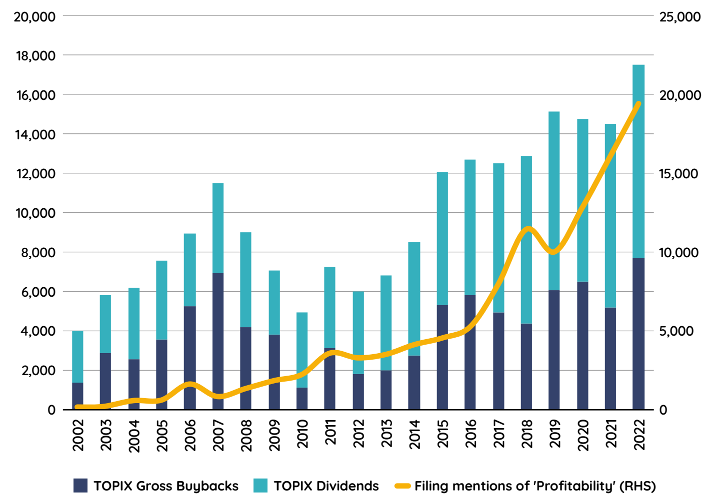
Market reform and corporate governance

Abenomics incorporated market reforms and efforts to that end have been ongoing for a decade. Authorities increased the pressure early last year with the Tokyo Stock Exchange (TSE) leading the way. TSE has simplified market segments, and encouraged companies to boost market valuations, improve shareholder returns and raise standards of corporate governance.

What drives higher valuations is about more than just a company's own efforts. But with the initiative only a few months old, the number of Prime listings trading below book value has fallen from 50% to 48%, and below 0.5x from 15% to 11%.

Shareholder returns are also rising meaningfully as companies pay out more dividends and buy back more shares (chart below).

TOPIX return to shareholders soaring



Source: Bloomberg

Earlier we noted that Japanese companies were less leveraged than their western counterparts. This has its advantages, but somewhere between the naked financial engineering of the US and the acute conservatism of Japan there lies a happy medium.

Here we can offer a positive example of one of our holdings moving towards a more balanced approach.

One of the reasons we bought Tokyo headquartered Secom was precisely because of the potential to return capital when, at the time, its cash was around 30% of its market capitalization. In fact, we speculated that if it had no cash on its balance sheet investors would give the stock a higher valuation.

In October 2021 we sent a letter to Secom's board encouraging them to reduce the cash to improve return on equity (ROE). We also pointed out the rerating likely to follow such action.

Management's response was encouraging, for example.: "We recognize that there may be various problems with holding excess cash..."

Subsequently, and to its credit, Secom has done the following:

- February 2022: announced buyback equivalent to 2.3% of shares outstanding from February to June 2022 (total spend 30bn yen)
- February 2023: announced second buyback equivalent to 2.08% of shares outstanding from February to May 2023 (total spend 25bn yen)
- May 2023: announced roadmap to March 2028 with an ROE target of 10% implying an annual buyback of about 60bn yen per year.

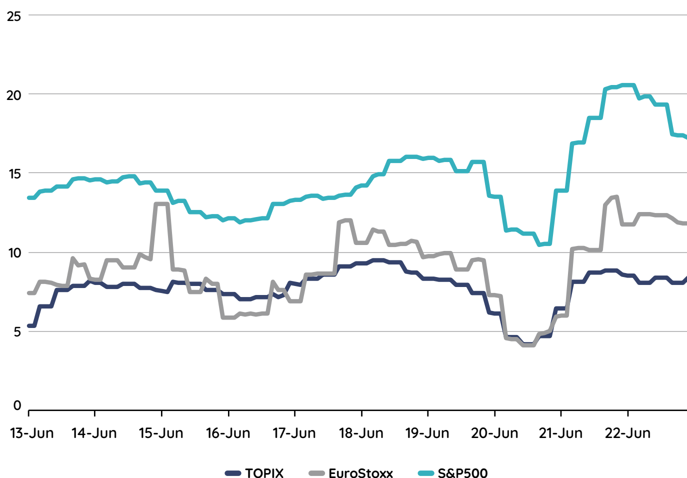
Corporate Profitability

In terms of ROE, Japanese listed companies have lagged the rest of the world for decades.

Driven on by carrot and stick approaches from the government and the TSE, listed ROE has improved sharply from the 4.2% average of the twenty years before 2012 and Shinzo Abe's premiership, to 8.5% last year. Forecasts are for further improvement as returns approach the MSCI World listed average of 12.0%.

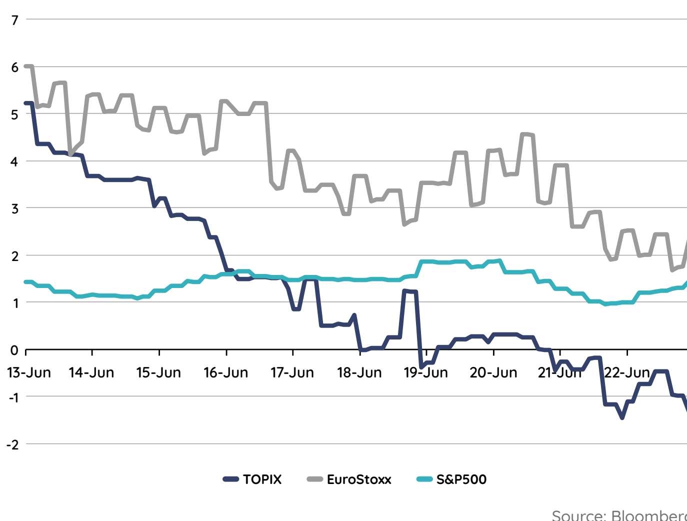
One upshot of the focus on improving returns has been strong average annual growth in earnings per share over the decade to the end of 2022 of 15.7%. Given that the Topix has returned 10.3% annually on average over the period it has derated.

Return on Equity



Source: Bloomberg

Leverage (Net Debt to EBITDA)



Source: Bloomberg

Valuation

That Japanese equities offer better value today than ten years ago seems perverse. While there have been false starts, it is as if investors give the index no credit for positive change and expect the historic impediments to shareholder returns to last long into the future. As the table below shows, the Topix is better value than the S&P 500 (SPX) on all measures. It is better value than the Stoxx Europe 600 (SXXP) on measures except PE and dividend yield. The low EV/Sales and low Price/Book show how downbeat investors are on the ability of Japanese companies to generate returns from sales and net assets. Another highlight is how low the margins are for the Japanese companies and how high they are for Europe and the US especially.

Trailing valuations and trailing margins

	TOPIX	SXXP	SPX
Operating Margin	7.00%	13.20%	13.50%
Net Profit Margin	5.60%	10.30%	12.60%
PE	15.9x	12.5x	19.7x
EV/Sales	0.7x	1.7x	2.7x
P/Book Value	1.4x	1.7x	4.2x
Dividend yield	2.30%	3.40%	1.57%

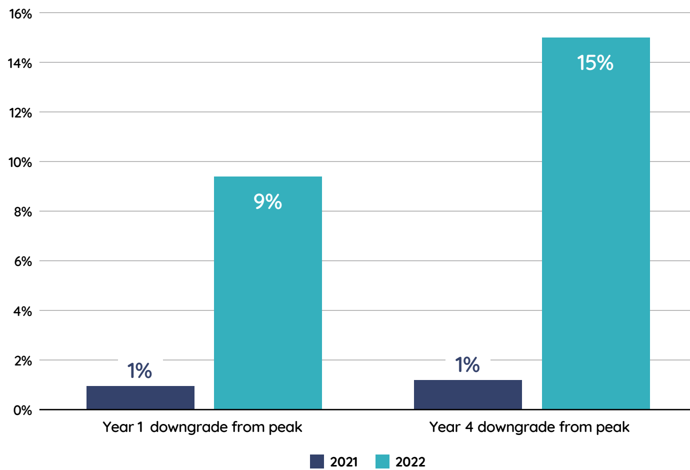
Source: Bloomberg

Tired of waiting

Moving away from Japan specifically, one of the striking things about the strength of broad equity indices year-to-date is how very few stocks have realised almost all the performance. In terms of the of the S&P 500, Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA, and Tesla have put the paltry total contribution of all the others in the shade.

Last year the unweighted average price return for these shares was minus 46.3%. The weakness reflected the move to a more realistic assessment of the future growth investors can expect these companies to deliver. Certainly, analysts materially cut their forecasts, particularly for the years further out (chart below).

Revenue Forecast declined materially from peak in 2022 for the big seven

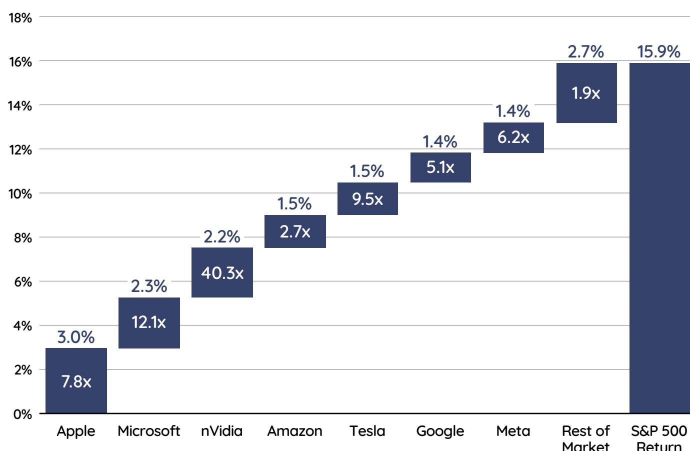


Source: Bloomberg

Year-to-date these same stocks have bounced strongly. They have rallied as forecasts have stabilised and excitement around Artificial Intelligence's potential appears to have encouraged investors to overlook sticky inflation and treasury yields close to end 2022 levels.

The big seven's strength contrasts with the far less impressive combined contribution of all the other stocks in the index. Looking at the chart below, the big seven have delivered 13.2 points of return, the others just 2.7 points.

S&P 500 2023 YTD Return Contribution EV/Sales multiple

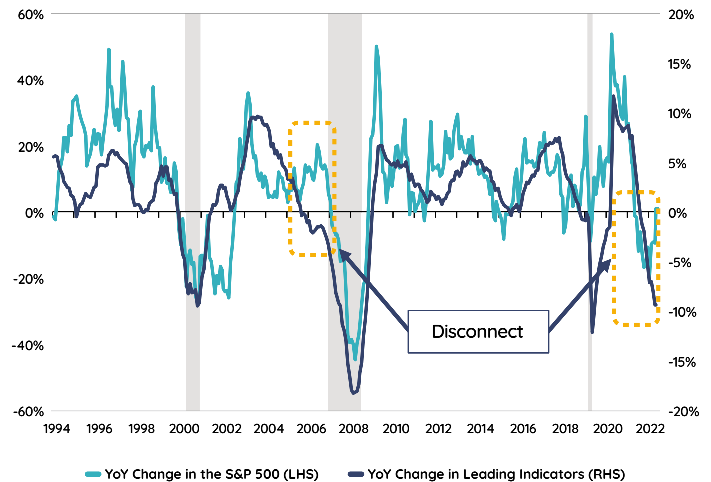


Source: Bloomberg

The strength in the big seven stocks has widened what would otherwise be a minor divergence between the index and metrics with which it usually corresponds.

For example, there is a disconnect between the rising S&P 500 and the still falling composite leading economic indicators (LEIs). LEIs have strong predictive power when it comes to the future direction of the US economy and corporate profitability and as the below chart also shows such a divergence is not unprecedented, there was a similar phenomenon before the Global Financial Crisis (GFC).

YoY change in S&P500 and Leading Indicators



Source: Bloomberg, FactSet, The Conference Board

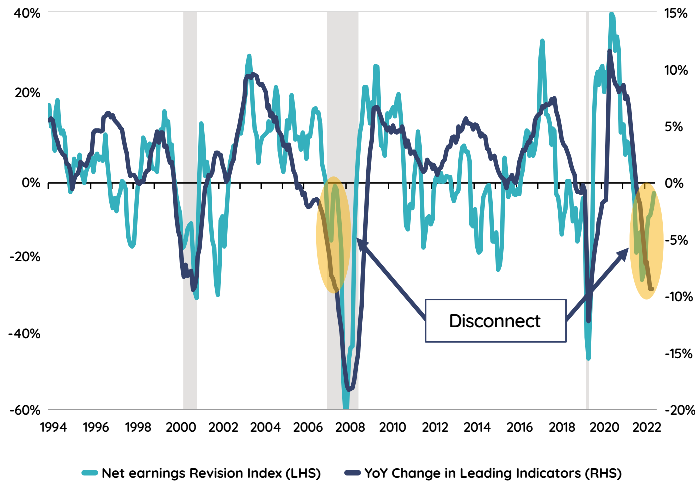
One of the more colourful descriptions for a chart pattern like this is crocodile jaws, with the implication being that crocodile jaws snap shut. In this case the jaws would close through LEIs rising or the index falling.

It would be more than something of a surprise for LEIs to turn up when the lagged impact of monetary tightening is still ahead. And when unemployment is low, real wages are negative, bank lending standards are tightening, the cost of borrowing is rising, there will be no incremental contribution from fiscal spending for the next two years because of the debt ceiling deal and so on. Anything can happen, but in a probabilistic world the likelihood of a rally in LEIs is small.

Nevertheless, our sense is that this is exactly what some investors expect to happen. In a cognitive leap, they interpret the strength of the S&P 500 as a signal that there will be no recession. Tired of waiting perhaps, they believe the recession train has left the station because, in fact, it never arrived.

If our intuition is correct, one constituency from which these investors may take comfort is sell-side analysts. The chart below shows that a gap has also opened between net earnings revisions and LEIs. This is again not unprecedented…a similar thing happened before the GFC.

S&P500 net earnings revisions index and YoY change in Leading Indicators



Source: Bloomberg, FactSet, The Conference Board

If investors are looking to the stock market for clues about the direction of economic growth it would be more rational, more consistent with history, to look at sectors like financials, materials, and energy. These traditionally underperform into a recession and have underperformed year-to-date.

In philosophy there is the concept of a category error. This is where properties are mistakenly attributed to one category when they belong to another. The idea that the performance of seven mega cap tech shares has predictive capacity when it comes to the likelihood of recession seems to us a good example of this sort of misconception.

Summary

In our last quarterly we summarised our views as follows:

"We say again, equity investors should prize income, good value, short duration and rapid payback periods. They should avoid high beta shares, those with prices that can be largely or more than fully explained by overall market moves, and they should avoid financial leverage. This remains a time to play defence."

Nothing that happened in the quarter led us to change that view. Instead, the divergence between broad US indices and leading economic indicators is even more of a concern than before, and that is without even considering the narrowness of the returns and the small number of stocks driving the anomaly.

The good news is that there are rewards away from the current mainstream. Our holdings in Japan, for example, have shown that this is the case. Moreover, the premium we generate month-in-month-out exists not only outside the mainstream but also outside the business cycle. If anything, it benefits from an economic slowdown and market stress.

Nevertheless, we believe it would be wrong to paint a rosy picture. To return to our ornithological theme, any advice that fails to acknowledge how difficult things remain in global equity markets is strictly for the birds.

June 2023 Quarterly Performance

Narrow equity leadership persisted in the second quarter. One region – Japan, and seven US tech giants dominated global equity returns. A soft-landing or even no-landing mindset led to investor bullishness and subdued volatility. At the same time high interest rates, weaker commodity prices and still sticky inflation suggested more economic troubles ahead. The third quarter of 2023 starts with a significant disconnect between headline index levels and underlying economic realities.

Whispers of a soft or even no-landing got louder this quarter. Investor sentiment rebounded sharply leaving behind the September 2022 lows, banking sector worries were quickly forgotten, and complacency ran high, at least if indicators like the VIX count for anything. Headline equity indices again delivered strong returns. But those returns were mostly driven by the seven US mega-cap tech names. A basket of global leading economic indicators continued to indicate recession accentuated by continued weakness in commodity prices. Japanese equities were strong as the return of inflation in the context of a series of positive developments sparked a broad-based rally.

Narrow stock leadership was most pronounced in the US. The tech-heavy NASDAQ and the broad-based S&P 500 delivered strong gains, 12.8% and 8.3% respectively. Meanwhile the equal-weighted S&P 500 was up just 3.5%, underlining the fact that seven mega-cap tech stocks were responsible for most of US equity returns. Japan was the standout region – the Nikkei 225 index soared 18.4% partly on the back of a sustained rise in inflation. The rest of Asia underwhelmed with China's Shanghai Composite down -2.2% and Hong Kong's Hang Seng down –7.3%. After a strong start to the year, European indexes hardly budged in the second quarter with the German DAX and French CAC up, 3.3% and 1.1% respectively.

Against this backdrop, the Fund delivered a positive quarter, gaining 2.99% while maintaining substantially lower market risk. Positive portfolio breadth (27 stocks advanced and only 6 declined), a material position in Japanese equities and positive idiosyncratic stock events drove the performance.

Distributions: The Fund paid a June 2023 quarterly distribution of 8.16 cents per unit taking its 12-month income return to 5.94%.

Growth sectors that are dominated by mega-cap tech stocks again delivered the biggest gains, extending a trend that started at the beginning of the year. Information technology (Apple, Microsoft, Nvidia are ~46% of the index), Consumer Discretionary (Amazon, Tesla are ~30% of the index), and Telecom Services (Meta, Alphabet are ~50% of the index) were up 14.5%, 10.1% and 9.3%, respectively. All remaining cyclical and defensive sectors were a mixed bag. Energy stood out for the laggards at -1.3% on the back of lower oil and gas prices while industrials performed best, delivering +6.1%.

The VIX was sitting at just 13.6, 27% lower than in March and more than 50% lower than in September 2022. The Bloomberg Commodities index and Brent Crude Oil were down -3.8% and -6.6% respectively. US long-term rates remained high with the 10-year yielding 3.84%.

French food services and facilities management firm Sodexo was the Fund's top performer this quarter. The company continued to deliver top line growth while expanding the margin, proving to be a beneficiary from higher inflation. Mexican convenience store operator Femsa also contributed materially to quarterly performance on the back of strong execution of its previously announced restructuring plan. After a weak first quarter, pharmaceutical giants Roche, Johnson and Johnson and Novartis rebounded strongly as well.

The list of detractors was again short this quarter with just one holding, Chinese online retail giant Alibaba, materially contributing to negative performance. Alibaba announced management changes that were not taken well by the market. Moreover, post-reopening disappointment and general economic weakness in China have weighted on company growth prospects. High share price volatility did not help either. We maintain our positive view however given the depressed valuation which already prices in a poor outlook.

During the quarter, the Fund initiated new positions in Spanish utility provider Redeia (see stock in focus) and global insurance giant Chubb (an insurance operator commanding superior margins while maintaining a very conservative investment portfolio). The Fund also re-initiated positions in Everest RE (a re-insurance company) and Maersk (a shipping company). The Fund exited three positions – all on valuation grounds. Total, an oil major, and Asahi, a brewer, had strong runs and reached our target valuations. While Intel, a chipmaker, has seen a deterioration in its cashflow outlook that contributed to us exiting the position.

Stock in focus: Redeia

Redeia owns and operates the Spanish electricity grid and is a new addition to the Fund. Growth in the asset base, a high dividend and the potential for a positive regulatory rethink are the main attractions. We expect a 30% upside rising to 75% should the regulator reflect the changed interest rate environment allowing Return on Equity (ROE) to normalise. In a worst case, we see a limited absolute downside.

Redeia is a regulated utility with a monopoly over electricity transmission in Spain constituting 85% of its operations. The remaining 15% encompass a satellite business (Hispasat), a dark fiber optic business (Reintel), and a small, regulated transmission venture in South America.

Wired for growth

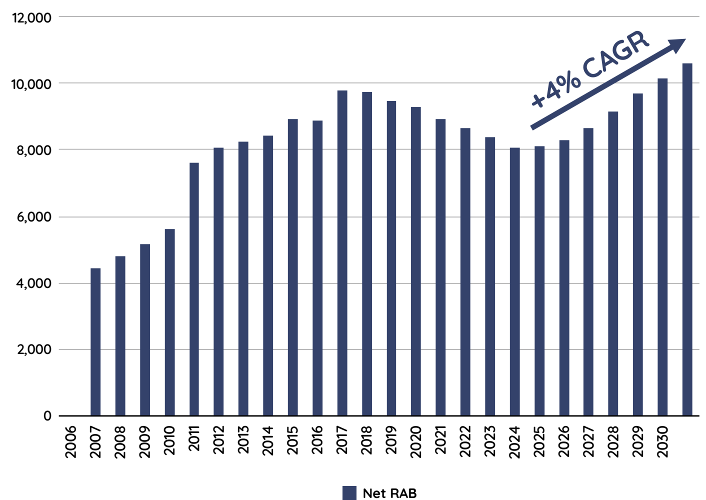
Redeia plays a critical role in Spain's energy system. It builds, owns, and operates the poles and wires that connect electricity generation assets (wind and solar farms, hydro, nuclear and gas power plants) to consumers (households, businesses, and industrial users alike). The business has two important characteristics worth noting.

Firstly, Redeia takes no risk in either electricity generation or electricity retailing. It does not own or develop generation assets and is therefore immune to the boom-and-bust cycle that often plagues this relatively fragmented market. It also does not directly retail electricity to end users, shielding itself from the vagaries of volatile electricity prices. Instead, the Spanish electricity market regulator sets and locks in a regulated tariff every five years providing the company with a stable and predictable revenue stream.

Secondly, Redeia benefits from Spain's push to decarbonise. A larger and more sophisticated electricity grid is a key enabler for growth in renewable generation assets. New wind and solar farms are often located in remote locations that necessitate the building of new transmission lines. A sustained push to electrify the heating and transport sectors further drives demand for electricity which in turn requires an even bigger expansion of the grid. Network upgrades are also needed to support a more sophisticated grid that must cope with a changing energy mix in a decarbonised generation installed base.

As a result, Redeia's Net Regulated Asset Base (RAB) will grow at a 4% CARG until 2030 (see chart). This is not a forecast but a mandate by the Spanish state. Since the company charges a fixed tariff over net RAB, revenues and earnings will growth at a similar rate.

Chart 1: Redeia Net Regulated Asset Base

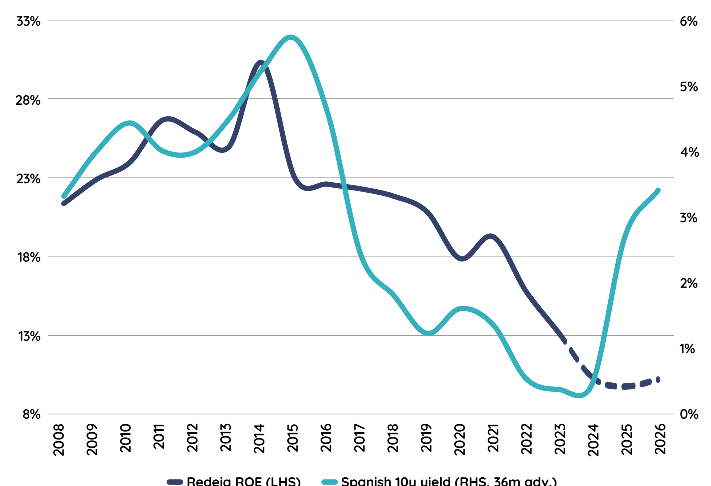


Source: Company accounts, Talaria Forecast

A path to an 8% per annum shareholder return

Despite a renewed promise for growth, Redeia's ROE has more than halved over the past decade. The reason is a reduction in the allowed return set by the regulator, which in turn has largely been influenced by falling market interest rates. With the last of those regulatory hurdles kicking in next year, 2024 will mark a new low with ROE expected to touch 10%, the lowest in its history (see Chart 2).

Chart 2: Redeia ROE vs Spanish 10Y yield



Source: Company accounts, Bloomberg, Talaria Forecast

But even with an ROE of 10% as a base case we see a potential for an attractive annualised return to shareholders. The company will pay a dividend of 0.84 Euros from 2024, delivering a 5.5% yield. Net RAB will grow at a 4% CAGR which will translate into an EPS growth of 2-3%, as higher interest costs partly offset growing operating profits. Assuming no change to valuation multiples this will yield a total return to shareholders of around 8% per annum. In this scenario Redeia will be worth 20.5 euros per share post the next regulatory review, which takes place in 2026. This is a 30% upside to today's share price.

The bull case: A regulatory rethink

As we have previously discussed, the energy transition requires massive investment into expanding the electricity grid. Consensus expectations in Spain are for a sustained ~3% CAGR in net regulated assets all the way to 2050. The number is even higher for close peers in Italy & the UK (~6% CAGR). At the same time, regulated returns are sitting at an all-time low, driven by a prolonged period of low interest rates. With interest rates on the rise, these circumstances have now changed and a rational regulator ought to recognize the need to increase the regulated return (highlighted in Chart 2).

Should the regulator allow regulated returns to normalise, Redeia can achieve an ROE of 14% (40% higher than current estimates of c10%). With normalised EPS also 40% higher, the dividend per share could reach 1.20 Euros, which at 5.5% dividend yield implies a price of 21.8 euros. Adding the annual dividend yield of 5.5% and EPS growth of 2-3% through the next regulatory period in 2026 implies Redeia will be worth 27.5 euros, a 75% upside to today's share price.

The bear case: A credit conundrum

The biggest risk to Redeia is the risk of a credit downgrade, a dividend cut or both. As the regulator has mandated a ramp up in Capital Expenditure (CAPEX) to expand the grid, Redeia will need to continue borrowing, pushing Net Debt to Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) higher (it was 3.7x as of the end of 2022). If the regulator does not allow an improved return on the regulated asset base, the debt ratio becomes unsustainably high (more than the 5.0x Net Debt to EBITDA stated target). The company will have to either sell non-core assets, cut the dividend or issue new shares, all of which will be taken badly by the market.

We estimate that a dividend cut to ~61 cents (65% payout ratio) will be sufficient to allow the company to fund its CAPEX spend with a mix of retained earnings and debt that does not breach the 5x Net Debt/EBITDA threshold. A fair value of 15.75 euros per share by the next regulatory review in 2026 implies no upside to the shares today but also demonstrates that even in a dividend cut scenario it is hard to lose money in absolute terms.

Talaria Global Equity Fund - Foundation Units

Top 10 Holdings*

Company name	% weight
Gilead	5.2%
Johnson & Johnson	5.2%
Roche	4.9%
Sanofi	4.7%
Novartis	4.7%
Alibaba	4.6%
Wheaton Precious Metals	4.6%
Sodexo	4.2%
Bunzl	4.0%
Nippon Telegraph & Telephone Corp	4.0%

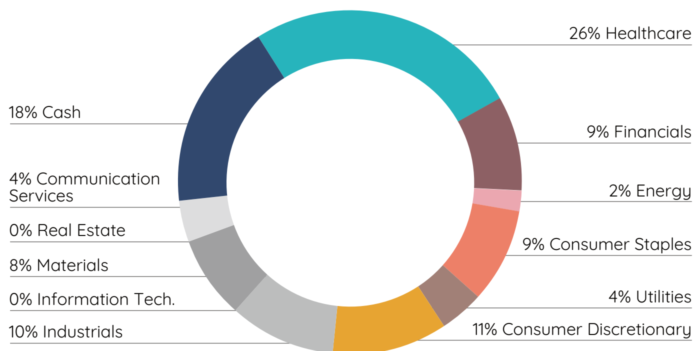
* Weightings include option positions held and cash backing put options. It assumes that put options will be exercised.

Performance at 30 June 2023

Period	Total Return	Average Market Exposure
1 month	0.63%	57%
3 months	2.99%	55%
6 months	8.25%	56%
1 year	13.61%	54%
3 years p.a.	13.10%	54%
5 years p.a.	8.60%	56%
7 years p.a.	8.87%	57%
10 years p.a.	8.71%	59%
Since Inception p.a.	7.71%	61%

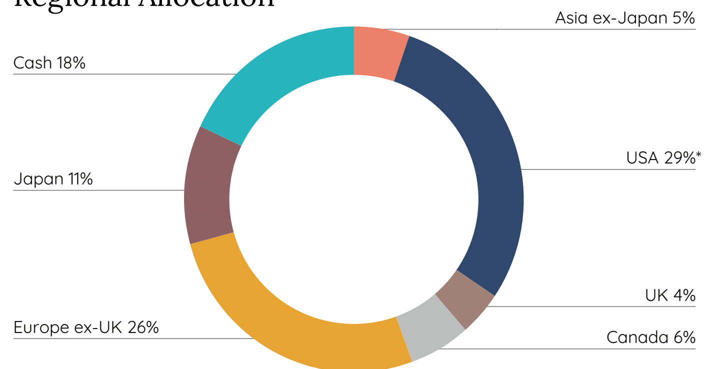
1 Fund Returns are calculated after fees and expenses and assume the reinvestment of distributions
2 Inception date for performance calculations is 18 August 2008
3 Income Return includes realised capital gains
4 Past performance is not a reliable indicator of future performance
5 Average Market Exposure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



*USA includes American Depositary Receipts (ADRs) listings.

Quarterly distribution

Period	Cents per Units	Reinvestment price
June 2023	8.1576	$5.3852
March 2023	5.3700	$5.3080
December 2022	5.1000	$5.1454
September 2022	8.9725	$4.9652
June 2022	14.1354	$5.0013
March 2022	5.5215	$5.0036
December 2021	5.2967	$5.0779
September 2021	6.1245	$5.0000
June 2021	8.8760	$4.9180

Asset allocation

	% weight
Global equity	51.0%
Cash – put option cover	31.0%
Cash	18.0%
Total	**100.0%**

Portfolio contributors	Portfolio detractors
Femsa	Alibaba
Sodexo	H&R Block
Mitsubishi Electric	Wheaton Precious Metals
Novartis	Gilead

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

Talaria Global Equity Fund - Foundation Units

Fund snapshot

Management Fee	Nil	**Inception Date**	1 October 2005
Performance Fee	20% - subject to High Watermark	**Liquidity**	Daily
Distributions	Quarterly	**Availability**	Wholesale Clients Only
Minimum Investment	$50,000	**Buy / Sell Spread**	0.20% / 0.20%

Important Information

Foundation Units in the Talaria Global Equity Fund are issued by Australian Unity Funds Management Limited ABN 60 071 497 115, AFS Licence No. 234454. Foundation Units are currently available to what the Corporations Act 2001 (Sections 761GA and 761G) defines as Wholesale Clients. Talaria Asset Management Pty Ltd ABN 67 130 534 342, AFS Licence No, 333732 is the investment manager and distributor of the Fund. References to "we" means Talaria Asset Management Pty Ltd, the investment manager. The information in this document is general information only and is not based on the financial objectives, situation or needs of any particular investor. In deciding whether to acquire, hold or dispose of the product you should obtain a copy of the current Information Memorandum and consider whether the product is appropriate for you. A copy of the Information Memorandum can be obtained by calling Talaria Asset Management on (03) 8676 0667. Investment decisions should not be made upon the basis of the Fund's past performance or distribution rate, or any ratings given by a rating agency, since each of these can vary. In addition, ratings need to be understood in the context of the full report issued by the rating agency itself. The information provided in the document is current at the time of publication.

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